

# THE EFFECT OF ECONOMIC GROWTH AND INFLATION ON POVERTY IN THE PROVINCE OF THE SULAWESI REGION FOR THE 2012-2021 PERIOD

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## Abstract.

This study aims to determine the influence of Economic Growth and Inflation on Poverty in the provinces of the Sulawesi regional region. The data used in the study is secondary data in the form of 6 provinces for ten years, namely from 2012 to 2021, sourced from the Central Statistics Agency. The method used is multiple regression analysis using panel data using the Random Effect Model (REM). The results of the analysis show that 1) The Economic Growth variable has a positive but insignificant effect on poverty, meaning that every 1 percent increase in Economic Growth can increase poverty. However, Economic Growth has not been able to explain the Poverty variable in a real way. 2) Inflation has a positive and significant effect on poverty, meaning that every 1 percent increase in inflation can increase poverty in the Sulawesi Region. 3) Economic growth and inflation also jointly affect poverty. It was concluded that economic growth and inflation variables are among the main variables that affect poverty in the Sulawesi regional area.

**Keywords:** Economic Growth, Inflation, Poverty

## 1. Introduction

Poverty is a problem faced by all countries, especially in developing countries such as Indonesia. Poverty is a limitation that is worn by a person, family, community, or even the State that causes discomfort in life, the threat of law enforcement and justice, as well as the loss of generations, and the gloomy future of the nation and the State. This definition is a broad understanding, it has been said that poverty is related to discomfort in life. In all fields, they are always eliminated because they cannot equate the conditions with the conditions of the surrounding communities (Gamal, 2016).

According to Aristina et al. (2014), poverty and economic growth are important indicators of a country's development, and the main condition for poverty reduction is economic growth. According to Indra Wiguna (2013), the importance of accelerating economic growth lies in reducing the number of poor people. Because with rapid economic growth, it will reduce the number of poor people, which is one of the indicators of the success of regional development. The high number and percentage of the poor population in an area will, of course, be a burden on development, so the role of the government in overcoming it will also increase.

Another factor that affects poverty, in this case, being able to increase the percentage of the poor population, is inflation. Ningsih and Andiny (2018) in (A. Idham A, 2012) said that inflation is one of the important economic indicators, the growth rate is always tried to be low and stable so as not to cause macroeconomic diseases that will later have an impact on instability in the economy. Inflation has both positive and negative impacts on the economy. If

a country's economy experiences sluggishness, Bank Indonesia can carry out an expansionary monetary policy by lowering interest rates. High and unstable inflation is a reflection of economic instability that results in a general and continuous increase in the price of goods and services, and results in a higher poverty rate in Indonesia.

The allocation of APBN/APBD funds for poverty alleviation programs can be said to be successful if the number and percentage of the poor population decrease or do not even exist. However, the fact that indicates that poverty alleviation policies are always something that needs to be observed and reviewed, especially in the preparation and implementation of poverty alleviation strategies and programs run by the government. Poverty in several regions in Indonesia is still a very serious problem, especially in several provinces on the island of Sulawesi.

The following is a description of provincial poverty in the Sulawesi regional area for the 2012-2021 period:

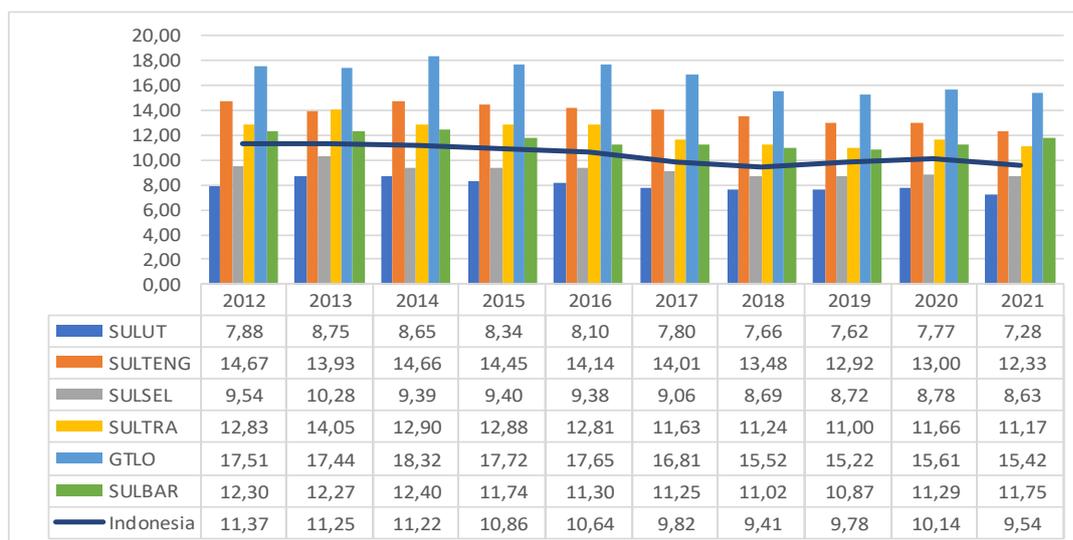


Figure 1. Provincial Poverty in the Sulawesi Regional Region 2012-2021  
Source: Central Statistics Agency BPS

Based on the graph above, it can be seen that poverty in the provinces in the Sulawesi regional area is quite diverse. In the last 10 years, there have tended to be only 2 provinces with a lower poverty rate compared to national poverty, where the two provinces are North Sulawesi Province and South Sulawesi Province. Meanwhile, the worst is Gorontalo Province, which in 2022 was sixth from the bottom for the poverty level, which means that Gorontalo is included in a very poor zone.

Various things that affect this are economic growth that tends to be less than optimal, where in 2020, the economic growth of all provinces in Indonesia experienced a significant decline as a result of the COVID-19 pandemic. Then there is an inflation rate that continues to creep up, especially in early September 2022, due to an increase in fuel prices that is more than 30% from the previous price.

## 2. Materials and Methods

### 2.1 Theoretical Studies

#### 2.1.1 Poverty

Poverty can be divided into three meanings: absolute poverty, relative poverty, and cultural poverty. A person is an absolute poor group if their income is below the poverty line, not enough to meet the minimum living needs: food, clothing, health, shelter, and education. A person who is classified as relatively poor has actually lived above the poverty line but is still below the means of the surrounding community. Cultural poverty is closely related to the attitude of a person or a group of people who do not want to try to improve their standard of living, even though there are efforts from other parties to help them.

Poverty has had an impact on the total decline in the quality of human life, characterized by narrow reason, selfishness, or a willingness to win on its own. Every societal problem tends to be solved by muscle fighting, violence, and mass mobilization (Kasriyati, 2012) in (Wyanet Putri Alisha, 2021). Poverty can also be interpreted as a result of the absence of democracy, which reflects a power relationship that eliminates the ability of citizens of a country to decide the problems that concern them, so that the majority of the population lacks access to the means of production (land and technology) and resources (education, credit, and market access). In addition, there is a lack of adequate mechanisms for accumulation and distribution (Science and Technology and Lipi 2015) in (Ningsih et al., 2018). According to Adelman (2012), in urban areas, the majority of the poor are untrained workers in the service sector. Workers in the manufacturing sector, whether they are trained or not, make up the richest 20-40 percent of the population. So, untrained labor is the main property of the poor, and what determines the direction of poverty is the demand for productivity from their labor force (Ndaumanu and Arief, Kusrini 2014) in (Qomaruddin, n.d.).

According to BPS, the definition of poverty is a condition where a person can only meet their food needs of less than 2,100 calories per capita per day. Meanwhile, poverty, according to the definition of BKKBN, is a Pre-Prosperous family, namely families that have not been able to meet their basic needs at a minimum, such as the need for food, clothing, board, health, and education.

#### 2.1.2 Causes of Poverty

There are two conditions that cause poverty to occur, namely natural and artificial poverty. Natural poverty occurs due to limited natural resources, low use of technology, and natural disasters, among others. "Artificial" poverty occurs because the institutions in the community make some members of the community unable to control the economic facilities and various other facilities available, so that they remain poor. It should be realized that institutions in the factor and product markets are important determinants of how development affects the poor. Structural changes related to development give rise to processes that at the same time increase the absorption of some labor and other factors, as well as geographical and sectoral relocations for the use of labor and other factors. How the processes of absorption, substitution, and redistribution of the "net result" labor force affect the poor depends on the institutional structure of the factor and product markets (Kasriyati, 2012). That is why economists often criticize development policies that focus solely on growth rather than equity.

A similar opinion was expressed by Adelman (2012) in (Kasriyati & Pd, n.d.) regarding the direction of income distribution during the development process. This states that what happens to poverty over time is determined by the rate of growth of total income and by changes in the share that the poor earn from that income. If the share of the poor falls faster than the overall increase in income, the poor lose out on that growth, and they make a profit. So, how the income of the poor changes with economic development, it is very important to understand the problem of poverty and its eradication.

The early stages of the development process, as long as the economy is mostly agrarian in nature, begin with industrialization and are almost always marked by considerable increases in the inequality of income distribution. The share received by the poorest class of one-fifth, two-fifths, and three-fifths of the population has all fallen sharply due to the creation of a small, high-income island in the middle of a large sea of low-income people.

The next stages of the development process are marked by an increase in the share of income earned by those involved in the modern high-income economic sector, a widening of the income gap between the high-income and low-income sectors of the economy, and an increase in inequality, both in the high-income sector and in the low-income sector.

There is no natural tendency for the sharing of income to improve as countries enter the final stage of their transition to industrialized status. Whether inequality rises or not depends on the policies that these countries follow. In particular, it depends on the extent to which the policies followed narrow the gap between the sectors, and to what extent they reduce the distribution of income in the modern sector, which is relatively quickly absorbed into the modern sector.

Thus, the shape of the pattern of the share of income earned by the poorest, as a function of development, can be in the form of the letter U, as hypothesized by Simon Kuznets from comparing a sample of developed countries with middle- to upper-income developing countries, or the letter J, depending on the nature of the development strategy chosen (Goudzwaard and Lange, 2015) in (Albarqi, 2016). Sharp, trying to identify the causes of poverty from an economic perspective.

First, micro poverty arises due to unequal income. The poor have only a limited number of resources and low quality. Second, poverty arises due to differences in the quality of human resources. The low quality of human resources means low productivity, which in turn means low wages. The low quality of human resources is due to low education, unfortunate fate, discrimination, or heredity. Third, poverty arises due to differences in access to capital. The cause of this poverty boils down to the *vicious circle of poverty* theory. Underdevelopment, market imperfections, and lack of capital lead to low productivity. Low productivity results in a low income they receive. Low income will have implications for low savings and investment. Low investment results in underdevelopment, and so on.

### 2.1.3 Poverty Indicators

An object in research has characteristics or properties. If we measure an object in research, what is measured is not actually the object, nor is it its nature, but what is measured is an indicator of the characteristics or properties of the object. So, in a research study on poverty, indicators of the characteristics or nature of poverty will be determined. The indicator is nothing but a term that is often used, which means "something that indicates something else

(Nazir, 2013) in (Apriyani, 2016). BPS provides 14 criteria that are used as indicators of poor families as follows:

- 1) The floor area of the building is less than 8 m<sup>2</sup> per person
- 2) Types of floors of residential buildings made of cheap soil/bamboo/wood
- 3) Types of residential walls made of bamboo/thatch/low-quality wood/walls without plastering
- 4) Not having a bowel movement facility / together with other households
- 5) Household lighting sources do not use electricity
- 6) Drinking water sources come from unprotected wells/springs
- 7) The fuel for daily cooking is wood/charcoal/kerosene
- 8) Only consume meat/milk/chicken once a week
- 9) Only buy one set of clothes a year
- 10) Only able to eat once/twice a day
- 11) Unable to pay for medical expenses at the health center or polyclinic
- 12) The sources of income for heads of households are: farmers with a land area of 0.5 ha, farm laborers, fishermen, construction workers, plantation workers, or other workers with incomes below Rp.600,000 per month
- 13) Highest education of the head of household: no school/no elementary school completion/only elementary school
- 14) Do not have savings/goods that are easy to sell with a value of Rp. 500,000, such as: motorcycles (credit/non-credit), gold, livestock, motorboats, or other capital goods.

#### 2.1.4 Economic Growth

#### 2.1.5 Inflation

Inflation is an economic situation in which the level of prices and general costs rises; for example, the increase in rice prices, fuel prices, car prices, labor wages, land prices, and rental of capital goods (Junaidin, 2008). This meaning is the same as the statement conveyed by Rachmat and Maya (2011) which states that inflation is a tendency to increase the price of goods in general continuously, which is caused by the amount of money in circulation is too much compared to the available goods and services. Then, according to Sukirno (2004: 333), Inflation is the rate of increase in the price of goods and services, which occurs because demand increases more than the supply of goods in the market. In other words, too much money is being spent on too few items. Inflation usually shows consumer prices, but it can also use other prices (large trade prices, wages, prices, assets, and so on).

According to McEachern (2000), inflation arises due to pressure from the supply side (*cost push inflation*) and the demand side (*demand pull inflation*), and inflation expectations. *Cost push inflation* can be caused by exchange rate depreciation, the impact of foreign inflation, especially in trading partner countries, increased commodity prices regulated by the government, and *negative supply shocks* due to natural disasters and disrupted distribution. The factor causing *demand-pull inflation* is a higher number of goods and services compared to the number of goods and services available. Macroeconomic theory states that this condition is described as real output that exceeds potential output or total demand (*aggregate demand*), greater than the capacity of the economy. Meanwhile, inflation expectations are influenced by people's behavior and economic behavior, whether they are more likely to be adaptive or

*forward-looking*. This is reflected in the behavior of price formation and the level of producers and traders, especially in the run-up to major religious holidays.

### 2.1.6 Types of Inflation

According to Karim (2007), based on the causes, inflation can be classified into five parts as follows:

- a. *Natural and human error inflation*  
*Natural Inflation* is inflation that occurs due to natural causes that humans do not have the power to prevent. Meanwhile, *Human Error Inflation* is inflation that occurs due to mistakes made by humans themselves.
- b. *Actual/Anticipated Expected Inflation and Unanticipated/Unexpected Inflation.*  
*Expected Inflation* is inflation that can be anticipated before inflation occurs by calculating the real lending interest rate by the nominal lending interest rate minus inflation, while *Unexpected Inflation* is the opposite of *expected inflation*, which is inflation that cannot be anticipated before inflation occurs.
- c. *Pull Inflation and Cost Push Inflation Fever*  
*Demand-pull inflation* is inflation caused by a very high increase in demand for goods and services. In this theory, inflation occurs because demand is much greater than supply. *Cost push inflation* is inflation caused by an increase in the cost of producing goods or services. The demand for an increase in labor wages results in an increase in production costs that will increase the goods or services offered.
- d. *Spiraling Inflation*  
*Spiraling Inflation* is inflation caused by inflation that occurs at the beginning and occurs continuously, so that it can be described as a spiral.
- e. *Imported Inflation and Domestic Inflation*  
*Imported Inflation*, also known as foreign inflation, is the inflation of other countries that is also experienced by a country because it must be a *price taker* in international trade. *Domestic Inflation* can be said to be inflation that only occurs within a country that is not influenced by other countries.

### 2.1.7 Impact of Inflation

According to Rachmat and Maya (2011), inflation has a wide impact/consequence that will affect the structure of the economy as follows:

- a. Inflation affects the sense of reducing people's interest in saving (*propensity to save / PTS*) because they are worried that the value of their savings will continue to decline, thus canceling their intention to save money/income.
- b. Inflation accelerates the *velocity of circulation*, which in other words means reducing the desire to save cash (*liquidity preference* decreases).
- c. The decline in public trust in money both as a *medium of exchange*, as a *store of value*, and as a *standard of value*.
- d. Reduced willingness of people/entities to provide credit.
- e. If you want to save and even spend quickly
- f. Banks try to boost production by providing investment credit and/or working capital, which will usually only increase the amount of money in circulation, which means that

it will only steer inflation towards higher levels. This is because the credit funds provided by banks do not come from public savings/deposits, but come from the creation of new money from the Central Bank.

- g. Because inflation causes the rate of money circulation to increase, taxes tend to rise. Tax increases tend to result in reduced enthusiasm for business.
- h. Inflation tends to benefit people/entities that borrow money (debtors). On the other hand, inflation tends to harm the people/entities that lend money (creditors).

## 2.2 Research Methods

This research method uses a quantitative method. The quantitative method is a method used to research certain populations and samples. Data collection uses research instruments, data analysis is quantitative or statistical, with the aim of testing the hypothesis that has been established (Sugiyono, 2018: 65). The purpose of the correlational approach is to study the relationship between the free variable (economic growth and inflation) and the bound variable (poverty) in this study.

The data analysis technique used in this study is a regression model analysis technique that can be tested with a significance level of 0.05. The data analysis technique used in this study is multiple regression. Multiple regression analysis is a regression analysis that predicts the magnitude of dependent *variables* using data from two or more independent variables (*independent variables*) whose magnitude is known (Santoso, 2012: 221). The equation form of multiple regression is:

$$\text{Povit} = \alpha + \beta_1 \text{PEit} + \beta_2 \text{INFit} + \varepsilon \text{it} \quad (1)$$

Where:

Povit = poverty

$\alpha$  = Constant, the magnitude of the value Y if X = 0

$\beta$  = Regression coefficient, which expresses the change in the value of Y if

There is a change in the value of X

$\beta_1 \text{PEit}$  = economic growth

$\beta_2 \text{INFit}$  = inflation

$\varepsilon \text{it}$  = *Error term*, i.e., the level of error of guessing in the study

## 3. Results

Before determining the panel data regression model, it is necessary to conduct a test to determine the model. The determination of this research model is acknowledged by estimating each model to be used in conducting research analysis, so as to obtain relevant research results. The selection of the model consists of three tests, namely the Chow test, the Hausman test, and the LM *Test*. The Chow test is intended to make decisions from the two models that can be

selected, namely CEM and FEM by looking at the value of *the p-cross section F*. The Hausman test is intended to make decisions from the two models that can be selected, namely FEM and REM by looking at the value of *the p-cross section F*. As for the LM test, it is intended to make decisions from the two models that can be chosen, namely CEM and REM, by looking at the values from the following.

Table 1. Model Selection

Testing	Test	Prob	Decision
Chow Test	Cross Section F	0.0000***	FEM ( $p < \alpha$ )
Hausman Test	Cross-Section Random	0.4840S	REM ( $p > \alpha$ )
LM Test	Both	0.0000	REM ( $P < \alpha$ )

Vulnerability : (\*\*\*) Significant at 1%, \*\*) Significant at 5% and \*) Significant at 10%, NS) Not Significant  
Source: Processed Products, 2023

Based on the results of the previous estimates in Table 1 above, it can be compared that the model used in this study is the *Random Effect Model*, This is because in the selection stage of the Test *Chow* visible *p-cross section F* significant at an alpha level of 1% and beyond in the Test *Hausman* It looks like *p-cross section F Random* more than the level of definition until continuing with the test *LM Test*. In testing *the LM Test*, see the value on both *Breusch Pagan* less than significant, so that the model used in this study is the *Random Effect Model* (REM).

The results of the regression analysis that have been estimated and the selection of the panel data model are carried out, and the results of the panel data regression analysis use *the Random Effect Model* (REM). The following are the results of the estimates presented in Table 2. as follows:

Table 2. REM Estimation Results

Variable	Coefficient	Prob
<b>C</b>	<b>1.103.386</b>	<b>0.0000</b>
PE	0.012964	0.6640S
<b>INF</b>	<b>0.196342</b>	<b>0.0000</b>
R-Squared		0.306772
Adjusted R-Squared		0.282448
F-Statistic		1.261.202
Prob(F-Statistic)		0.000029

Vulnerability : (\*\*\*) Significant at 1%, \*\*) Significant at 5% and \*) Significant at 10%, NS) Not Significant  
Source: E-views Processed Products, 2023

The above inference model can be interpreted in the following sentences:

- 1) Poverty without being affected by any independent variable in this research model is **11.03386** percent.
- 2) Economic growth has a positive effect on poverty. This means that every 1 percent increase in Economic Growth will increase Poverty by **0.012964** percent.

Inflation has a positive effect on poverty. This means that every 1 percent increase in inflation will increase poverty by **0.196342** percent.

### 1. The Influence of Economic Growth on Poverty

From the results of the analysis that has been carried out, it is known that the Economic Growth Coefficient value is **0.012964** and the  $\rho$  value (*Prob*) is **0.6640**. If the  $p$ -value is compared to the significance level, the  $p$ -value obtained is greater than the significance level (10%, 5%, and 1%), so that H1 is accepted and H0 is rejected. Thus, the decision is that Economic Growth has a positive but not statistically significant effect on Poverty during the period 2012-2021.

### 2. The Effect of Inflation on Poverty

From the results of the analysis that has been carried out, it is known that the Inflation Coefficient value is **0.196342** and the  $\rho$  value (*Prob*) for the variable is **0.0000**. If the  $p$ -value is compared to the significance level, the  $p$ -value obtained is less than the significance level (10%, 5%, and 1%), so that H0 is accepted and H1 is rejected. Thus, the decision is that inflation has a positive and statistically significant effect on poverty during the period 2012-2021.

### 3.1 Normality Test

This normality test aims to test whether in the regression model the dependent variable and the independent variable both have a normal distribution or not. In this study, the normality test was tested through *Jarque Bera (JB)* so that the results were more reliable. The Hypothesis is determined as follows:

Ho: Dependent variable data is normally distributed

H1: The data of the dependent variable is not normally distributed

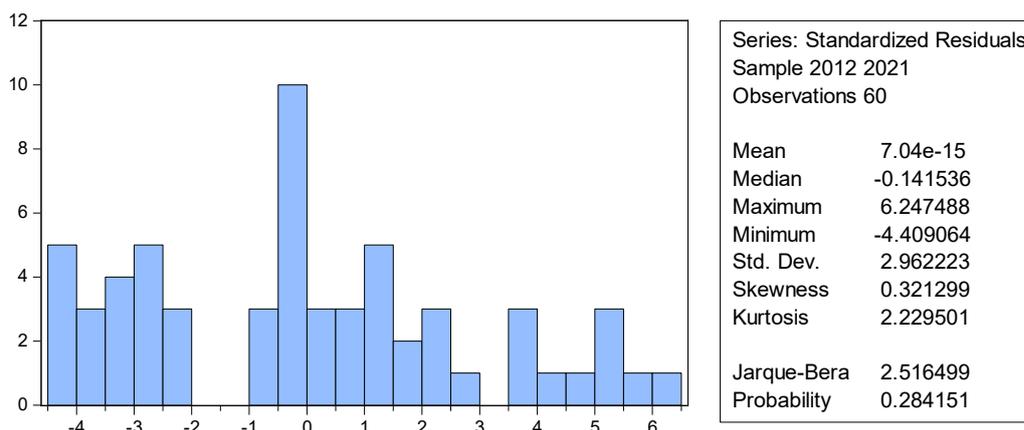


Figure 2. Normality Test Results  
Source: Eviews-10 Processed Products, 2023

From Figure 2. it can be seen that the *Jarque-Bera* value obtained is **2.516499** with a  $\rho$  value (*Prob*) of **0.284151**, which is a greater value when compared to the alpha level (1%, 5%,

10%). So it can be stated that the data in this study is distributed normally, or  $H_0$  is accepted and  $H_1$  is rejected.

### 3.2 Multicolitability Test

Some linear relationships (Multicollinearity Detection) can be manifested statistically (VIF) as well as mathematically (Matrix). And in this test, only one of them is used, namely in the form of statistics (VIF), while in mathematical form, it is not suitable for panel data. The Vector Inflation Factor (VIF) is calculated by regressing each independent variable. Where the  $R^2$  value is used as the basis for measuring the correlation, the VIF value is as follows:

Table 3. Multicollinearity Test Results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	1.894773	1.023242	NA
GROWTH	0.000881	1.193355	1.173141
INF	0.001965	1.190605	1.173141

Source: Output Results On Eviews-10, 2023

The test results of Table 3 show that the value of the Centered VIF of all variables is less than 10 ( $VIF < 10$ ), so, in this research model, there is no multicollinearity between the Independent variables.

### 3.3 Heteroskedasticity Test

Regression models with heteroscedasticity have serious consequences for the estimators of the OLS method because they are no longer *BLUE*. Therefore, it is very important for us to know whether a model contains elements of heteroscedasticity or not. *The Glacier Test* is used in this testing stage, which only compares the values of the *absolute residual estimate* (RESABS) with the following independent variables.

Table 4. Heteroskedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.127144	0.777070	2.737391	0.0082
GROWTH	-0.000680	0.026056	-0.026095	0.9793
INV	0.060744	0.038925	1.560527	0.1242

Source: Output Results On Eviews-10, 2023

The results of the Heteroscedasticity test in Table 4 show that the independent variable in this study gives a value greater than the  $\alpha$  or significance level used in this study. This means

that it can be explained that the estimation of this research model does not contain heteroscedasticity problems.

After testing the estimation hypothesis in this research model, it can be further examined regarding the influence of economic growth and inflation on poverty in the Sulawesi regional area. Below is a discussion of the testing of each independent variable on poverty in 2012-2021.

### 3.3.1 The Influence of Economic Growth on Poverty

Based on the results of the analysis conducted in this study, Economic Growth has a positive but insignificant effect on Poverty with a coefficient of **0.012964** with a probability value of  $0.6640 > \alpha = (1\%, 5\%, 10\%)$  in the Sulawesi regional area in 2012-2021. This means that any increase in Economic Growth can increase Poverty in the Sulawesi Regional Region during 2012-2021, but not tangibly or directly.

### 3.3.2 The Effect of Inflation on Poverty

Based on the results of the analysis conducted in this study, inflation has a positive and significant effect on poverty, with a coefficient of 0.196342, with a probability value of **0.0000**  $< \alpha = (1\%, 5\%, 10\%)$  in the Sulawesi regional area in 2012-2021. This means that any increase in inflation can increase and have a real effect on poverty in the Sulawesi region during 2012-2021.

The above is because when inflation occurs, it can harm the community, especially the middle and lower classes, which are basically still classified as poor. The price of basic goods will, of course, increase when inflation occurs, so that the costs incurred by the community will also increase. If inflation occurs for a long time, it will have an impact on all sectors, both companies and businesses that need a lot of services will reduce the number of workers. In addition, the demand for an increase in labor wages will result in an increase in production costs, which will increase the goods or services offered. Therefore, inflation has a direct or significant effect on poverty.

## 4. Conclusion

Based on the results of the Analysis and Discussion on the Influence of Economic Growth and Inflation on Poverty in the Sulawesi Regional Region Province for the 2012-2021 Period, it can be concluded as follows:

1. Economic growth has a positive but not significant effect on poverty in the provinces of the Sulawesi regional region. This means that every 1 percent increase in economic growth can increase poverty. However, the increase cannot be explained in real terms.
2. Inflation has a positive and significant effect on poverty in the provinces of the Sulawesi region. This means that every 1 percent increase in inflation can increase poverty. The increase can be explained in real terms.

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