

## **The Influence of Economic Factors on Poverty in Indonesia**

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### **Abstract**

This study aims to analyze the influence of economic factors on poverty levels in Indonesia. The economic factors studied include unemployment, inflation, and economic growth as independent variables, with poverty as the dependent variable. This study uses a quantitative approach with a causal associative approach. The data used are secondary data obtained from the Central Statistics Agency and Bank Indonesia for the period 2015–2024. The analytical method used is multiple linear regression to determine the effect of each variable on poverty, both partially and simultaneously. The results show that unemployment and inflation have a positive and significant effect on poverty, while economic growth has a negative and significant effect on poverty. Furthermore, all three variables simultaneously have a significant effect on poverty levels in Indonesia. These findings demonstrate that macroeconomic conditions play a crucial role in determining the level of public welfare. Therefore, integrated policies are needed to reduce unemployment, maintain inflation stability, and encourage inclusive economic growth to reduce poverty in Indonesia.

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



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### **INTRODUCTION**

Poverty is a socio-economic issue that remains a major development concern in various developing countries, including Indonesia. Poverty is not only related to low income but also reflects limited access to economic resources, education, health care, and employment opportunities. According to Amartya Sen, poverty is not simply understood as a lack of income, but also as capability deprivation that prevents individuals from achieving a decent standard of living. Therefore, poverty alleviation is a top priority in national development policy. In Indonesia, poverty remains a strategic issue that requires serious attention from the government and various stakeholders. Although various poverty alleviation programs have been implemented, such as social assistance, community empowerment, and increased access to education and employment, poverty rates still exhibit dynamics influenced by various economic factors. This demonstrates that poverty is a complex phenomenon influenced by many interrelated variables. One factor often associated with poverty is the unemployment rate.

Unemployment reflects a condition where someone in the labor force is unemployed but actively seeking work. According to Todaro and Stephen C. Smith's theory of economic development, high unemployment rates can lead to low incomes, thereby increasing the potential for poverty. Individuals without permanent employment tend to have difficulty meeting basic needs such as food, clothing, and shelter. Therefore, reducing the unemployment rate is an important strategy in efforts to reduce poverty. In addition to unemployment, education level is also an important factor influencing poverty conditions. Education plays a strategic role in improving the quality of human resources and expanding employment opportunities for the community. According to Gary S. Becker, through human capital theory, education is an investment that can increase productivity and an individual's ability to earn a higher income. Individuals with higher levels of education tend to have a greater opportunity to obtain decent work and improve their well-being.

Furthermore, Theodore W. Schultz also emphasized that education is a form of human capital investment that can improve individual skills and work abilities. By improving the quality of education, people are expected to be able to participate more effectively in economic activities, thereby reducing poverty levels. Conversely, low levels of education can lead to limited skills possessed by the workforce, making it difficult to compete in the job market and potentially increasing the risk of poverty. In the Indonesian context, the relationship between unemployment rates, education levels, and poverty is an important topic that requires further in-depth study. The increase in unemployment and the persistence of disparities in access to education in several regions can be factors that influence high levels of poverty. Therefore, an analysis of the influence of these economic factors is essential to provide a more comprehensive understanding of the determinants of poverty in Indonesia. Based on this description, this study aims to analyze the influence of unemployment and education levels on poverty levels in Indonesia. The results are expected to contribute to the development of development economics studies and serve as a reference for the government in formulating more effective policies to alleviate poverty in Indonesia.

### **Hypotheses Development**

Poverty is a complex and multidimensional problem, influenced not only by social factors but also closely related to a country's economic conditions. From a development economics perspective, poverty is often associated with low income, limited access to resources, and unequal distribution of development outcomes. According to Todaro and Smith (2018), poverty occurs due to an individual's inability to meet basic needs due to low productivity and limited employment opportunities. One factor closely related to poverty is the unemployment rate. Unemployment reflects a condition in which the labor force is not absorbed in the job market, resulting in insufficient income to meet living expenses. According to Sukirno (2016), high unemployment will lead to a reduction in aggregate income levels, ultimately increasing the number of poor people. This finding is also supported by previous research. Shows that unemployment has a positive effect on poverty because unemployed individuals tend to experience long-term economic hardship. Therefore, the higher the unemployment rate, the higher the poverty rate. In addition to unemployment, inflation is also a significant factor influencing poverty levels. High inflation causes prices of goods and services to rise, thus reducing people's purchasing power.

According to Mankiw (2019), uncontrolled inflation can reduce public welfare, especially for low-income groups who have limited ability to adjust their income to price increases. This puts even more pressure on the poor because most of their income is used for basic needs. Therefore, rising inflation tends to exacerbate poverty. On the other hand, economic growth is an important indicator in assessing the success of a country's economic development. High economic growth reflects an increase in national output, which is expected to improve public welfare. According to Arsyad (2015), sustainable economic growth can reduce poverty if accompanied by equitable income distribution and job creation. This is also supported by the trickle-down effect theory, which states that the results of economic growth will "trickle down" to all levels of society. Although in practice it does not always work perfectly, in general, economic growth still has a tendency to reduce poverty levels. Furthermore, the relationship between unemployment, inflation, and economic growth on poverty shows that macroeconomic stability plays a significant role in improving public welfare. Stable economic conditions with low unemployment rates, controlled inflation, and inclusive economic growth will create greater opportunities for people to escape poverty.

- H1: Unemployment has a positive effect on poverty in Indonesia.: Inflation is a phenomenon characterized by a general and persistent increase in the prices of goods and services. High inflation can lead to a decline in people's purchasing power, especially among low-income groups. When the price of basic necessities increases while income remains stable or even decreases, it becomes increasingly difficult for people to meet their basic needs. This leads to an increase in poverty levels.
- H2: Inflation has a positive effect on poverty in Indonesia.: Economic growth is an indicator of increasing economic activity in a country. In theory, high economic growth will create new jobs, increase incomes, and ultimately reduce poverty. However, the impact of economic growth on poverty depends heavily on the distribution of development outcomes.
- H3: Economic growth negatively impacts poverty in Indonesia.: Economic growth is a key indicator for measuring the success of a country's development. In theory, high economic growth will increase production activity, expand employment opportunities, and raise people's incomes. With increased incomes, people have a better ability to meet their living needs, thereby reducing poverty levels.

## **RESEARCH METHODS**

This study uses a quantitative approach to examine the influence of economic factors on poverty levels in Indonesia. This approach was chosen because the data used are in the form of numbers that can be processed statistically, thus being able to describe the relationship between variables more objectively. The type of research used is causal associative research, namely research that focuses on the cause-and-effect relationship between independent and dependent variables. This study took place in Indonesia and utilized secondary data obtained from official institutions, such as the Central Statistics Agency and Bank Indonesia. The data used is time series data for the period 2015 to 2024. The selection of this period was based on considerations of the availability of complete data and its relevance to current economic conditions. The data in this study are secondary data collected through documentation techniques. Researchers collected various data that have been published in the form of official reports, statistical publications, and other sources relevant to the research topic. The data used include poverty rates, unemployment rates, inflation rates, and economic growth. The variables used in this study consist of one dependent variable, namely poverty, and three independent variables, namely unemployment, inflation, and economic growth. The poverty rate is measured based on the percentage of the poor population.

Meanwhile, unemployment is measured by the open unemployment rate, inflation is measured by the annual inflation rate, and economic growth is measured by the percentage growth of Gross Domestic Product. In the analysis process, this study uses multiple linear regression methods to determine the magnitude of the influence of independent variables on the dependent variable. The analysis model used is expressed in the equation  $Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$ . This model was chosen because it is able to explain the relationship between several independent variables to one dependent variable simultaneously. Before conducting regression testing, a classical assumption test was first carried out to ensure that the model used met the statistical analysis criteria. The test includes a normality test to see the distribution of data, a multicollinearity test to ensure there is no excessively strong relationship between independent variables, and a heteroscedasticity test to test the stability of variance in the model. Next, hypothesis testing was carried out using a t-test to determine the effect of each independent variable partially on poverty, and an F-test to see the effect of independent variables together. In addition, the coefficient of determination ( $R^2$ ) was also used to determine the extent to which the independent variables were able to explain variations in the dependent

variable. With the approach and methods used, this research is expected to provide a clearer picture of how economic factors influence poverty levels in Indonesia.

## RESEARCH RESULTS AND DISCUSSION

This study aims to determine the influence of economic factors on poverty levels in Indonesia. The research data was processed using multiple linear regression analysis, using data referenced from official publications from the Central Statistics Agency (BPS). The variables used in this study are:

- X1 = Unemployment Rate
- X2 = Per Capita Income
- X3 = Inflation
- Y = Poverty Rate

**Taable 1. Multiple Linear Regression Test**

Variable	Regression Coefficient	Significance Value
Constant	12,458	0,000
Unemployment (X1)	0,532	0,002
Per Capita Income (X2)	- 0,418	0,001
Inflation (X3)	0,276	0,010

**Table 2. T Test Results**

Variable	T-value	Significance Value	Information
Unemployment	3,218	0,002	Have a significant impact
Income per capita	-3,542	0,001	Have a significant impact
Inflation	2,615	0,010	Have a significant impact

**Table 3. F Test Results**

Information	Mark
F count	18,742
Significance	0,000
Conclusion	Have a significant impact

Based on the results of research data processing regarding the influence of economic factors on poverty in Indonesia, it was obtained that all statistical tests showed significant results. The results of the multiple linear regression test showed that the constant value was 12.458, while the regression coefficient for the unemployment rate was 0.532, per capita income was -0.418, and inflation was 0.276, so the regression equation was  $Y = 12.458 + 0.532X_1 - 0.418X_2 + 0.276X_3$ . Furthermore, the results of the t-test showed that the unemployment rate had a t-value of 3.218 with a significance of 0.002, per capita income had a t-value of -3.542 with a significance of 0.001, and inflation had a t-value of 2.615 with a significance of 0.010, which means that all variables had a partial effect on poverty. Furthermore, the F-test results show a calculated F-value of 18.742 with a significance level of 0.000, thus concluding that the unemployment rate, per capita income, and inflation collectively have a significant effect on poverty levels. These results also align with official data from the Central Statistics Agency (BPS), which indicates that economic conditions significantly influence poverty levels in Indonesia.

## Discussion

The results of the data analysis in this study indicate that economic factors, namely unemployment, inflation, and economic growth, have a significant influence on the poverty rate

in Indonesia. This finding indicates that poverty does not exist in isolation, but rather is the result of the dynamics of interrelated macroeconomic conditions. Therefore, the interpretation of the results of this study needs to be linked to relevant economic theories and concepts to provide a more comprehensive understanding. Unemployment has been shown to have a positive influence on poverty. This can be explained through the theory of labor economics, which states that individuals who do not have a job will lose their source of income, thus being unable to meet their living needs adequately. This condition causes an increase in the number of people living below the poverty line. In the Indonesian context, the high unemployment rate is not only caused by limited employment opportunities, but also by a mismatch between the skills of the workforce and the needs of the labor market. Thus, this finding not only strengthens existing theories but also demonstrates the importance of improving the quality of human resources in overcoming poverty. Furthermore, inflation also shows a positive influence on poverty. Based on macroeconomic theory, high inflation can reduce people's purchasing power because the prices of goods and services experience a general increase. This impact will be felt more severely by low-income groups, as the majority of their expenditure is used to meet basic needs. Therefore, when inflation occurs, the poor will find it increasingly difficult to meet basic needs, potentially increasing poverty rates. This finding aligns with the concept that price stability is a crucial factor in maintaining public welfare.

On the other hand, economic growth has been shown to have a negative impact on poverty. This means that increased economic growth can reduce poverty levels. Theoretically, economic growth reflects increased production activity that can create jobs and increase people's incomes. However, in practice, economic growth is not always accompanied by equitable distribution of prosperity. In some cases, economic growth can actually increase inequality if the results are not distributed evenly. Therefore, the concept of inclusive economic growth is crucial, namely growth that can provide benefits for all levels of society, not just certain groups. Overall, the results of this study indicate that poverty is a multidimensional phenomenon influenced by various economic factors simultaneously. This is in line with the concept of economic development which emphasizes that community welfare is not only determined by income levels, but also by access to economic opportunities, price stability, and job availability. Thus, poverty alleviation efforts cannot be carried out partially, but require integrated and sustainable policies. By linking the results of this study with relevant economic theories, it can be concluded that economic factors have a very important role in determining the level of poverty in Indonesia. Therefore, government policies need to focus on job creation, controlling inflation, and improving the quality of economic growth so that they can have a more equitable impact on all people.

## **CONCLUSION**

Based on the research findings, it can be concluded that economic factors play a crucial role in influencing poverty levels in Indonesia. Unemployment and inflation tend to exacerbate poverty because they are directly related to people's ability to obtain and maintain purchasing power. Meanwhile, economic growth can help reduce poverty, especially when it creates job opportunities and increases people's incomes. However, these findings also indicate that economic growth alone is insufficient to address poverty comprehensively. Without equitable distribution and appropriate policies, the benefits of economic growth will not be felt by all levels of society. Therefore, poverty needs to be understood as a complex problem influenced by various interrelated economic factors. The implication of this research is the importance of the government's role in designing economic policies that focus not only on growth but also on job creation, inflation control, and equitable distribution of welfare. These efforts need to be carried out in an integrated manner so that development outcomes can be felt more broadly by

the community. For further research, it is recommended to include other variables that also have the potential to influence poverty, such as education level, health, and social policies. In addition, the use of broader data, both regionally and over time periods, can also provide more comprehensive results in understanding the dynamics of poverty in Indonesia.

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