Poverty analysis in the macroeconomic perspective

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Abstrack
Poverty is one of the problems in a complex and multidimensional economy. Therefore, efforts to alleviate poverty must be carried out comprehensively covering various aspects of people's lives. In the discussion of this journal by focusing the discussion on the relationship between inflation and poverty reduction. Price stabilization and inflation are still considered more general problems and are rarely associated with poverty reduction issues[1]. One of the factors of increasing poverty that occurs is due to higher inflation rates and price volatility. For this reason a comprehensive and effective macroeconomic policy is needed to reduce poverty. At this writing, the literature study is taken from library data and secondary data as a support.

Keywords: Poverty, Macroeconomics, Inflation, prices
JEL Classification: A10, D70, E31, E60, O23

A. Background

Efforts to reduce poverty and maintain the welfare of people who are classified as poor cannot ignore the role of price stability and inflation because price stability and inflation not only serve as the main foundation in economic growth but also play a direct role as an important element in determining the cost of living of the population. Technically, inflation will indirectly determine the per capita expenditure of the population and directly affect the movement of the poverty line. The higher the inflation rate, the greater the need for an increase in nominal per capita expenditure needed to keep the poverty rate unchanged.

Poverty is a multidimensional problem that handles not only economic agendas or policies but also concerns social, political and cultural policy agendas. Understanding the economic problems of poor families is not enough to make effective poverty reduction policies. However, economic problems remain the core of the problem of poverty. In economic policy, macroeconomics is the fundamental. So an understanding of the interrelationship between macroeconomic policies is the key to developing anti-poverty policies.

Basically poverty, which is always identified with a low standard of living, can be interpreted as a situation where the livelihood of the population is characterized by a complete shortage of basic needs. According to Widodo[2]. Explain that the concept of basic needs is always associated with poverty because the problem of poverty is a nation's obsession and the very basic issues that must be addressed by the poor are generally not earning enough, not even earning at all. The poor are generally weak in their business skills and limited access to economic activities so that they are left behind from other communities.

Welfare or not being poor is an outward desire of everyone. Such a situation, however, is only merely fulfilling the satisfaction of human life as an individual being. In fact, besides being individual beings, humans are also social beings. Everyone is part of the community. In this

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[1] Team penyusun Strategi Penanggulangan Kemiskinan baik dibawah kendali Badan Penanggulangan Kemiskinan (1999-2000) maupun Bappenas (2000-2003)

[2] Widodo, Tri.2006.*Perencanaan Pembangunan* : Aplikasi Komputer (era Otonomi Daerah).Yogyakarta : UPP STIM YKPN.

capacity as a social being according to Dumairy[3] humans need togetherness with other humans in their society.

B. Literature Review

In the previous research, Adit Agus Prastyo was obtained as follows (2009)[4], in the journal Analysis of Factors Affecting Poverty Levels (35 District / City case studies in Central Java 2003-2007). The variables used are poverty rates, economic growth, minimum wages, unemployment rates and education. The advantage of this study is to examine several and compare several independent variables (minimum wage, economic growth, open unemployment rate, and inflation rate) which are more influential on the dependent variable (poverty) and provide input to the Indonesian economy.

Faith Sugema, et al (2010)[5], in the journal The Impact of Inflation on Rular Poverty in Indonesia and Econometrics Approach. Variable price index for the poor. This journal is a reference because researchers examine inflation, inflation in Indonesia has a high impact on poverty, besides that the study also found that in the last three years the change in inflation caused a relatively higher impact on the poor at the national level. The advantage of this journal is to explain more broadly and more complex variables, namely the variable minimum wage, economic growth, open unemployment rate, and inflation in 2009-2011 and examine the relationship between the variables of inflation and poverty.

Literature which says the role of inflation with poverty is relatively small [6]. Even if it exists, it is largely part of the discussion of the role of macro policy or the impact of economic reform policies on poverty. Initially, the focus of empirical studies used more data from developed countries. Later, several studies used data from developing countries, especially countries in Asia and Latin America. The link between information and poverty has been warmed up again during the global food crisis of 2008 which coincided with the energy crisis and the fiancial crisis which could potentially create hundreds of millions of new poor people. Besides that the price stability problem also has a considerable impact in boosting the rate of poverty in developing countries today, so that the writer tries to combine two variables, namely inflation and price stability to measure the extent of the impact on poverty that will occur on a macro basis.
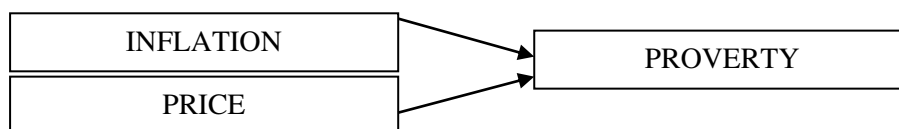
C. Metodhology

Data collection methods are very important to use in a study. According to Sugiyono[7] Data collection can be done in various settings, various sources, and various events. When viewed from various sources, data collection can use primary sources and secondary sources. Primary sources are data sources that directly provide data to data collectors, and secondary sources are sources that do not directly provide data to data collectors, for example through other people or through

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[3] Dumairy, 1997. *Perekonomian Indonesia*, Erlangga, Jakarta Kecuk Suhariyanto, 2011. "Jumlah Si Miskin," Kompas.

[4] Adit Agus Prastyo, 2010. *Analisis Faktor-Faktor yang Mempengaruhi Tingkat Kemiskinan*. Semarang: FE UNDIP.

[5] Imam Sugema, dkk, 2010. *The Impact of Inflation on Rural Poverty in Indonesia:an Econometrics Approach*. Euro Journals Publishing, Inc. 2010.

[6] Easterly, W., and S. Fischer. 2001. "Infltion and the Poor." Journal of Money, Credit and Banking 33: Hal 160–78.

[7] Sugiyono. 2011. Metode Penelitian Kuantitatif dan Kualitatif dan R&D. Bandung: Alfabeta. Hal 16

documentation, Data used in this study are secondary data sourced from the Central Agency report Statistics (BPS) and scientific journals about the Indonesian economy up to 2017.

D. Result

The definition of poverty has undergone expansion, along with the increasingly complex causes, indicators and other problems that surround it. Poverty is no longer only regarded as an economic dimension but has expanded to the social, health, education and political dimensions. Poverty cannot be separated from the law No. 13 of 2011 that in order to carry out the responsibility of the state to tackle poverty national development policies are needed that favor the poor in a planned, directed and sustainable manner. The number of poor people in March 2017 was 27.77 million people.

Development of Percentage of Poor Population by Region September 2016 – March 2017[8]

1. In the period September 2016 – March 2017, the number of poor people in urban areas has increased by 188.19 thousand people, while the rural areas have decreased by 181.29 thousand people.
2. Most of the poor live in rural areas. In March 2017, the poor population living in rural areas amounted to 61.56 percent of the total poor population, while in September 2016 it was 62.24 percent.

Several factors related to poverty levels during the period September 2016 – March 2017 include:

a. During the period September 2016 – March 2017 there was general inflation of 2.24 percent. While inflation in the March 2016 – March 2017 period was 3.61 percent.
b. The daily nominal wage of farm workers in March 2017 rose by 2.57 percent compared to September 2016 (from Rp. 48,235 to Rp. 49,473). Meanwhile, the real wage of farm workers per day in March 2017 rose by 0.16 percent compared to September 2016, which was from Rp. 37,259 to Rp. 37,318.
c. The daily nominal wage of construction workers in March 2017 rose by 1.51 percent compared to September 2016, which was from Rp. 82,480, - to Rp. 83,724, -. Meanwhile, real wages for construction workers per day in March 2017 fell by 0.72 percent compared to September 2016, which was from Rp. 65,768 to Rp. 65,297,
d. In the period September 2016 – March 2017, nationally the retail price of rice, broiler meat, beef, granulated sugar, wheat flour, and race chicken eggs decreased. The average price of rice decreased by 0.11 percent, from Rp. 13,140 per kg in September 2016 to Rp. 13,125 per kg in March 2017. The price per kg of chicken meat fell by 3.98 percent (from IDR 38,830 per kg in September 2016 to IDR 37,285 per kg in March 2017). Beef dropped by 0.30 percent (from Rp. 107,576 per kg in September 2016 to Rp. 107,251 per kg in March 2017). Meanwhile, prices per kg of sugar, wheat flour, and chicken eggs have decreased in price by 5.06 percent, 0.70 percent and 3.60 percent respectively.

The decline in some of the main commodities besides reducing the rate of increase in the poverty line (GK) also greatly helped the people's purchasing power.

In its development In March 2017, food commodities that made a large contribution to the poverty line (GK) in both urban and rural areas were generally almost the same. Rice contributes 20.11 percent in urban areas and 26.46 percent in rural areas. Filtered kretek cigarettes made the second largest contribution to GK (11.79 percent in urban areas and 11.53 percent in rural areas). Other commodities are broiler eggs (3.69 percent in urban areas and 3.13 percent in rural areas), broiler chicken meat (3.61 percent in urban areas and 2.23 in rural areas), instant noodles (2.59 percent in urban areas and 2.31 in rural areas, and so on, non-food commodities that make a large contribution to both urban and rural CWs are housing, gasoline, electricity, education,

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[8] Laporan bulanan data sosial ekonomi edisi 88 september 2017 badan pusat statistik nasional. Hal 124-128

transportation, toiletries, and health. Regarding the dimensions of poverty.. Poverty in Indonesia has a plural dimension, not just measured by the consumption gap. The expansion of poverty definition which includes the dimensions of other basic necessities of life including access to public services changes the portrait of poverty. UNDP in its 2010 report on the Global Human Development Report, which was launched just two weeks ago, shows that Indonesia's poverty index has increased as the dimensions of poverty are expanded. This picture implies that Indonesia's poor households not only have deficiencies in the form of consumption but also deficit in other basic life needs. Quantitative analysis shows a strong correlation between the dimensions of poverty. However, it is not yet clear whether the deficiencies in these basic needs have a causal relationship to the deficit in the consumption gap.[9]

Poverty in Indonesia also has high heterogeneity both in terms of the causes of poverty and its location. The number of poor people is very heterogeneous and the causes vary. The heterogeneity of these problems provides a signal that anti-poverty policies must be targeted at the causal factors. This means that the anti-poverty policy as I described will vary for each region. No one size fis all. The pattern of a centralized development policy as it was carried out in the 1970s to 1990s and succeeded at that time, would not necessarily succeed if it was re-applied in the present. Decentralized anti-poverty policies such as the National Community Empowerment Program (PNPM) are better able to answer local problems. However, because the benefits per capita are still relatively low, the impact on the aggregate of poverty has not been felt much. The challenges faced in both policy making and its implementation are increasingly strong due to changes in the global environment and demands for domestic political change such as decentralization and the transition to democracy.

The above challenges are further strengthened by the fact that many fiscal policies as a central instrument in reducing poverty fail to achieve the objectives to be achieved. As one example, fuel subsidies. Census data consistently shows that most of the subsidies are more enjoyed by the rich compared to the poor. The implications of reducing fuel subsidies through the release of fuel prices refer to market prices will improve income distribution, but on the other hand absolute poverty will rise sharply. The combination of subsidy reduction programs by further clarifying the target compensation program will not only improve income distribution (read justice) but significantly reduce absolute poverty. This step was carried out by the government in adjusting fuel prices in 2005 and 2008.

Some important elements in the preparation of poverty reduction are first, the importance of a country having a good and prudential macroeconomic policy framework. Countries with a good and prudent macroeconomic framework are usually associated with efforts to stabilize prices and a sustainable fiscal situation that is responsive to the business cycle and good monetary policy.

The theory of economic growth indicates that inflation affects economic growth through its influence on the level of accumulation of production factors or the total factor productivity[10]. The level of accumulation of production factors will be affected due to money and capital which are basically substitute assets. In this case, the increase in the inflation rate will encourage economic actors to place their assets in capital rather than accumulate hoarding, so that in turn the information will increase economic growth. But on the other hand, information applies like a tax to capital so that the increase in inflation is the same as an increase in capital. Inflation also increases uncertainty, making it difficult for entrepreneurs and economic actors to plan, which in turn will delay their investment decisions. Inflation will also encourage an increase in nominal interest rates which will not only increase the cost of working capital but also investment costs. Uncertainty will

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[9] Ikhsan Mohammad. 2010. *Kebijakan Ekonomi makro khususnya stabilisasi harga dan penanggulangan kemiskinan.* Universitas indonesia. Jakarta hal 17-20

[10] Morley, S. 2000. *"The Effects of Growth and Economic Reform on Income Distribution in Latin America."* CEPAL Review 71: Hal. 23–40

also be reflected in the foreign exchange market which in turn encourages capital flight. Furthermore, high inflation reflects the poor performance of the government.[11] So, from this accumulation path there are two effects of inflation on economic growth in different directions.

Inflasi yang tinggi menyebabkan suatu negara negara kehilangan daya saing karena inflasi yang tinggi akan mempengaruhi nilai tukar riil suatu negara. Erosi daya saing akan mempengaruhi kinerja sektor tradable. Jika sektor tradable menjadi andalan dalam pertumbuhan ekonomi dan penciptaan lapangan kerja, penurunan daya saing ini akan mempunyai implikasi pada penciptaan lapangan kerja dan tingkat pengangguran. Penciptaan lapangan kerja tentu akan mempengaruhi tingkat kemiskinan mengingat *"labor"* merupakan aset utama dari orang miskin. Ekspansi sektor *tradable* ini seperti yang dijelaskan dalam bagian sebelumnya merupakan pendorong dari penurunan kemiskinan Indonesia di era 1990an walaupun masih dalam bentuk spekulatif penurunan daya saing industri manufaktur selama pasca reformasi mempunyai asosiasi terhadap perlambatan laju penurunan tingkat kemiskinan.

Low inflation makes it easy for the poor to manage economic risks due to the limited access and knowledge of the poor to protection institutions such as insurance and credit. As a result, for poor household groups, the impact of inflation has caused uncertainty which has caused them to be reluctant to invest both in the form of investment in human resources and business investment. Poor households are generally classified as having a high level of risk averseness, because they do not have access to adequate financial resources or limited assets. As a result, they generally have a higher cash ratio as part of the motive just in case. They are also reluctant to carry out new investment activities that contain risks. In this connection, inflation will increase the higher risk and cause poor households to become not involved in the process of economic growth. This risk averseness also affects investment decisions of poor households. They are more concerned with investments that have a current and short-term impact compared to long-term investments such as education. Since the rate of return on the labor market is positively correlated with the level of education, the reluctance of poor households to make long-term investments not only causes their failure to participate in the wave of economic growth but also exacerbates income distribution which in turn affects the level of absolute poverty. The development of the level of income distribution in Latin American countries is evidence of the link between education investment and poverty levels and income distribution.

E. Conclusion

The description above shows that poverty reduction requires the maintenance of macroeconomic fundamentals, especially controlling price levels. Economic growth accompanied by price stability plays an important role in efforts to reduce poverty. Stable general prices will have a positive impact. The management of this information control policy is increasingly important today for poverty alleviation because the trend of inflation related to the cost of living of poor households tends to be higher than the general inflection rate. This pattern will not only encourage an increase in poverty rates, ceteris paribus, but also have an impact on deteriorating income distribution.

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