Economic Growth and Poverty in West Kalimantan

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ABSTRACT

Ideally, the economic development that has been carried out will produce high economic growth as well as improve the welfare of the community. However, based on existing realities, the benefits of economic growth cannot be felt directly, resulting in poverty. In an effort to analyze economic growth and poverty, this study was performed by collecting samples of all districts/cities in West Kalimantan Province from 2010 to 2020, which were then analyzed using two-stages simultaneous equations. The endogenous variables in this study were economic growth and poverty, while the exogenous variables were household consumption, investments, per capita income, and agriculture sector growth. The results showed that poverty had a negative impact on economic growth, but household consumption and investment had no effect. At the same time, per capita income economic growth has a negative effect on poverty, while economic growth and agriculture sector growth has no effects on poverty. Therefore, the quality of economic growth in West Kalimantan must be further improved by focusing on the poor (pro poor).

Keywords: economic growth, poverty, two-stage model of simultaneous equations

INTRODUCTION

Poverty is one of the main problems in development the economy. Economic development is essentially aimed at improving community welfare, increasing income and economic growth in all development sectors, optimal development equality, expansion of employment and improvement of the people's standard of living. In achieving development goals as a whole it is necessary to increase economic growth and equitable distribution of income so as to reduce poverty.

Economic growth and poverty phenomenon strategic issues of particular interest for policy makers in West Kalimantan. Economic growth and poverty are important indicators of the success of regional development. Every regional government strives for optimal economic growth to suppress poverty level. Economic growth is a key condition for the creation of poverty reduction in developed countries. However, conditions in developing countries including Indonesia's economic growth achieved was also accompanied by the emergence of problems increasing number of people living below the poverty line. Economic growth in regencies/cities in West Kalimantan showed a growth average of 4,80% between 2010 up to 2020, which is among the highest gainers. However, this considerable economic growth does not proportionally result in poverty level alleviation since it is still considered high among other regions in Kalimantan. Poverty has long been a problem in West Kalimantan, where until now there has been no sign will end. Based on the results of the National Socio-Economic Survey (Susenas) conducted by BPS, the number of West Kalimantan residents living below the line poverty recorded is still quite large namely, around 367 thousand

people or approximately 7,17% in 2020. The following will be shown the average economic growth and poverty in West Kalimantan during 2010 up to 2020:
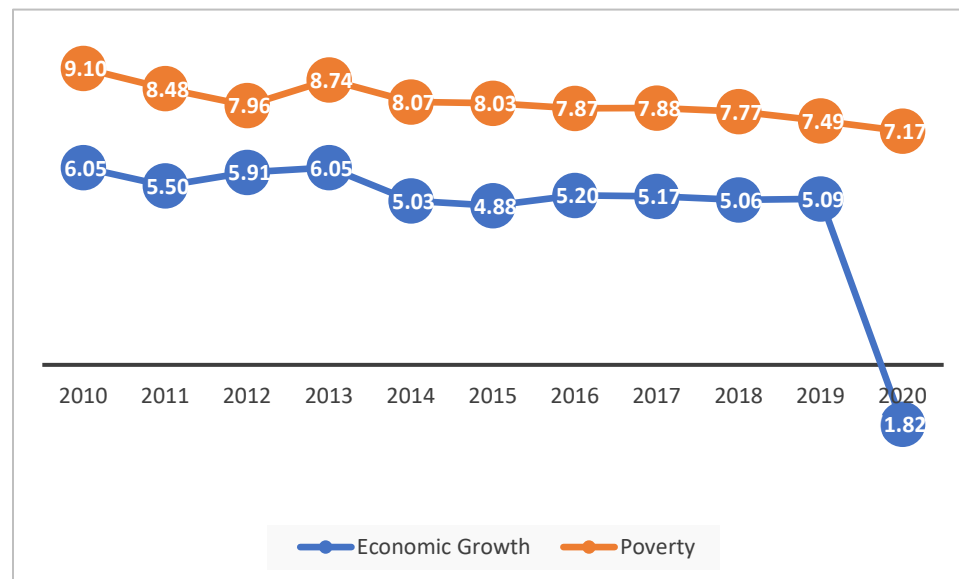

Figure 1. Average Economic Growth and Poverty of West Kalimantan Province
during 2010 up to 2020 (%)
Source: Central Bureau of Statistics (BPS) of West Kalimantan,
the data is being processed.

Keynes argues that public consumption of goods and services is the main factor determining the level of economic activity achieved by a country (Sadono, 2000). Keynes' theory focuses on aggregate demands that are effective domestically as a strategic variable to cope with the stagnation in production factors. Effective aggregate demands in the country lead to spending for consumption, spending for investments, and government expenditure to create a positive impact on economic activities and lower unemployment or joblessness.

Harrord-Domar's Growth Model has been widely implemented in many developing countries with the intention to pursue national growth acceleration as well as solve the vicious poverty cycle issue (Todaro & Smith, 2006). The strategy used is increasing capital accumulation by stimulating both domestic and foreign investment level for industrialization purpose in various fields.

According to Berardi & Marzo (2017), an important factor that may determines poverty is sectors that favors the potential of poor people (pro-poor potential). In line with that argument, Ames, Brown, Devarajan, & Izquierdo (2001) express that economic growth that may have an effect on poverty is influenced by sectoral growth compositions. Growth in economic sectors where people are concentrated and involved within will have a greater effect on poverty alleviation compared to growths in other sectors. In this case, economic growth in West Kalimantan relies on primary sectors since the majority of Kalimantan population (50,94%) make a living as a farmer (BPS, 2018).

Trickle Down Effect theory argues that growth gained by certain groups of people will eventually trickle down, creating employments and new economic opportunities in the process, ultimately resulting in the even distribution of economic growth outcomes. It has been long argued that in combating poverty, high economic growth is required since it is expected to trigger trickle down effect that may improve public welfare.

Economic growth is an important requirement to bring people out of poverty. While it is not the only factor, the benefits of swift economic growth will spread to many elements in society. This view is based on trickle down theory which is a dominant view in development theory in 1950s and 1960s. Growth and poverty have a very strong correlation, because on the initial stages of the development process the poverty level tends to increase and at the moment approaching the final stage of development the number of poor people gradually reduced (Tambunan, 2011). High economic growth implies capacity increase in economy and will improve per capita income. Improved per capita income will result in the alleviation of poverty level. Therefore, it is safe to say that economic growth is needed for poverty alleviation.

Poverty is the inability of a person to satisfy essential everyday needs such as shelter, clothing and food. According to Chambers (2014), poverty is an integrated concept that has five dimensions, which are properness; powerlessness; susceptibility to state of emergency; dependence; and isolation, both geographically or socially. In general, the concept of poverty is often associated with a person's income and needs. If a person's income level is insufficient to satisfy minimum or basic needs in order to live decently, the person can be considered poor. Therefore, poverty can be measured from a person or a family's income level subtracted by expenditure required to acquire basic minimal needs that are normally used as the threshold between 'being poor' and 'not being poor' (Arsyad, 1999).

METHODOLOGY

The statistical analysis in this study used secondary data obtained from the Central Bureau of Statistic from all districts or cities in West Kalimantan Province during 2010 up to 2020. This study presented two outcomes, the first model that analyzed poverty with economic growth and the second model that analyzed economic growth effect on poverty. In addition, this study used control variables namely household consumption, investments proxied with Gross Fixed Capital Formation, per capita income, and agriculture sector growth.

In this model, economic growth and poverty were treated as endogenous variables, while household consumption, investments, per capita income, and agriculture sector growth were treated as exogenous variables. Therefore, the general specification of structural equation system used in this study was:

$$Y_{it} = \alpha + \beta_1 P_{it} + \beta_2 KONS_{it} + \beta_3 INV_{it} + u_{it} \qquad (1)$$
$$P_{it} = \alpha + \beta_4 Y_{it} + \beta_5 PPP_{it} + \beta_6 AGR_{it} + e_{it} \qquad (2)$$

Where: Y represented economic growth, P represented poverty, KONS represented household consumption, INV represented investments, PPP represented per capita income, and AGR represented agriculture sector growth.

Since the endogenous variables in this model were interrelated, the statistical analysis used was simultaneous method. Based on identification test results, it was found that the model overidentified that the variables of this study were analyzed using two-stages simultaneous equations (2 SLS). Hypotheses in this study are (1) poverty is thought to have a significant effect on economic growth, and (2) economic growth is thought to have a significant effect on poverty.

RESULTS AND DISCUSSION

The results of simultaneous modelling on the economic growth equation model (1.1) and the poverty equation model (1.2) is presented in the following table:

Table 1. Result of Simultaneous Model Estimation with Two Stage Least Square:

Model	Variable	Parameter Estimation	t count	p value
(1)	(2)	(3)	(4)	(5)
Economic Growth	Constanta	15.562	1.911	0.580
	Poverty (P)	-0.450	-1.918	0.057*
	Household Consumption (KONS)	-4.34	-1.033	0.304
	Investment (INV)	0.083	0.955	0.341
Poverty	Constanta	57.708	3.922	0.000***
	Economic Growth (Y)	-0.03	-0.028	0.978
	Per capita Income (PPP)	-5.441	-2.553	0.012**
	Agriculture sector growth (AGR)	-0.053	-0.381	0.704

Source: Data processing result
Note.: *) significant at α 10%; **) significant at α 5%; ***) significant at α 1%

Based on the table, in economic growth model, poverty variable (P) had a significant effect on economic growth at real level α = 10%, while household consumption (KONS) and investments (INV) variables had no significant effect on economic growth. Based on the results of parameter estimation, poverty was marked negative meaning that higher economic growth would decrease poverty. An increase in economic growth increase could only mean an increase in product and service demand. Increases in product and service demand would force the economy to increase the production of products and services. This indicates an increase in growth economy will increase income society, so the poverty reduced. The result of this study were in line with *trickle down effect theory* explained that the progress obtained by a group of people will itself trickle down creating a field employment and various economic opportunities which in turn will create various conditions for the sake of creating an even distribution of the results of economic growth. It was also in line with Tambunan's argument (2011) saying growth and poverty have a very strong correlation, because at the early stages of the development process the poverty rate tends to increase and over time approaching the final stage of development the number of poor people gradually reduced. In line with this, the results of this study are consistent with the results conducted by Herwartz and Niebuhr (2011) believe that economic growth involves in the rise of an economic capacity to produce goods and services for improving the well-being of the community.

As for poverty model, per capita income variable had a significant effect on poverty at real level of α = 5%, while economic growth (Y) and agriculture sector growth (AGR) had no significant effect on poverty. Per capita income variable had a significant effect on poverty. Parameter estimation on per capita income showed negative value, meaning that higher per capita income would alleviate poverty. Per capita income is one welfare indicator for every region. The higher the income is, the higher people's purchasing power will be, and high purchasing power will improve people's welfare. This was in line with Nakabashi's argument (2018), saying that the state of Brazil that was poorer had lower per worker income even when it controlled investments in physical capital, human capital, and effective depreciation of capital.

CONCLUSION AND RECOMMENDATION

Based on the discussion in the previous section, it can be concluded that poverty had a negative effect on economic growth in West Kalimantan. Meanwhile, household consumption and investments did not affect on economic growth in West Kalimantan.

Economic growth did not affect on poverty. This proved that economic growth achieved had not yet been inclusive, since people had yet been able to access existing economic opportunities. Per capita income had a negative effect on poverty. The higher the per capita income is, the lower the poverty will be.

Based on the analysis and discussion described previously then there are several implications of this research, the quality of economic growth in West Kalimantan must be further improved by focusing on the poor (pro poor). That is because the results of the study indicate that the economic growth did not affect on poverty. Growth focused on the poor is expected to reduce poverty. Inflation control must be done to maintain people's purchasing power so that household consumption can grow. Household consumption is one of the main sources of economic growth in West Kalimantan. Investment is further enhanced in West Kalimantan by facilitating licensing for investment because with so much investment it will absorb labor. With a lot of absorption of labor will increase productivity and ultimately can increase economic growth.

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