THE EFFECTS OF ECONOMIC GROWTH, EDUCATION, AND GOVERNMENT EXPENDITURE ON POVERTY IN INDONESIA

Journal

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THE EFFECTS OF ECONOMIC GROWTH, EDUCATION, AND GOVERNMENT EXPENDITURE ON POVERTY IN INDONESIA

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ABSTRACT

Poverty is one of the problems in the economy are complex and multidimensional. Therefore, it is necessary to find a solution to overcome the problem of poverty. The purpose of this study is conducted to see the effects of economic growth, education and government expenditure on the poverty in Indonesia.

In this study was descriptive quantitative uses panel data. The data used is time series data (2007-2012 periods) and cross section data (33 provinces in Indonesia). Type of data uses secondary data as data which are processed by sources of data or related institutions such as Central Bureau of Statistics. Method of analysis used in this study is used linear regression panel data analysis (pooled data) with Random Effect Model as an instrument to process the data by using Stata 12 software applications.

The finding shows that Economic Growth variable has not significant so economic growth variable will not influence significantly on the poverty variable. Education has a negative and significant influence on poverty variable. Government Expenditure has a negative and significant influence on poverty variable in Indonesia.

Keywords: Poverty, Economic Growth, Education and Government Expenditure.
A. INTRODUCTION

Background

One of the aims of development is to achieve the prosperity of societies. Prosperity can be achieved if they are able to fulfill their needs independently. Yet, inability of societies in satisfying their needs is a problem faced by several countries. It happens because of the poverty level which limits the societies in satisfying their needs. Therefore, the poverty must be included in the development plan. The poverty is considered as developing country’ problems, especially Indonesia. In Indonesia, the poverty problems are the national problem. In figure 1, the poverty data in Indonesia shows that the number and percentage of poor population are fluctuative every year. Thus, it is important to overcome the poverty problems in Indonesia. The poverty problems are also the major government program.

Figure 1 the Number and Percentage of Poor Population, 2009-2014 in Indonesia

<table>
<thead>
<tr>
<th>Year</th>
<th>Poor Population (million people)</th>
<th>Percentage Poor Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>32.53</td>
<td>4.15</td>
</tr>
<tr>
<td>2010</td>
<td>31.02</td>
<td>3.36</td>
</tr>
<tr>
<td>Mar-11</td>
<td>30.12</td>
<td>2.45</td>
</tr>
<tr>
<td>Sep-11</td>
<td>30.01</td>
<td>1.96</td>
</tr>
<tr>
<td>Mar-12</td>
<td>29.25</td>
<td>1.66</td>
</tr>
<tr>
<td>Sep-12</td>
<td>28.71</td>
<td>1.36</td>
</tr>
<tr>
<td>Mar-13</td>
<td>28.17</td>
<td>1.46</td>
</tr>
<tr>
<td>Sep-13</td>
<td>28.6</td>
<td>1.25</td>
</tr>
<tr>
<td>Mar-14</td>
<td>28.28</td>
<td></td>
</tr>
</tbody>
</table>

Source: BPS

Indonesia experienced rapid growth since the end of the Asian Financial Crisis in 1998. Up to 2014, GDP growth was on the above average of 5% per year, which contributed to a significantly decrease in the number of poverty. However, 28 million people still live below the poverty and the poverty of 2011-2014 began getting slower. The majority of poor people live in Java, but the level of poverty in other areas is much higher. This indicated that government’s efforts in reducing poverty throughout provinces are maldistributed. The high or low level of poverty in Indonesia, one of them, depends on the income received by the community, population expending on education and dependence on government policy in lowering the unemployment rate.

Furthermore, it is important to look for the factors which influence the poverty level in Indonesia in which it can be as basis for the province in Indonesia in overcoming the poverty problems such as economic growth.
According to Todaro (2000), the success of program in the third world countries are measured by the high and low output levels and national income. However, according to Buchanan (Sebayang, 2013), the concept of economic growth and poverty must be focused on the efficiency of service provision to the public thus the profit for the prosperity is suitable with expenditure.

Furthermore, another factor that effect poverty is education. According to Mustika (2013), human resource can be measured by education. By education, human resource will have a good competence. Therefore, if the participation in education increases, the potential of prosperity will increase too. Increasing the quality of education can be implemented by improving education program from 9 years to 12 years.

And the last factor that effect poverty is government expenditure. In this case, the implement of government expenditure can be applied through public investment. According to Widodo (2011), the public investment in education and health sector will give better opportunity in education and health service for the society. Therefore, the human resource will increase and the poverty will decrease.

Based on the background of study, this study formulates some problems as follows:
1. How are the effect of economic growth on the poverty level in Indonesia?
2. How are the effect of education on the poverty level in Indonesia?
3. How are the effect of government expenditure on the poverty level in Indonesia?

B. REVIEW OF RELATED LITERATURE

Poverty

According to World Bank (2005), the poverty is deprivation of prosperity. It means that the prosperity based on the some views. Conventionally, poverty based on the monetary view in which the poverty is measured by comparing the income or individual consumption with certain restriction. If they are in below the restriction, they are considered as the poor people. Another view said that the poverty is not only monetary issue but also the nutrition in which their nutrition can be measured by the children’s growth. Beside, the poverty also involves an educational view in which it can be measured by an indicator of illiteracy rate. Widely, the poverty happens if the people have lack of fundamental ability thus their income and education are bad, or their bad health, discomfort, or low confident, and the absence of free opinion right.

Central Bureau of Statistics (2012) defines the poverty is the inability to fulfill minimum standards of basic needs based on the standard of the poverty line of food and non-food. The poverty line of food is expenditure value of fundamental needs which is equal to 2100 calorie per capita per day. The poverty line of non-food is amount of rupiahs to fulfill the minimum needs such as residency, health, education, transportation, cloth, goods and service.
The Economic Growth

The economic growth is used to measure the economic achievement of state. In economic activity, the economic growth means a physical economic growth. There are some economic growths in some countries such as the increase of goods and services production, and infrastructure development. It is usually measured from the increase of real national income of country in a certain period.

According to Murni (2006), the economic growth is the condition of Gross National Product increase which represents the outcome growth per capita and the standard of living increase. According to Sukirno (2008), the economic growth means physical growth in term of goods and services production.

Nordhaus (2004) said that the economic growth is the description of Gross Domestic Product potential or national outcome. Thus, it can be concluded that the economic growth is a process of increasing national income of country in a certain period.

The Effect of Economic Growth to Poverty

Economic growth is the indicator to see successful development and condition in reducing poverty. The requirement is the result of economic growth spreading out in each society level, including the poor. According to Kuznets (Suparmoko, 2004), the correlation between poverty and economic growth shows the negativity. Reversely, the correlation between economic growth and economic disparity level results in positively. Economic growth without equality of income is not able to reduce the poor, therefore there must the increasing of economic growth followed by equality of income results in welfare of society.

Education

Education and training are important factor in developing human resources. Education can change people’s mindset in which they will get more developing knowledge, science and information. Towards education, human are able to be well-socialized with the surrounding. According to Tim Redaksi Kamus Besar Indonesia Pusat Bahasa (2008), education is a process which modifies an individual’s attitudes and behaviors, or group, in order to fledge human being through educating and training. According to Tim Redaksi Longman Advanced American Dictionary (2007), education is a process to develop someone’s thoughts towards studying in either school or university.

The Effect of Education to Poverty

Education is a pioneer of future development of a country. If education in a country is low, it will cause the obstructed development. Because, education involves character building and maintaining human identity of a country as well. So that, each country that wants to go developed, the development of education has always been a top priority since education is a means to remove the ignorance and poverty.
According to Effendi (1995) based on human capital theory, the quality of human resources not only can be determined by the health but also by education. Education is not only able to improve knowledge but also ability of workers, in turn, can increase productivity. Productivity on one hand can increase economic growth; on the other hand, can increase the income and welfare of the population.

**Government Expenditure**

Government as executor of development certainly requires qualified human capital as the authorized capital of development. In order to produce qualified human, it also needs more attempts to improve the quality of human resources. The government spends or invests aimed for human development. The government expenditure is the reflection of policy taken by the government. In this case, government expenditure is used to pay for more essential public sector and as priority in improving quality of human resources.

According to Mangkoesoebroto (1998), if the government has determined a policy to purchase goods and services, the government expenditure reflects the cost spent by government to do that policy. Government expenditure in actual meaning could be used as indicator of the amount of government activity funded by that government expenditure. The larger and more government activities, the greater of the government expenditure is pertinent. The government expenditure proportion to national income is a measurement of the government activities in economy.

**The Effect of Government Expenditure to Poverty**

According to Widodo (2011), through the Government expenditure, the government's role herein is as a provider of public duty which is not touched by the market because of the failure of the market and in relation to the role of government as a role allocation, distribution role, and the role of stabilization. With public investment, it will provide educational opportunities and more equitable health services to the community, so that healthy-reliable human resources (HR) are growing. Increasing health and education will encourage the improvement of the quality of human resources and improvement of labor productivity, which in turn it will increase incomes. It is expected this will promote economic condition of society by increasing employment opportunities and poverty reduction.

According to Mehmood (2010), a negative correlation between government expenditure and poverty as if expenditures are on the development side like development of social facilities, public utilities, infrastructure, overhead capital generation, health and education can reduce poverty in long run.
C. RESEARCH METHOD

Research design used in this study was descriptive quantitative. This study uses secondary data as data which are processed by sources of data or related institutions such as Central Bureau of Statistics. Data which are observed are the economic growth, education, government expenditure, and the poverty. This study uses panel data, combinations of time series and cross section. Time series data in this study is 2007-2012 period. While, cross section data is 33 provinces in Indonesia. This study used panel data analysis (pooled data) as an instrument to process the data by using Stata 12 software applications. Before analyzing the data, the data are examined based on the classical assumption that multicollinearity, heteroscedasticity, autocorrelation and normality test. Analyze panel data uses Random Effect Model (REM) which appears when individual effect and regressor are uncorrelated. This assumption makes an error component from individual effect, and time is included in error. The formula of multiple linear regression is:

\[ Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 \ln X_3 + \varepsilon \]

Note:
- \( Y \) : The poverty level
- \( \alpha \) : Constant coefficient
- \( \beta_1 \) : Coefficient of economic growth variable
- \( \beta_2 \) : Coefficient of education variable
- \( \beta_3 \) : Ln Coefficient government expenditure variable
- \( X_1 \) : Economic growth variable
- \( X_2 \) : Education variable
- \( X_3 \) : Government expenditure variable
- \( \varepsilon \) : Error components in \( t – time \) to \( i – cross section \).

\( i = 1, 2, 3, ..., 33 \) (cross section data 33 provinces in Indonesia)
\( t = 1, 2, 3, ..., 6 \) (time - series data, in 2007-2012)

D. FINDING AND DISCUSSION

General Description Indonesia

Indonesia is located between 6° 08’ North Latitude and 11° 15’ South Latitude, and 95° 45’ East Longitude until 141° 05’ South Longitude. Indonesia has about 17 000 islands, 7.9 millions \( \text{km}^2 \) sea or 81% of total area of Indonesia. Indonesia has a land area about 1.9 millions \( \text{km}^2 \) even hundreds of volcanoes and rivers. Indonesia has a very high economic potential geographically and climatologically. Indonesia has the largest coastline in the world, large forests and climates which provide a utilization all years. Indonesia also has very rich earth contents in which it is the main material to support Indonesia to be a rich country. Indonesia should be able to utilize and manage all materials optimally in order to support and makes Indonesia to be a prosperous country.
Classical Assumption

Classical Assumption test is statistical assumption which needs to be met in multiple linear regression analysis based on the ordinary least square (OLS).

Multicollinearity Assumption

Multicollinearity Assumption means that each independent variable (predictor) will only influence to response variable or others independent variables. The hypothesis of this assumption as follows:

H₀: There is multicollinearity in independent variable.
H₁: There is no multicollinearity in independent variable.

In the multiple regression, it is expected to meet H₁ in which there is no linear correlation in each independent variable or predictor. Hypothesis H₁ is met if correlation value in each independent variable or variance inflation factor (VIF) is smaller than 10. Table 1 shows multicollinearity test results.

**Table 1 Multicollinearity Test**

<table>
<thead>
<tr>
<th>Variable</th>
<th>VIF</th>
<th>1/VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ln (government ex)</td>
<td>1.08</td>
<td>0.927968</td>
</tr>
<tr>
<td>education</td>
<td>1.06</td>
<td>0.943559</td>
</tr>
<tr>
<td>economic growth</td>
<td>1.04</td>
<td>0.963928</td>
</tr>
<tr>
<td>mean VIF</td>
<td>1.06</td>
<td></td>
</tr>
</tbody>
</table>

Source: Result of data processing using Stata 12

Table 1 above shows Multicollinearity test results. The results are non-multicollinearity. From the results, the values of variance inflation factor (VIF) from Ln variable (government expenditure), education, economic growth are less than 10. Thus, the hypothesis H₁ is met in which there is no linear correlation in each independent variable. It can be said that non-multicollinearity assumption in this model is met.

Heteroscedasticity Assumption

Heteroscedasticity Assumption means that the variance of confounding variable is the same. The hypothesis of this assumption as follow:

H₀: There is heteroscedasticity in independent variable.
H₁: There is no heteroscedasticity in independent variable.

In the multiple linear regression, it is expected to meet hypothesis H₁ in which there is no heteroscedasticity in independent variable. Hypothesis H₁ is met if the probability values are larger than alpha 5% (0.05). Table 2 shows Heteroscedasticity test results.

**Table 2 Heteroscedasticity Test**

<table>
<thead>
<tr>
<th>Breusch- Pagan / Cook- weishberg test for heteroskedasticity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variables: fitted values of poverty</td>
</tr>
<tr>
<td>chi²(1)</td>
</tr>
<tr>
<td>Prob &gt; chi²</td>
</tr>
</tbody>
</table>

Source: Result of data processing using Stata 12
Table 2 above shows the results of heteroscedasticity test. The results show that probability value is 0.1947. It is larger than alpha 5% (0.05). Thus, hypothesis H₁ is met and regression model meets non-heteroscedasticity assumption.

**Autocorrelation Assumption**

Autocorrelation Assumption is used to know whether there is correlation between a series of data observation which is presented based on the time (time series) or interval (cross section). The hypothesis in this assumption as follow:

H₀: There is autocorrelation in independent variable
H₁: There is no autocorrelation in independent variable

In the multiple linear regression, it is expected to meet hypothesis H₁ in which there is no autocorrelation in independent variable. Hypothesis H₁ is met if du < d < 4 – du. Table 3 below shows the results of Autocorrelation test.

**Table 3 Autocorrelation Test**

<table>
<thead>
<tr>
<th>Durbin-Watson d-statistic</th>
<th>(4, 197)</th>
<th>= 2.063952</th>
</tr>
</thead>
</table>

Source: Result of data processing using Stata 12

Table 3 above shows the results of autocorrelation test. The results can be seen by Durbin Watson value. In the table 3, the values of Durbin-Watson is 2.063952. Decision making in this assumption needs two addition values from the table Durbin Watson. They are dl and du, in which K = the number of independent variable, and n = the sample size. Table Durbin Watson in which n = 198, and K = 3. It will be obtained the value of dl = 1.693 and du = 1.774. Thus, 4 - du is 4 – 1.774 = 2.226. While, 4 – dl is 4 – 1.693 = 2.307 because Durbin Watson value is 2.063952 between du and 4 – du. Thus, the hypothesis H₁ is met, and regression model meets non-autocorrelation assumption.

**Normality Assumption**

Normality Assumption is used to know whether standardized residual is normally distributed or not. In this study, more than 30 number of observations number are 198 which consist of 33 provinces in Indonesia for 6 years. According to Ajijah (2011) said if the number of observations are more than 30, so the data can be stated that the data have normal distribution.

**Panel Data Analysis**

In analyzing the data, the writer uses software Stata12. Table 4 below shows the result of regression analysis which is processed by using Stata12:
Table 4 the Result of Panel Data Processing

<table>
<thead>
<tr>
<th>Random-effects GLS regression</th>
<th>Number of obs</th>
<th>= 198</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group variable: year</td>
<td>Number of groups</td>
<td>= 6</td>
</tr>
<tr>
<td>R-sq: within</td>
<td>Obs per group: min</td>
<td>= 33</td>
</tr>
<tr>
<td></td>
<td>avg</td>
<td>= 33.0</td>
</tr>
<tr>
<td>Between</td>
<td>max</td>
<td>= 33</td>
</tr>
<tr>
<td>Overall</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corr (u_i, X)</td>
<td>Wald chi2 (3)</td>
<td>= 11.78</td>
</tr>
<tr>
<td></td>
<td>Prob &gt; chi2</td>
<td>= 0.0082</td>
</tr>
</tbody>
</table>

| Poverty                        | coef          | Std. Err. | z      | P> |z| |
|-------------------------------|---------------|-----------|--------|----|---|
| Ln (government expenditure)   | -0.0117531    | 0.006352  | -1.85  | 0.064 |
| senior high school            | -0.1562044    | 0.0732622 | -2.13  | 0.033 |
| economic growth               | 0.1134174     | 0.1586202 | 0.72   | 0.475 |
| _cons                         | 0.3894012     | 0.0954795 | 4.08   | 0.0000 |

Source: Result of data processing using Stata 12

Partial Test

Partial test shows whether each independent variable can influence to dependent variable or not. The hypothesis which are used are as follow:

H₀: Independent variable does not influence dependent variable  
H₁: Independent variable influence dependent variable

In the multiple linear regression, it is expected to meet hypothesis H₁. Hypothesis H₁ is met if the probability values are smaller than alpha 10% (0.1).

The probability values in each variable are as follow:

1. The probability values of economic growth are 0.475. It means that the probability values of economic growth are larger than 10% or (0.475>0.1). Thus, the hypothesis H₀ is met, and the economic growth variable will not influence significantly on the poverty variable.

2. The probability values of education are 0.033. It means that the probability values of education re smaller than alpha 10% or (0.033<0.1). Thus, the hypothesis H₁ is met, and education variable significantly influences on the poverty variable.

3. The probability values of Ln (government expenditure) are 0.064. It means that the probability values of Ln (government expenditure) are smaller than alpha 10% or (0.064<0.1). Thus, hypothesis H₁ is met, and Ln variable (government expenditure) significantly influences on the poverty variable.

Determinant Coefficient (R-Square)

The effectiveness of research design is measured by the use of Determination Coefficient (R²). If the value of R² is closer to 1, this study design will be better. The values of Determination Coefficient (R²) are 0.0573. Although R² is a whole measurement model but the important thing is the theory which supports the model, estimated coefficient and significantly statistics. If a model in
those criteria is good, so model with low $R^2$ can be met. Thus, a high $R^2$ does not mean good and a low $R^2$ does not mean bad.

**Research Finding**

In this study, the writer obtains regression formula which explains the influence of independent variable to the dependent variable. The regression formula is as follows:

$$
P = 0.3894012 \text{Cons} + 0.1134174 \text{Economic Growth}_{it} - 0.1562044 \text{Education}_{it} - 0.01175131 \ln \text{Government Expenditure}_{it} + \varepsilon_{it}
$$

Based on the regression formula above, it can be explained as follows:

1. The constant of 0.3894012 indicates that if the variable of the economic growth, education and Ln government expenditure are constant. The magnitude of change poverty is 0.3894012.
2. The coefficient values of economic growth variable are 0.1134174. However, the result is not significant so economic growth variable will not influence significantly on the poverty variable.
3. The coefficient values education variable are 0.1562044. It is negative in which each increase of education at 1 %, the poverty variable (P) will decrease at 0.1562044 % cateris paribus.
4. The coefficient values of Ln variable (government expenditure) are 0.117531. It is negative in which each increase of Ln variable (government expenditure) at 1 %, the poverty variable will decrease at 0.117531 % cateris paribus.

**Economic Growth**

In this study, the economic growth variable is not influence significantly on the poverty level. It can be seen by the probability values of the economic growth variable which are 0.475 or larger than 0.1 (0.475 > 0.1). It can be concluded that the economic growth variable is not influence significantly to the poverty level in Indonesia in 2007 – 2012. It means that the benefits of economic growth in Indonesia are not equally relished by all people, especially the poor people. The increase of Gross Regional Domestic Product does not influence on the number of poor people.

According to Barika (2013), she said that the economic growth in Indonesia is essentially more supported by consumption sector than investment or capital. Thus, the quality of economic growth is less significant to decrease the poverty. In addition, the economic growth is not supported by the improvement of income distribution thus the economic growth is only relished by certain group of people. While, the poor people do not obtain the benefits of economic growth.

The importance of Indonesia’s economic growth should not only focus on the consumption sector in accordance with the multiplier theory with the presents of consumption encourage the achievement of growth gross fixed capital formation through the use of unused production capacity to increase production in order to meet the increased consumption.
But also with investment thus creating a higher quality of economic growth. Through investment, both private and public investment, it is a multiplier effect that is adding capacity for achieving economic growth that enables to increase the production capabilities.

Meanwhile according to Messkoub (2008) said that there is the relationship between output growth, employment and poverty reduction – the so-called ‘employment-poverty nexus’- is important for the design of employment policies to tackle poverty. The impact of output growth on poverty is mediated through several channels working at the macro level. Output growth could potentially increase government tax revenue and therefore its capacity to raise expenditure on the goods and services that are essential for poverty alleviation. In other words growth of output underpins the sustainability of a pro-poor social policy. Another macro level channel is the relationship between output growth and employment. If more people are employed to increase output, the growth in employment could take people out of poverty if it were due to unemployment. Moreover, growth in output and general improvement of the economy would lead to increased demand for goods and services that in turn raise the demand for labour and more job creation and employment.

Education

In this study, the results of education variable will be measured by the number of Senior High School students which negatively influence on the poverty level. It can be seen by the probability values of education variable are 0.033 or smaller than 0.1 (0.033 > 0.1), and the increase of education at 1% will decrease the poverty level at 16%. It can be concluded that education variable will influence significantly on the poverty level in Indonesia in 2007 – 2012. Therefore, by improving the quality of Senior High School level in a certain region or country will decrease the poverty level. In addition, the human productivity will increase. If the productivity increases, income will also increase. Increased income heightens the ability to save money, high savings and investment will improve enough to be made into investment capital back in the process of economic development.

According to Wahyudi (2013), education variable has negative and significant correlation with the poverty. Wahyudi (2013) said that having knowledge and skill will avoid people from the foolishness and backwardness. People who have no skills and knowledge are closely related to the poverty because they have no skills and knowledge in their daily activities.

According to Awan (2011), education and poverty are inversely related. The higher the level of education of the population, lesser will be the number of poor persons because education imparts knowledge and skills which is supportive in higher wages. The direct effect of education on poverty reduction is through increasing the earnings/income or wages. The indirect effect of education on poverty is important with respect to ‘human poverty’ because as education improves the income, the fulfillment of basic necessities becomes easier and raises the living standard which surely means the fall in human poverty. The education indirectly helps in the fulfillment of basic needs like water and sanitation, utilization of health facilities, shelter, and it also affects the women’s
behavior in fertility decisions and family planning. It is understood that such basic need’s presence increase the productivity and wages consequently putting people above the poverty line.

**Government Expenditure**

In this study, the government expenditure variable significantly and negatively influences on the poverty level. It can be seen by the probability values of government expenditure variable are 0.064 or smaller than 0.1 (0.064 > 0.1), and the increase of government expenditure at 1 % will decrease the poverty level at 1.2 %. It can be concluded that government expenditure variable significantly influences on the poverty in Indonesia in 2007 – 2012. Therefore, if the government expenditure is higher, the poverty level in each province will decrease. The government should increase the expenditure, especially it can increase the private investment, job opportunities, human capital through education and health expenditure reduces poverty.

According to Fan (2000), Government expenditure can have direct and indirect effects on poverty. The direct effects are the benefits the poor receive from expenditures on employment program. The indirect effects arise when government investment in rural infrastructure, agricultural research, and the health and education of rural people stimulate agricultural and nonagricultural growth, leading to greater employment and income-earning opportunities for the poor and to cheaper food.

Based on the Financial Memorandum and National Draft Budget for Fiscal in 2015, The level of welfare is reflected in the fulfillment of people's basic rights and equitable distribution of national development results. For the welfare indicator of basic rights fulfillment can be seen from how much access to health, education, and housing, as well as the availability of basic infrastructure such as roads, energy, electricity and water resources can be easily got by public. Meanwhile, for the welfare indicator based on equitable distribution of the national development results, it can be seen from how much inequality occurred, but for unequal distribution of income and inequality between regions. Hence the need to increase the budget on health, education, and housing, as well as the availability of basic infrastructure which is stills less optimal needs to be improved in order to reduce poverty.

**E. CONCLUSION AND SUGGESTION**

**Conclusion**

This study is aimed to review the influence of economic growth, education, and government expenditure toward the poverty in Indonesia in 2007 – 2012. Based on the data analysis results, the writer draws conclusions as follow:

1. The economic growth variable has positive and insignificant impacts to the poverty. It means that the economic growth is not relatively quiet good to influence poverty. The economic growth in Indonesia is essentially more supported by consumption sector. Thus, the quality of economic growth is less significant to decrease the poverty. Therefore, employment-
intensive growth can be one of the ways for poverty reduction. If more people are employed to increase output, the growth in employment could take people out of poverty if it were due to unemployment.

2. The education variable have negative and significant impacts to the poverty. It means that each enhancement of education will decrease the poverty level. Education is very important determinants of poverty. Educated masses may have more opportunities for better employment that increases their earnings and helps in raising their living standard. Education is considered to be the most important way to build human capital and eradicate poverty by enhancing productivity.

3. The government expenditure variable have negative and significant impacts to the poverty. It means that each enhancement of government will decrease the poverty level. the government expenditure in education, health, public facilities and social security will be very useful to help the poor people in increasing their prosperity. Such kind of expenditure by the government helps in enhancing human capabilities and improves the skills and productivity of the masses. This provides them with better and increased job opportunities which in turn increase the income of the people and bring them out of the poverty trap.

Suggestion

Based on the discussion and conclusion, the writer provides some suggestions as follow:

1. Based on the investigation, it can be concluded that the economic growth does not impact to the poverty level. Policies will facilitate the poor’s participation in growth. What is needed above all is an employment policy that puts the emphasis on strengthening the growth-employment nexus by promoting job creation and improving the access of the poor to such jobs. At the same time more targeted poverty reduction policies are needed that should not only improve the income earning opportunities of the poor but also raise their incomes.

2. The education negatively impacts to the poverty level. Therefore, the government should potentially increase compulsory education program from 9 years to be 12 years. Thus, all people will obtain higher education level in which it will impact to reduce the poverty level. Providing an education guarantee to the poor and increasing educational facilities equally to all regions will influence to decrease the poverty level effectively.

3. The government expenditure negatively impacts to the poverty level. The Government expenditure in education, health and infrastructure may help in raising productivity and there is a need to allocate more resources to these sectors. Furthermore, private investment should be encouraged particularly in rural areas. Government should initiate programs to provide health awareness among the poor. Research institutions should be developed in agriculture and farming sectors for crops, fruits, vegetables and livestock through public-private partnership. In present economic and political situation efforts to reduce fiscal deficit rapidly may not be an appropriate step as it will affect the growth rate adversely and increase
unemployment and poverty. In order to reduce the fiscal deficit government should reduce the burden of subsidy, mobilize additional revenue and cut down its wasteful non-developmental expenditure. It will help in controlling inflation and reducing poverty.

4. For the next researchers, it is expected to use lagged explanatory variables due to in the model involves time series data, the response is often dependent variable (Y) which will be detected after a long time. For example, the education variable.

**BIBLIOGRAPHY**


