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The Effects of Economic Growth and Investment and Inflation on Unemployment and Poverty in Indonesia

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Abstract. The purpose of this study was to analyze and determine the effect of economic growth and investment and inflation on exhaustion and poverty in Indonesia. In this research, the analysis tool used was path analysis assisted by the Amos Version 22 program application. This research is a quantitative study using secondary data obtained from the Indonesian Statistics Agency in the form of time series data (2013-2022).

The results of the first structural analysis of economic growth show a negative and significant value for stimulation, while investment and inflation show a negative value for activation. The results of the analysis of the second structure of economic growth with stimulation show a significant negative and positive effect on poverty. Economic growth shows a significant negative effect on poverty. Investment shows a significant negative effect on poverty. Inflation shows a significant positive effect on poverty. While suction shows a positive significance to dirtiness. Economic growth shows a positive value for the futility of response. Investment shows a significant negative value to the futility of the response. Inflation shows a significant negative value on poverty through responses.

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

INTRODUCTION

Economic development is a process of economic growth and a process of increasing economic and social structure. This includes reducing unemployment and poverty. Unemployment occurs because the growth in the labor force is higher than the growth in existing jobs. Unemployment is an important indicator in the field of employment, where the unemployment rate can measure the extent to which the workforce is able to be absorbed by existing employment opportunities (Artriayan, 2013: 1).

If the economic growth of a country or region is not well developed, this can have an impact and cause unemployment. Because if economic growth is not followed by business fields, employment opportunities and small capacity with a population that always increases every year then unemployment will increase.

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Poverty that occurs in Indonesia often causes many problems including slowing economic growth and also triggering high inflation rates and often these two problems cause people to experience difficulties in meeting their daily needs. The problem of poverty is a complex problem. Therefore, alleviation efforts must be carried out appropriately and cover various aspects of life.

Efforts to reduce poverty and reduce unemployment are equally important in terms of the progress of a country. In theory, if people are not unemployed, it means they have jobs and income, with the income they have from work, they are expected to be able to fulfill their lives. If the necessities of life are met, then people will not be poor and prosperous.

To develop a country, financing is needed either through government spending or from the private sector. Development has at least three main dimensions, namely the creation of economic growth, poverty alleviation and structural transformation of the economy. Of these three things, economic growth and poverty are central issues, because with economic growth the problem of poverty can be overcome.

Increased investment is an important factor in determining the level of income and poverty alleviation solutions through employment, investment activities allow a society to continuously increase economic activity and employment opportunities, increase national income and prosperity levels. The existence of investment will also encourage the creation of new capital goods so that it will absorb new factors of production, namely creating new jobs or job opportunities that will absorb labor which in turn will reduce unemployment.

LITERATURE REVIEW

Job Opportunity Theory

Keynes stated in his writings in his revolutionary economic theory "The General Theory of Employment" that the causes of unemployment were, among other things, due to the desire for marginal consumption (propensity to consume), inducement to invest, marginal efficiency of capital use (marginal efficiency of capital). Employment problems depend on the amount of use (total spending) of its components such as the private sector or what is called consumer spending and investment spending depending on interest rates and the expected return on investment (Fusfeld, 1993: 112-113).

Poverty Circle Theory

The poverty circle is a circle or a series that influences each other in such a way that creates a situation where a country will remain poor and will experience many difficulties to achieve a better level of development. The existence of underdevelopment, market imperfections, and lack of capital causes low productivity. Low productivity results in low income they receive. Low income will have implications for low savings and investment, both human investment and capital investment. Low investment results in underdevelopment and so on. This logic was put forward by Ragnar Nurkse 1953, who said "of a poor country is a poor because it is poor".

Economic growth

Economic growth is defined as an increase in the ability of an economy to produce goods and services. Economic growth is a very important indicator in analyzing the economic development that occurs in a country. Economic growth will generate additional income for the community in a certain period. Because basically economic activity is a process of using factors of production to produce output, this process will in turn produce a flow of remuneration for the factors of production owned by the community (Basri, 2002), with economic growth it is expected to increase income society as the owner of factors of production.

Investment

Investment is the association of sources in the long term to generate profits in the future (Mulyadi, 2001:284). Investment can also be defined as investment or ownership of long-term resources that will be useful in several accounting periods to come (Supriyono, 1987:424). Investment can also be defined as the placement of a number of funds at this time with the hope of obtaining profits in the future (Halim, 2003:2).

Inflation

Inflation is a monetary phenomenon which is a process of increasing prices, that is, there is a tendency for prices to increase continuously. This does not mean that the prices of the various goods increase by the same percentage. It may happen that the increase is not simultaneous. The most important thing is that there is a continuous increase in the general price of goods for a certain period, a price increase that occurs only once (albeit with a large enough percentage). It is not inflation, unless it is reflected in a state of excess demand for money (excess supply of money). Meanwhile, in the real sector, inflation is caused by the demand for goods relative to supply (excess demand for goods).

METHOD

In order to test the hypothesis as stated in sub-chapter II, as well as to find the relationship between the behavior of the two independent variables on the dependent variable, path analysis was used, and assisted by the software program AMOS (Analysis Of Moment Structure) version 24. The influence of the path is indicated by the path coefficient on each path diagram of the causal relationship between the independent variables and the dependent variable (Riduwan and Engkos, 2013), which are as follows:

Structural Models I

$$\mathbf{Y_1 = b_1Y_1X_1 + b_2Y_1X_2 + b_3Y_1X_3 + \varepsilon}$$

Structural Models II

$$\mathbf{Y_2 = b_1Y_2X_1 + b_2Y_2X_2 + b_3Y_2X_3 + b_4Y_2Y_1 + \varepsilon}$$

Several suitability indices and cut-offs to test whether a model is acceptable or not are:

1. Likelihood-Ratio Chi-Square
2. CMIN
3. CMIN / DF CMIN / DF
4. Goodnes of Fit (GFI)
5. Root Mean Square Error Of Approximation (RMSEA)
6. Adjusted Goodness of Fit (AGFI)
7. Tucker-Lewis Index (TLI)
8. Parsimonious Goodness of Fit Index (PGFI)

RESULTS AND DISCUSSION

Table 1. Regression Weights: (Group number 1 – Default model)

			Estimate	S.E.	C.R.	P	Label
Y1	<---	X1	-,021	,070	-,299	***	par_1
Y1	<---	X2	-1,559	,323	-4,832	***	par_2
Y1	<---	X3	-,092	,066	1,387	***	par_3
Y2	<---	X1	-,036	,058	-,613	***	par_4
Y2	<---	X2	-,090	,439	-,206	***	par_5
Y2	<---	X3	,077	,059	1,304	***	par_6
Y2	<---	Y1	,093	,222	,420	***	par_7

Sumber : Output Amos

The estimate numbers in the table above show the relationship between the construct variables and their indicators.

The relationship between unemployment and economic growth is -0.021. This value is statistically significant because the probability value (P) is 0.000 which is less than 0.05. Based on this it can be said that unemployment can be said to have a real relationship between the two.

The relationship between unemployment and investment is -1.559. This value is statistically significant because the probability (P) value of 0.000 is less than 0.05. Based on this it can be said that unemployment can be said to have a real relationship between the two.

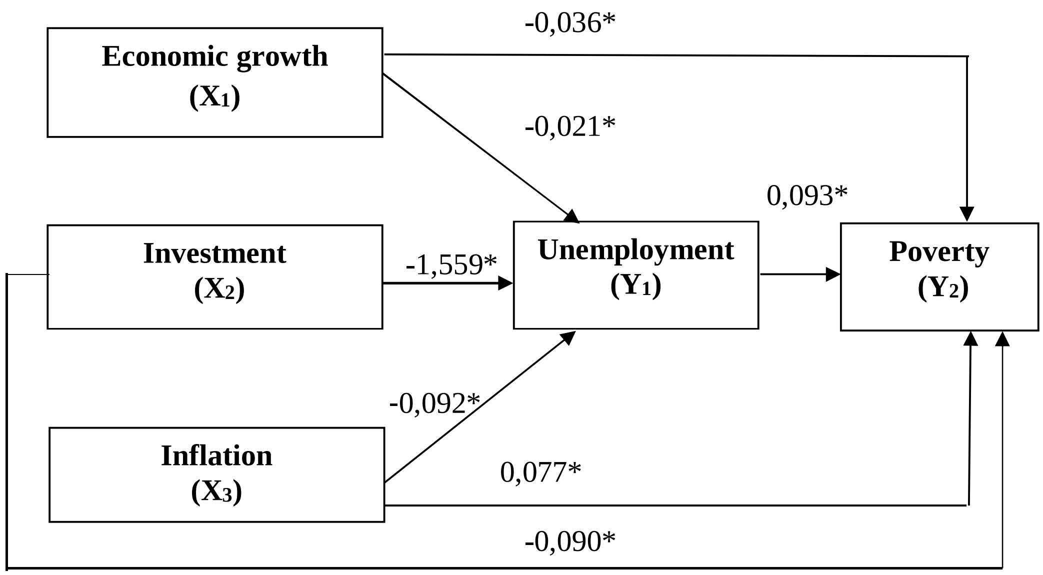
The relationship between unemployment and inflation is -0.092. This value is statistically significant because the probability (P) value of 0.000 is less than 0.05. Based on this it can be said that unemployment can be said to have a real relationship between the two.

The relationship between poverty and economic growth is -0.036. This value is statistically significant because the probability (P) value of 0.000 is less than 0.05. Based on this, it can be said that poverty can be said to have a real relationship between the two.

The relationship between poverty and investment is -0.090. this value is statistically significant because the probability (P) value of 0.000 is less than 0.05. Based on this, it can be said that poverty can be said to have a real relationship between the two.

The relationship between poverty and inflation is 0.077. this value is statistically significant because the probability (P) value of 0.000 is less than 0.05. Based on this, it can be said that poverty can be said to have a real relationship between the two.

The relationship between poverty and unemployment is 0.093. this value is statistically significant because the probability (P) value of 0.000 is less than 0.05. Based on this, it can be said that poverty can be said to have a real relationship between the two.



Picture 1. Research Results Pathway Diagram of Research Variables

The structural equation for the above path analysis is as follows:

$$\mathbf{Y_1 = -0{,}021X_1 - 1{,}559X_2 - 0{,}092X_3}$$

$$\mathbf{Y_2 = -0{,}036X_1 - 0{,}090X_2 + 0{,}077X_3 + 0{,}093Y_1}$$

CONCLUSION

Based on the results and discussion in the previous chapter and sub-chapter, it can be concluded as follows : Based on the results of the study that the effect of economic growth has a significant negative effect on unemployment. This means that the higher the economic growth, the lower the unemployment rate in Indonesia from 2013 to 2022.; Based on the results of the study that the effect of investment has a significant negative effect on unemployment. This means that the higher the investment, the lower the unemployment rate in Indonesia from 2013 to 2022.; Based on the results of this study, inflation has a significant negative effect on unemployment. This means that the higher the inflation rate, the lower the unemployment rate.; Based on the results of this study that the effect of economic growth has a significant negative effect on poverty. This means that the higher the economic growth, the lower the poverty rate in Indonesia from 2013 to 2022.; Based on the results of the study that the effect of investment has a significant negative effect on poverty. This means that the higher the investment, the lower the poverty rate in Indonesia from 2013 to 2022; Based on the results of this study, inflation has a significant positive effect on poverty. This means that the higher the

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inflation, the higher the poverty rate in Indonesia from 2013 to 2022.; Based on the results of the study that the effect of unemployment has a significant positive effect on poverty. This means that the higher the unemployment rate, the higher the poverty rate in Indonesia from 2013 to 2022.; The indirect effect of economic growth on unemployment has a positive estimation value. This means that increasing economic growth will indirectly increase the poverty rate in Indonesia from 2013 to 2022.; The indirect effect of investment on poverty has a negative estimated value. This means that increased investment will indirectly reduce the poverty rate in Indonesia from 2013 to 2022.; The indirect effect of inflation on poverty has a negative estimated value. This means that the rising inflation rate will indirectly reduce the poverty rate in Indonesia from 2013 to 2022.

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