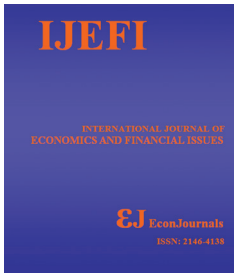

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Policies to Eliminate Poverty Rate in Indonesia

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ABSTRACT

This study aims to analyze the factors that influence the poverty rate in Indonesia in the period of 1981-2013. This research uses Error Correction Model (ECM) to estimate the empirical poverty model. The findings may be explained as follows: Economic growth does not influence the poverty reduction; meanwhile inflation has a significant positive effect on the poverty level. Foreign direct investment (FDI) as an indicator of economy openness has a negative impact on the poverty. In addition, Gini ratio as an income equality measurement has no significant influence on the poverty level. These findings show that the poverty level depends on macroeconomic instability especially price level. Higher inflation rate leads to higher rate of poverty in the country. Furthermore, the central government should keep the monetary sector using tight monetary policy to eliminate the poverty level.

Keywords: Gross Domestic Product, Investment, Inflation, Gini Ratio, Poverty
JEL Classifications: E01, E31, I32

1. INTRODUCTION

Indonesia is a developing country having a good rate of economic growth, but having a higher poverty rate at the same time. The Indonesia's central bank reported that some countries have a high growth, but the population is still poor including Indonesia (Bank Indonesia, 2015). The theory of growth and poverty stated that when trying to lower the poverty it will slow the rate of growth (Todaro and Smith, 2012). This is in line with the argument that countries with lower inequality would experience slow growth (Hariadi, 2009). This theory tends to deny the classical economic growth. That is the reason to analyze the impact of economic growth on poverty.

Poverty is a condition where a person lives below the poverty line. The person cannot fulfill the basic needs in life such as food, shelter, and health. In the country, the voices of poor people are completely ignored, for example in politics, the poor are powerless and have no authority to help themselves. If in the country economic shocks occur, those who will be the victims are poor people. It happens like the world intimidates the poor people. In fact the poor people pay higher than the rich people, but the rich people get higher than the poor people. One word to say is "inequality." Poverty in Indonesia and also in the world happens hereditary. When a parent from the poor family has a son or daughter, they also will live in poverty, just like their parents.

The theory of Todaro and Smith (2012) mentioned that "when trying to lower the poverty it will slow the rate of growth" this has been proven in 1982. In contrast, in 1989 the condition was different. Based on the data of the poverty rate in 2011-2013, the rate was 12.50%, 12%, and 11% so that it showed a dramatically decrease. Compared to the percentage of poverty with the Gini ratio in the last 3 years (2011-2013), the numbers were 0.41%, 0.41%, 0.413. From these data, the researcher can conclude that as the poverty rate decreased, the Gini ratio also increased. It means that the decrease of the poverty rate caused the distribution of income getting worse, as can be seen in the increasing Gini ratio. Normally the number of Gini ratio starts from 0 to 1. Actually Indonesian Gini ratio number is around 0.33-0.38, but in the last 3 years the number of Gini ratio was in the 'caution zone'. It will be dangerous if the number of Gini ratio is more than 0.6. Then, the solution to fix the number of the Gini ratio is the quality of the economic growth.

FDI or FDI is a key ingredient of successful economic growth and development in developing countries (Klein et al., 2001).

Empirical study from Pakistan found the role of investment in poverty reduction in a short run which is not significantly correlated. Then, about the inflation and poverty relationship, when the inflation increases it must also increase the number of the poor because the price of goods is getting increased and the ability of people to buy goods will decrease as a result of the increasing the price. An empirical research from Pakistan (Chani et al., 2011) proved that inflation has a positive impact on poverty. However, the researcher analyzed the data that the increase in inflation is not always followed by the increase of the poor number. The result from an empirical study from Pakistan stated that inflation has a positive impact on poverty (Chani et al., 2011). It can be analyzed that when inflation increases then the price of goods will increase and at that time the wage does not increase because this will increase the inflation rate.

2. LITERATURE REVIEW

The trickle-down theory is an economic idea which states that decreasing marginal and capital gains tax rates especially for corporations, investors and entrepreneurs can stimulate production in overall economy. According to trickle-down theory proponents, this stimulus leads to economic growth and wealth create the benefits to everyone, not just those who pay the lower tax rates. According to the trickle-down theory, if tax rates are lower, people have an incentive to work more because they get to keep more of the income they earn. Then, they start to spend or invest that income, and either of these activities will improve everyone's prosperity, not just the prosperity of those in the highest income brackets. What more, in the end, the government may actually collect more income tax despite the lower tax rates because of the additional work performed.

The successful of development growth theory happened in many countries. The condition that the growth brings effects and benefits because there are 'trickle-down effect' happening everywhere. For example, the advantages for the health service. Malaria and smallpox anticipation become effective in rural areas in many developing countries. Trickle-down effect somehow looks rather like transmission of good economic towards the poverty. The researcher comprehends from this theory that 'trickle-down effect' did not transmit from the rich to the poor people. It can be seen in Indonesian country, how much the rich people who have so many assets and money then why the poverty is just getting larger and larger. It is depressed to see the rich people play with money and throw the money like a trash to buy a bag with a really high price. On the contrary, there are children who cannot buy a bag even in the lower price for going to school. It might not happen if the rich people are generous and care about the poor. It may affect to the overall economic condition, but did not seem to affect to the decrease of the poverty rate.

When trying to lower the poverty, it will slow the rate of growth. The same argument is that countries with lower inequality will experience the slower growth. In particular, if there were redistributions of income or assets from the rich to the poor, even though a progressive taxation, the concern was expressed that savings will fall. However, while the middle class generally has the highest saving rates, the marginal saving rates of the poor, when viewed from a holistic perspective, are not small. In addition to financial savings, the poor tend to spend additional income on improved nutrition, education for their children, improvements in housing conditions, and other expenditures, especially at poverty levels, represent investments rather than consumption (Todaro and Smith, 2012).

There are at least five reasons why policies focused on reducing poverty levels does not lead to a slower rate of growth (Todaro and Smith, 2012). Firstly, a large poverty creates a condition that the poor do not have an access for credit and then cannot pay the tuition fee for their children's education. Therefore, people having many children is a source for the parents as an investment in the future. These factors cause per capita growth less than it would be if there is greater equality. Secondly, the rich people in many poor countries that invest their money in the big scale of their income in the local economy is not listed as frugality. Thirdly, the low level of income and the low level of the poor people's life limit their ability to have a good health, nutrition, and good education. As a result this condition will decrease their productivity and automatically lower the growth. Forthly, the increase of income level for the poor people will increase the demand of domestic goods such as foods and clothes. Compared with the rich people who spend their money for importing goods.

The decrease of poverty in a large number will be stimulating a healthy economic condition. Then, a large inequality and absolute poverty should be a reference to fast the growth. Promoting rapid economic growth and reduce poverty are not mutually conflicting objectives (Todaro and Smith, 2012). Based on the researcher's perspective, to solve this problem, like the circle of the poverty in Indonesia, following what the US have done in their fiscal policy can be an alternative solution. For example, by giving a direct fund to the unemployment, a people who are not in a working age, and soon. It can be seen that Indonesia already conducted programs such as cash to the poor, and also a subsidy for certain goods such as for gasoline, rice and soon, but surely this was not running well and not really contribute to the poor. Indonesia needs to do the same as what the developed country has done even though it might not totally reduce the poverty. Of course, with an assumption that another variable is constant because Indonesia has not much capital as what the developed country has. As what Rostow already mentioned that having the capital can help developing a country and bring the poverty down.

The Gini index is a measurement of the income distribution of a country's residents. This number, which ranges between 0 and 1 and is based on resident's net income, defines the gap between the rich and the poor, with 0 representing perfect equality and 1 representing perfect inequality. Gini ratio is about inequality. There is a relationship between inequality and the growth. Todaro and Smith (2012) said people having distributions of GNI and increasing the percentage of GNI are those who will receive. Thus, when only the rich can contribute to the distribution of income, that what makes the Gini ratio or the gap between the poor and the rich people getting worse.

Inequality means different things to different people (Litchfield, 1999). It was happened in the past century until now, inequality

number is too large not only the percentage of inequality but also the fact that people can feel everywhere. The differences get larger from year to year. There are families using a luxury car priced a billion rupiah. In contrast, there are families that cannot fulfill their daily basic needs such as food, shelter, cloth, and health. Inequality is often studied as a part of analyses covering poverty and welfare, but these three are different actually. Inequality has a limited concept than welfare. However, these three concepts have a close relation. Some poverties incorporate inequality in its definition, for example, about what sen's poverty measure containing the Gini coefficient among the poor.

Firstly, the discussion about poverty and welfare by Litchfield (1999) stated that both of them are related. However, the relationship between poverty and welfare is not significant. The poor people also can have their welfare even though they do not have a commodity because welfare is not always about owned wealth. In this case, sen's statement is not really true because many people do not feel the welfare because they are lack of money and have less commodity. Secondly, in relation to inequality and poverty, the researcher thinks that both of them are closely related because in fact inequality is always associated with poverty.

Inflation affects poverty mainly through its impact on real wages. He also said that the empirical evidence showing that wages increase more slowly than prices during episodes of rising inflation in Latin America. This argument thought that the inflation brings the wage slowly but the price increase more rapidly. In case that rupiah depreciates, it is hard for people to buy goods and services. And, this drives the poverty to increase (Cardoso, 1992).

In relation to FDI and poverty reduction (Klein et al., 2001), FDI is a key ingredient of successful economic growth and development in developing countries, partly because the very essence of economic development is the rapid and efficient transferred and cross boarder adoption of "best practice." The theory shows the relation between growth theory and poverty. It was said that the good investment will drive to good growth and the good growth will drive to good economics and it will reduce the poverty rate as the benefit.

Acquisition of the new technology, employment creation, and human capital, is an example of investment. Many scholars widely believe that the benefits accrued from FDI may include the development, contribution to international trade integration, domestic investment enhancement, and increasing tax revenue generated by FDI. All these benefits are expected to contribute to the higher economic and employment growth which is an effective tool for achieving improvement in the reduction of poverty (Hung, 2005).

There are some ways to sustain the growth and poverty reduction in the economy (Susanto, 2014). Moreover, Dahquist (2013) analyzed the relationship between poverty and economic growth across low and middle-income countries in Brazil. The empirical results found that economic growth does indeed reduce poverty and the level of growth is strongly related to the decrease of poverty. However, the economic growth is not enough to be a tool when the level of extreme poverty is high. The relationship between the economic growth and poverty reduction in Indonesia has been noted by Suryahadi et al. (2012). Cardoso (1992) discussed about the regressive nature of the inflation tax and the limited benefit for individuals who live below the poverty line. It also argued that inflation affects poverty through the impact on real wages: The empirical evidence found that wages increase more slowly than process during episodes of rising inflation in Latin America. The paper also discusses programs that can sustain the stabilization which is less costly causing the increase of poverty than others. Both orthodox programs attempted to reduce inflation by the implementation of income policy that was not helped yet the poor in Latin America.

The relationship between FDI and economic growth, and the impact of growth and FDI on poverty reduction in provinces and cities in Vietnam have been found by Hung (2005). FDI have a direct and strong positive and significant impact on the poverty reduction. Furthermore, Chani et al. (2011) investigate the role of economic growth and inflation by explaining the frequency of poverty in Pakistan. Autoregressive distributed lag bound testing approach in this research to co-integration confirmed the existence of long run relationship among the variables of poverty, economic growth, inflation, investment and trade openness over the period of 1972-2008. Empirical results showed that the economic growth has a negative impact and inflation has a positive impact on poverty where the role of investment and trade openness in poverty reduction in the short run is not significant. Moreover, Talukdar (2012) studied the effect of inflation on poverty in developing countries. The researcher analyzed the effect of inflation on poverty with a panel dataset comprised of 115 developing countries over the period of 1981-2008. The data set comprised of observations in each country based on the data available in 3 year intervals.

The previous studies indicated that poverty is also affected by factors such as income, external debt, educational attainment, and quality of governance. Besides inflation, this study took the factors as independent variables and the poverty as the dependent variable. By using the regression analysis, the study tried to find an evidence that inflation in general is positively correlated with poverty while income educational attainment and quality of governance showed a negative correlation with poverty in most of the specifications. Apart from the study of all the countries combined, the researcher separately analyzed the effect of inflation on poverty in low income countries, lower middle income countries, and upper middle income countries to see whether the effect of inflation is similar or different in countries with different levels of income. The researcher found that although in most of the cases inflation shows a positive and statistically significant correlation with poverty, however, in the case of low income countries, the relationship between inflation and poverty is negative and statistically insignificant under certain specifications.

3. RESEARCH METHOD

3.1. Data

This study used the secondary time series data for Indonesia from 1981 to 2014. The data included poverty rate (percentage

of poor population), economic growth, and investment, inflation, and Gini ratio. The data were taken from Badan Pusat Statistik or Central Bureau of Statistics of Indonesia, Badan Perencanaan Pembangunan Nasional (Bappenas) and the World Bank.

3.2. Analysis Technique

To prove the hypotheses, the researcher will test the data by using the causality analysis with ECM. ECM is an analysis method to know the causality between two variables. Causality tests used to know the relationship between the dependent variable and independent variable, and vice versa.

To use the ECM, the first thing to do was having a stationary data. Then, to know whether the data was stationary or not, the researcher needs to use a unit root testing. After the researcher found the result, if one of the variables was not stationary at level, then the next step to use was the degree of integration test. After getting the results that all variables were stationary at first differences, the researcher conducted the co-integration test stationary. Then the last step when the results found all variables were co-integrated was to know whether the economic growth has a long run or short run effect towards the poverty rate of Indonesia.

1. Unit root test

   The unit root test can be called as a stationary test because the main focus of the test is to know and analyze whether a certain coefficient of autoregressive models have the same value or not. To know the result, the researcher used a test known as an augmented dickey fuller or Augmented Dickey-Fuller (ADF). The formulation of ADF test is divided by three:

   1. A model with intercept (α_0) and trend (α_1) which is:

$$\Delta Y_t = \alpha_0 + \alpha_1 T + yY_{t-1} + \sum_{i=2}^{p} \beta_i \Delta Y_{t-1+1} + e_1 \quad (1)$$

   2. A model with intercept and trend

$$\Delta Y_t = \alpha_0 + yY_{t-1} + \sum_{i=2}^{p} \Delta Y_{t-1+1} + e_1 \quad (2)$$

   3. A model without intercept and trend (none), which is:

$$\Delta Y_t = yY_{t-1+1} + \sum_{i=2}^{p} \Delta Y_{t-1+1} + e_1 \quad (3)$$

Where:
$\Delta Y_t = Y_t - Y_{t-1}$
Y_t = the observed value at time t
P = maximum lag used

Procedures to consider whether the data was stationary or not stationary were to compare the value between the values of statistics ADF and the T critical value developed by MacKinnon. If ADF absolute statistic value is higher than the critical value so that the data is stationary. And vice versa, if the absolute statistics is less than the critical, value the data is not stationary. The value of ADF was showed by the t value coefficient statistic yY_{t-1} at the equation (2) until (3). The causal in the ADF is to determine the length of sloth. The length of sloth can be decided based on criteria Akaike Info Criterion (AIC) or Schwartz Info Criterion (SIC) and can use rule of thumb = $N^{1/3}$ formula as well, where N is a number of observation.

2. Co-integration test

   Econometrics theory used is based on stationary data. If the data that used is not stationary, Granger and Newbold (1987) note that the regression results will be spurious. So, to avoid such a problem, dynamic model by Engle and Granger (1987) recommended causality test that known as ECM which is related to co-integration test.

To use co-integration test, the researcher can make sure that all the variables have the same degree of integration. And the continuation of unit root test and degree of integration test is the co-integration test. The data co integrated if d, h or writes as (d, h):

1. Every co integrated component at degree d or I (d).
2. There are vector α which is not equal to 0 (α≠0) so that Zt =α1 X~1 (d, b) where b:0 and α is a co-integration vector.

The important thing from the illustration and definition above is assumed that if two or more than two variables have a different degree of integration so that the variables cannot be able to be co integrated.

This test was applied when stationary data through the unit root test and the degree of integration test has been done. The co-integration test is used to know the probability of equilibrium or the long run stabilization occurred between the observed variables. After all the requirements of co-integration have been done then the researcher knew the degree of the data which is stationary or not. To use the co-integration test, all the data must be at the same degree.

The formulation of co-integration test of Johansen (1992) is:

$$pov_t = \beta_0 + \beta_1 GDP_t + \beta_2 FDI_t + \beta_3 Inf_t + \beta_4 Gini_t + e_t \quad (4)$$

Where:
Pov: Poverty
GDP: Gross domestic product
FDI: Foreign direct investment
Inf: Inflation
Gini: Gini ratio
e: Residual value

Equation (4) can be rewrite as:

$$e_t = pov_t - \beta_0 - \beta_1 GDP_t - \beta_2 FDI_t - \beta_3 Inf_t - \beta_4 Gini_t \quad (5)$$

Equation disorders e_t in the equations 4 and 5 is a linear combination if equation disorders do not have unit root or stationer or I(0) so that, both has a long run relationship. Engle and Granger (1987) process the co-integration test based on the residual value from equation 5 using ADF test method. The formulation of co-integration test of ADF is:

$$\Delta e_t = \beta_1 e_{t-1} + \sum_{i=2}^{p} \alpha_i \Delta e_{t-1+1} \quad (6)$$

Engle and Granger (1987) proposed that from the seven of co-integration tests to test the Null hypothesis of co-integration, the

best test used for the time series data is the test found by Johansen or familiar with Johansen co-integration test. The test used by Johansen can be used to decide co-integration of variables.

3. ECM

When the data are co integrated, there is a long run relationship, or the long run equilibrium occurs between variables. However, there are probabilities that the long run disequilibrium happens. In theory, disequilibrium frequently happens, but in reality it does not always occur. This gap between theory and reality needs an adjustment to correct the disequilibrium, called an ECM.

If in the short run there is disequilibrium in a period the ECM will correct it in the next period (Engle and Granger, 1987). The mechanism of the correction model is to make the behaviour of the short run and long run equal. This mechanism is also a way to solve a chaotic regression using variables in differences in the model, without eliminating the long run information caused by the use of differenced data only. Therefore, it can be concluded that ECM is consistent with a concept of co-integration or is known as a Granger representation theorem. ECM can be formulated as:

$$\Delta pov_t=\alpha_0+\alpha_1\Delta GDP_t+\alpha_2\Delta FDI_t+\alpha_3\Delta Inf_t+\alpha_4\Delta Gini_t+\alpha_5 EC_{t-1}+e_t \quad (7)$$

$$ECT=(pov_t-\beta_0-\beta_1 GDP_t-\beta_2 FDI_t-\beta_3 Inf_t-\beta_4 Gini_{t-1}) \quad (8)$$

In this case, coefficient α_1 is a short run coefficient while β_1 is a long run coefficient. Correction coefficient disequilibrium α_5 in the absolute value explain how fast the time needed for getting the equilibrium.

4. RESULTS AND DISCUSSION

4.1. Unit Root Test

The stationarity of each variable is tested using the ADF unit root test. The optimum lag of the model is determined using AIC or SIC or rule of thumb formula $N^{1/3,}$ where N is number of observation. So the maximum lag from $32^{1/3}$ is 4.

Table 1 shows results of the ADF test using models without intercept and constant. Each variable shows the value of absolute statistics and the critical value at 5% level in the MacKinnon table. All the variables are not stationary, except GDP variable, but it can be assumed that GDP variable is not stationary like the other variable. Thus, the variables of FDI, Gini ratio, and poverty are not stationary. Because all the data are not stationary the next step is testing the degree of integration to make sure that all the data have the same degree of integration.

Table 2 shows the results of unit root testing using ADF at 1st difference level and the hypothesis of a unit root of all variables should be rejected. Therefore all variables are of the first degree of integration.

4.2. Co-integration Test

Because all the data have been stationary at the 1st difference degree, the co-integration test was conducted. Co-integration test

Table 1: Unit root testing using ADF

Variable	Absolute statistic value	Critical value α = 5%
GDP	2.7160	0.0082
Inflation	1.8082	0.0676
FDI	0.6919	0.4080
Gini ratio	1.0879	0.9240
Poverty	1.4875	0.1258

GDP: Gross domestic product, ADF: Augmented Dickey-Fuller

Table 2: Unit root testing using ADF (1st difference level)

Variable	Absolute statistic value	The critical value at α = 5%
GDP	6.0050	0.0000
Inflation	9.5146	0.0000
FDI	4.1634	0.0002
Gini Ratio	6.8821	0.0000
Poverty	2.9095	0.0051

GDP: Gross domestic product, ADF: Augmented Dickey-Fuller

is aimed to know whether the independent variable and dependent variable have a long run relationship. One of the conditions that should be passed before doing the co-integration test is when the data are integrated at the same degree. As what the researcher has done before, all the data were integrated at the same degree so that it can be continued to the co-integration test.

Table 3 shows that all the variables have probabilty value $P > 0.05$. This means that there is no correlation between GDP, inflation, FDI, Gini ratio and the poverty in the long run. Although the test cannot reject the null hypothesis, the sign of the effect of GDP on the poverty rate is negative and as expected by theory. This means an increase in GDP leads to reduction in poverty albeit not statistically significant. The insignificance may arise because reduced poverty is associated with increased number of the rich who tend to consume more of imported goods and services, thereby indirectly slowing down economic growth.

The result also shows that there is no correlation between inflation and poverty. Similarly there is no significant correlation between FDI and poverty. The reason is that since FDI is a part of economic growth, the two are related, causing FDI not to affect poverty. As for Gini ratio, although statistically not significant, it negatively affects poverty rate, thus opposing theory. Theoretically poverty rate declines as Gini ratio decreases. But the data shows that as the poverty rate decreases the Gini ratio keep increasing. As the growth increases the welfare does not change, because distribution of income deteriorates, such as increased inequality in education and technology.

There is no relationship between GDP and poverty in the short run (Table 4). In this model, gross domestic product which measures real income has positive influence on poverty rate although not statistically significant. This finding implies that economic growth in this country does not lead to reduced number of poor people. This phenomenon is not in line with a comprehensive research conducted by McCulloch et al. (2007). A different finding concluded by Qori'ah et al. (2010) who pointed out that income variable is the main factor in determining poverty level. Theoretically, there is strong role of economic growth in alleviating

Table 3: Co-integration estimates

Dependent variable: Poverty				
Variable	**Coefficient**	**Standard error**	**t-statistic**	**P**
C	0.264	0.090	2.937	0.006
GDP	−0.001	0.002	−0.097	0.923
Inflation	0.001	0.001	1.008	0.322
FDI	−0.008	0.006	−1.295	0.205
Gini-ratio	−0.285	0.262	−1.091	0.284
R^2	0.374			
F-statistic	4.194			
P (F-statistic)	0.008			

GDP: Gross domestic product, FDI: Foreign direct investment

Table 4: Short run empirical model

Dependent variable: D (Poverty)				
Variable	**Coefficient**	**Standard error**	**t-statistic**	**P**
C	−0.003	0.004	−0.897	0.377
D (GDP)	0.002	0.002	0.987	0.332
D (Inflation)	0.001	0.001	2.510	0.019**
D (FDI)	−0.009	0.005	−1.789	0.085*
D (Gini_Ratio)	0.073	0.187	0.391	0.699
RES(-1)	−0.706	0.169	−4.179	0.000**
R^2	0.575			
F-statistic	7.043			
P (F-statistic)	0.001			

GDP: Gross domestic product, FDI: Foreign direct investment. ** and * indicate significant at α=5% and 10%

poverty rate. This research notes that economic growth which is measured by gross domestic product does not play an important role in improving social welfare.

Based on the analysis, there is a positive correlation between inflation and poverty in the short run. As theoretically expected, this result confirms the impact of price increase to lower purchasing power. Based on this result, it can be inferred that such relationship may runs in two ways. First, it indicates that in a stable income, increasing price lead to poverty rate rises. Secondly, it could also be interpreted that inflation reduces significantly the real income which does not affect poverty alleviation. Unfortunately, this negative monetary phenomena is not well countered by proper fiscal policy. In fact, the government still faces low fiscal capacity (Sriyana, 2015). The low government size is not enough to cover the negative impact of monetary expansion which leads to higher inflation (Sriyana, 2016).

A negative correlation between FDI and poverty rate in this study reflects inefficiency of private sectors. Contradict as theoretically, the negative coefficient of FDI is statistically significant at the 0.10% significance level. This analysis finds that negative relationship between FDI and poverty rate indicate the low achievement of government fiscal policy in the business management. A possible reason why FDI has negative correlation with poverty rate can be explained using investment scale perspective. In the case that FDI increase, which usually allocated to capital intensive project, it has not more impact on social development programmes. Finally, increasing in FDI does not tend to decrease the poverty rate.

Next discussion comes to important issue of this research that is the role of Gini index on poverty rate. Since this research involves this variable as indicator of income equality, the result is seems consistent with theory. Gini ratio variable is theoretically expected to positively affecting poverty rate. In fact, Gini ratio has positive correlation with poverty rate even though it is not statistically significant. This finding is seems reasonable one where the higher Gini ratio indicates low equality. As a result it increases number of poor people.

5. CONCLUSION

This research finds that economic growth in this country does not lead to reduction in the number of poor people. Theoretically, there is strong role of economic growth in alleviating poverty rate. This research notes that economic growth, measured by gross domestic product, does not play an important role in improving social welfare. Based on the analysis, there is a positive correlation between inflation and poverty in the short run. As theoretically expected, this result confirms the impact of price increase on lower purchasing power.

A negative correlation between FDI and poverty rate in this study reflects inefficiency of private sectors. This analysis finds that negative relationship between FDI and poverty rate indicates the low achievement of government fiscal policy in the business management. A possible reason why FDI has negative correlation with poverty rate can be explained using investment scale perspective. In the case of FDI increase, which usually allocated to capital intensive projects, it has no more impact on social development programs. Finally, increasing in FDI does not tend to decrease the poverty rate.

Gini ratio variable, as theoretically expected, has positive effect on poverty rate even though not statistically significant. This finding seems reasonable as higher Gini ratio indicates low equality. As a result it increases poverty rate in the country.

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