

Original Article

The Effect of Economic Growth, Indonesian Democratic Index, and Investment Against Unemployment Rate and Poverty Rate in Jambi Province

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Abstract: This study aims to determine and examine the Effect of Economic Growth, Indonesian Democratic Index (IDI) and Investment (PMTB) Against Unemployment Rate and Poverty Rate in Jambi Province. This study aims to determine and examine the effect of Economic Growth, Indonesian Democratic Index and Investment (PMTB) directly on the unemployment rate and its impact on poverty rate both directly and indirectly through the unemployment rate in Jambi Province. Poverty is a common problem in the development process both at the national and regional levels; the poverty that occurs in Jambi Province needs to be investigated as the root cause of the problem, whether related to unemployment stick or other variables such as economic growth and investment. This study is based on the reasons for analyzing the effect of economic growth and investment on unemployment and its impact on poverty in Jambi Province, as well as to test and analyze how much the direct or indirect influence of each independent variable on the dependent variable. The analysis tool used is Quantitative Analysis using Path Analysis (SEM). Path analysis is used to find out how big the influence of economic growth (X1), Indonesian Democratic Index (X2) and investment (X3) on the unemployment rate (Z) and its impact on the poverty rate variable (Y). Based on the analysis, economic growth, the Indonesian Democratic Index, and investment have a significant effect on both the unemployment rate and poverty rate directly, except economic growth has no significant effect on unemployment. Indirectly, three independent variables negatively affect poverty. And in total the three variables have a negative effect on poverty in Jambi Province.

Keywords: Economic Growth, Democracy Indonesian Index, Investment, Unemployment Rate and Poverty Rate.

I. INTRODUCTION

To achieve development, every country will strive to optimize economic growth and reduce poverty levels. The emergence of the problem of increasing the number of people living below the poverty line occurs in developing countries, including Indonesia, which accompanies the achievement of economic growth in these countries [1]. Poverty alleviation is the biggest global challenge facing the world and an absolute requirement for sustainable development. The term poverty arises when a person or group of people is unable to meet the level of economic prosperity that is considered the minimum needs of a certain standard of living. Poverty is often understood as a state of lack of money and goods to ensure survival.

Thus, always considered a problem that continues to hinder the pace of development because poverty always appears in various joints of society, especially in developing countries. Finally, poverty is a study that always attracts the attention of various groups, both academics and practitioners and politicians. To unravel the most essential problems that cause poverty, stakeholders have carried out many theories, concepts and studies; the reality shows that the problem of poverty is a situation that is not reduced, but the data shows poverty in terms of the number of poor people is actually increasing.

In subsequent developments, poverty is no longer only considered and viewed as an economic dimension but has expanded to social, health, education, and political dimensions. Poverty, in a broad sense, can be defined as the limitations borne by a person, a family, a community, or even a country that cause discomfort in life, threaten the enforcement of rights and justice, threaten bargaining position in world relations, and in the longer term can result in the loss of generations, and bleak future of the nation and state [2].

As stated above, one of the economic diseases that occur in Indonesia is the problem of poverty; policies in order to alleviate poverty must be made in a comprehensive and integrated manner. This means that poverty is a complex problem and is influenced by various factors related to one another, such as low income, health conditions, inadequate education, difficult access to goods and services, geographical living conditions, gender differences and poor environmental conditions. The government has made many serious efforts in order to reduce poverty, and even poverty reduction, as outlined in various



programs, has become one of the priority programs planned by the government. However, the reality is that people who still live below the poverty line have not been entirely resolved and alleviated [3]-[5].

From this phenomenon, overcoming poverty problems that cover various aspects of people's lives must be carried out in an integrated manner that is in line with the direction of national development, with the aim of improving people's welfare. The condition is also inseparable from what happened in Jambi Province as a macroeconomic's problem. Jambi Province, as an integral part of the Republic of Indonesia, cannot be separated from the existence of people living below the poverty line.

The poverty rate in Jambi Province still shows dynamics that are not encouraging, and this figure indicates that the government still has to focus on tackling poverty. In 2001, the number of poor people in Jambi Province was 325,500, with a poverty rate of 13.34 percent. In 2023, it decreased to 280,680 people or around 7.58 percent [6]-[7]. The same issues that are also the focus of the Jambi Provincial Government's attention are economic growth and investment, supported by democratic values and unemployment, all of which are interrelated with the poverty rate. Without high economic growth, it will be difficult for the government to create new jobs, causing the unemployment rate to increase. As the economy of a nation increases, so does its investment, and unemployment decreases; a low unemployment rate is directly linked to a decrease in poverty. The results of this study are in accordance with the theory [8]-[12], explaining that economic growth can reduce poverty. When economic growth increases, it makes companies increase the production of goods and services. The increase in wages earned by labor is due to the increased production of goods and services, so increased income makes their standard of living worthy of increasing and free from poverty.

In addition, the ease and smoothness of development will also be determined by the political will of the government. In other words, the level of democracy on trade is an important requirement for the quality of government; this requirement must be followed by the basic principles of *good governance*, which transparency, participation, and enforcement. These are main requirements for the implementation of a development program in a part of a country [13]-[14].

II. LITERATURE REVIEW

A) Concept of Poverty

Poverty in general can be interpreted as the condition of individual residents or families who are unable to meet their basic living needs properly [15]-[16]. However, several institutions or parties have set references in determining the criteria for the poor, the occurrence of population poverty is largely caused by external and internal factors of the population. Poverty in terms of its causes can be divided into two, namely, absolute poverty and structural poverty. Absolute poverty is poverty caused by internal factors of the population itself.

The measurement of poverty line criteria in Indonesia is measured for absolute poverty. The government institution that usually determines the poverty line criteria is the Central Bureau of Statistics (BPS), which is the criteria for poor boundaries using the size of the rupiah spent per capita a month to meet the minimum living needs of food and non-food. This means that the poverty line criterion is measured from two components, namely the food poverty line and the non-food poverty line [17]-[18].

The core of the poverty problem actually lies in what is called the *deprivation trap*. The poverty trap consists of five elements, namely: (1) *poverty* itself, (2) *physical weakness*, (3) *isolation*, (4) *vulnerability*, and (5) *powerlessness*. These five elements are interconnected with each other so that they constitute a poverty trap that is truly dangerous and kills the life chances of poor families [19]-[20].

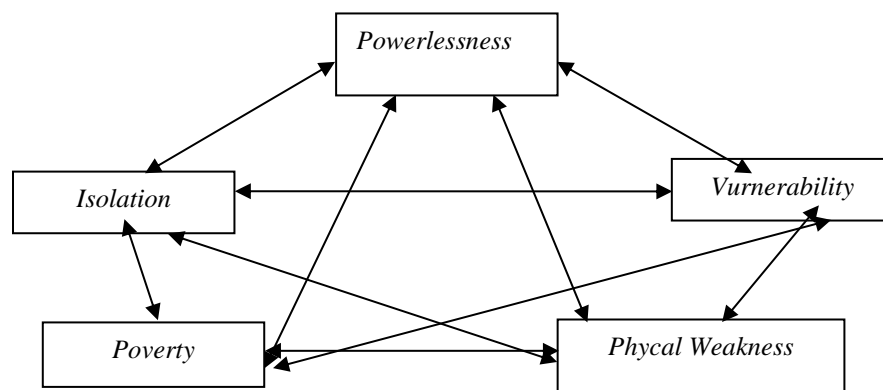


Fig. 1 Poverty Trap

B) Open Unemployment Rate

According to [21], unemployment is a population that is not working but is looking for work or is preparing a new business or a population that is not looking for work because they have been accepted to work but have not started working. The definition of unemployment according to BPS open unemployment is based on the concept of the entire labor force looking for work, both those looking for work for the first time and those who have worked before.

C) Economic Growth

In general, economic growth is defined as an increase in an economy in producing goods and services. In other words, the direction of economic growth is more to quantitative *change*. It is usually calculated using data on Gross Domestic Product (GDP) or income or the *total market* value of final *goods and services* produced from an economy over a certain period of time and usually one year [22]-[23].

Economic growth is one indicator of successful development in an economy. The progress of an economy is determined by the amount of growth shown by changes in national output. The change in output in the economy is a short-term economic analysis [24].

D) Indonesian Democratic Index

Democracy as a system that is determined on the basis of a majority vote that is effectively represented and supervised in periodic elections based on the principle of political equality and organized with the guarantee of the political freedom of the people in it. According to him, democracy contains several important values such as recognition and guarantee of justice, acceptance of diversity, and resolving disputes peacefully [25].

The Indonesian Democratic Index refers to measuring the level or health of democracy based on an indicator, the election process and pluralism, the function of government and civil liberties [26-28].

E) Investment/Gross Fixed Capital Formation

The investment referred to in this study uses Gross Fixed Capital Formation (PMTB) data, which is the difference between the capital stock in year (t) minus the capital stock in year (t-1), or any addition or stockpiling of capital. The amount of physical investment realized in a particular year is reflected by the amount of Gross Fixed Capital Formation (PMTB). Meanwhile, what is meant by PMTB includes the procurement, manufacture and purchase of new capital goods from within the country or used from abroad, which is included in PMTB is the repair of capital goods which results in additional service life or increases the ability of capital goods, minus the sale of used capital goods [29]-[30].

III. RESULTS AND DISCUSSION

The approach used in this research with the data source used in this research is secondary data obtained from the Jambi Province Central Statistics Agency (BPS). The data collection method used in this research is the method of collecting data from various publications conducted by BPS and the data in this study are Economic Growth, Indonesian Democracy Index, Investment, Unemployment Rate, and Poverty Level in Jambi Province.

The analytical technique used to solve the problems in this study is the path analysis of the Structural Equation Modeling (SEM) method, namely how the independent variables affect the variables using AMOS 26. Then the stages of modeling and analysis of structural equations are carried out into 7 steps, namely: 1. Theoretical model development; 2. Develop a path diagram; 3. Convert the path diagram into a structural equation; 4. Select the input matrix for data analysis; 5. Assess model identification; 6. Assess Goodness-of-Fit Criteria; 7. Interpretation of model estimates, with the following figure:

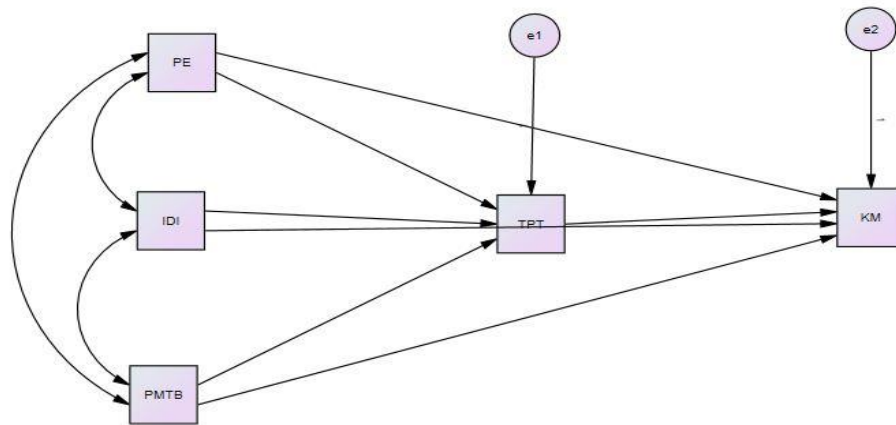


Fig. 2 AMOS Path Diagram (SEM)

The results of testing the hypotheses proposed in this study are briefly shown in Table 1.

Table 1. Hypothesis Testing Results of Direct Effect

			Estimate	S.E.	C.R.	P	Description
TPT	<---	PE	-0,117	0,144	-0,815	0,415	No Sig
TPT	<---	IDI	0,096	0,064	1,506	0,132	No Sig
TPT	<---	PMTB	-0,380	0,136	-4,441	***	Sig
KM	<---	PE	-0,262	0,115	-2,275	0,023	Sig
KM	<---	IDI	-0,147	0,053	-2,785	0,005	Sig
KM	<---	PMTB	-0,300	0,144	-3,443	***	Sig
KM	<---	TPT	0,214	0,169	1,269	0,204	No Sig

Note : TPT is Unemployment Rate

KM is Poverty Rate

PE is Economy Growth

IDI is Indonesian Democratic Index

PMTB is Investment/Gross Fixed Capital Formation

Based on the direct effect hypothesis testing table above, it can be stated as follows:

1. Economic growth (X_1) has no significant effect on the unemployment rate (Z). This can be seen from the path coefficient which has a negative sign of -0.117 with a C.R. value of -0.815 and obtained a significance probability (p) of 0.415 which is greater than the specified significance level (α) of 0.05. Thus, economic growth has no direct effect on the unemployment rate of -0.117, which means that every increase in economic growth will reduce the unemployment rate by 0.117 percent. So the first hypothesis which reads: "Economic growth does not negatively affect the unemployment rate in Jambi Province" is not proven.
2. The Indonesian Democratic Index (X_2) has no significant effect on the unemployment rate (Z). This can be seen from the positive path coefficient of 0.096 with a C.R. value of 1.506 and obtained a significance probability (p) of 0.132 which is greater than the specified significance level (α) of 0.05. Thus, the Indonesian democracy index does not directly affect the unemployment rate by 0.096 percent. So the second hypothesis which reads: "The Indonesian democratic index has no negative effect on the unemployment rate in Jambi Province" is not proven.
3. Investment/Gross Fixed Capital Formation (PMTB) (X_3) has a significant effect on the unemployment rate (Z). This can be seen from the path coefficient which has a negative sign of -0.380 with a C.R. value of -4.441 and obtained a significance probability (p) of 0.000 which is smaller than the significance level (α) determined at 0.05. Thus, investment (PMTB) directly affects the unemployment rate by 0.380, which means that every increase in investment will decrease the unemployment rate by 0.380 percent. So the third hypothesis which reads: "Investment/Gross Fixed Capital Formation (PMTB) negatively affects the unemployment rate in Jambi Province" is proven.
4. Economic growth (X_1) has a significant effect on the poverty rate (Y). This can be seen from the path coefficient which has a negative sign of -0.262 with a C.R. value of -2.275 and obtained a significance probability (p) of 0.023 which is smaller than the significance level (α) determined at 0.05. Thus, economic growth directly affects the unemployment

rate by -0.262, which means that every increase in economic growth will reduce poverty by 0.262 percent. So the fourth hypothesis which reads: “Economic growth has a negative effect on poverty in Jambi Province” is proven.

5. The Indonesian democracy index (X_2) has a significant effect on the poverty rate (Y). This can be seen from the path coefficient which has a negative sign of -0.147 with a C.R. value of -2.785 and obtained a significance probability (p) of 0.005 which is smaller than the specified significance level (α) of 0.05. Thus, Indonesia’s democratic index directly affects the unemployment rate by 0.147, which means that every increase in Indonesia’s democratic index will reduce poverty by 0.147 percent. So the fifth hypothesis which reads: “The Indonesian democratic index negatively affects the poverty rate in Jambi Province” is proven.
6. Investment (PMTB) (X_3) has a significant effect on the poverty rate (Y). This can be seen from the path coefficient which has a negative sign of -0.300 with a C.R. value of -3.443 and obtained a significance probability (p) of 0.000 which is smaller than the significance level (α) determined at 0.05. Thus, investment (PMTB) directly affects poverty by 0.300, which means that every increase in investment will reduce poverty by 0.300 percent. So the sixth hypothesis which reads: “Investment (PMTB) negatively affects the poverty rate in Jambi Province” is proven.
7. The open unemployment rate (Z) has no significant effect on the poverty rate (Y). This can be seen from the positive path coefficient of 0.214 with a C.R. value of 1.269 and obtained a significance probability (p) of 0.204 which is greater than the specified significance level (α) of 0.05. Thus, the open unemployment rate does not directly affect poverty by 0.214, which means that every increase in the open unemployment rate will increase poverty by 0.214 percent. So the sixth hypothesis: The open unemployment rate has a positive effect on poverty in Jambi Province is not proven.

Based on the summary of the path coefficient, the diagram of the path analysis results can be described as follows:

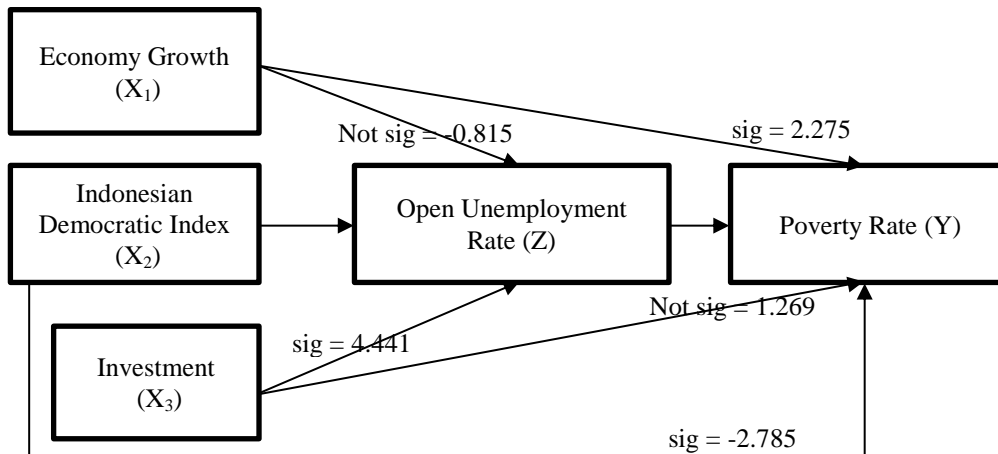


Fig. 3 AMOS Path Analysis Results

After interpreting the direct effect, the following are the results of the indirect effect, which can be seen in table 5.10:

Table 2. Hypothesis Testing Results of Indirect Influence

	PMTB(X_3)	IDI(X_2)	PE(X_1)	TPT(Z)
TPT (Z)	,000	,000	,000	,000
KM (Y)	,000	,021	-,025	,000

Table 5.10 shows that economic growth has a direct effect on poverty with a direct effect of -0.262 and can also have an indirect effect, namely the open unemployment rate has a significant mediating effect on the effect of economic growth on poverty in Jambi Province with a magnitude of indirect effect of -0.025.

Then the Indonesian Democratic Index variable has a direct effect on poverty with a direct effect of -0.147 and can also have an indirect effect, namely the open unemployment rate has a significant mediating effect on the effect of the Indonesian democratic index on poverty in Jambi Province with a magnitude of indirect effect of 0.021.

Similarly, the investment variable (PMTB) has a direct effect on poverty with a direct effect of -0.300 and can also have an indirect effect, namely the open unemployment rate has a significant mediating effect on the effect of investment (PMTB) on poverty in Jambi Province with a magnitude of indirect effect of 0.000.

And the interpretation of the above calculation results can be presented as follows:

1. The Effect of Economic Growth on Open Unemployment Rate

Economic growth has no significant effect on the open unemployment rate, this shows that if economic growth increases by 1 percent, unemployment in Jambi Province decreases by 0.117 percent.

2. The Effect of Indonesian Democracy Index on Open Unemployment Rate

The Indonesian democracy index in Jambi Province has a positive and insignificant effect on the open unemployment rate, this shows that if the Indonesian democracy index increases by 1 percent, the open unemployment rate in Jambi Province increases by 0.096 percent.

3. The Effect of Investment in Fixed Income on Open Unemployment Rate

PMTB investment has a negative and significant effect on the open unemployment rate, this shows that if PMTB investment increases by 1 percent, unemployment in Jambi Province decreases by 0.380 percent, this shows that the large contribution of PMTB investment in providing new jobs, so as to increase employment opportunities for people who are not working.

4. The Effect of Economic Growth on Poverty

Economic growth has a negative and significant effect on poverty, this shows that if economic growth increases by 1 percent, poverty in Jambi Province decreases by 0.262 percent, with an increase in economic growth in a region it will have a negative impact on poverty, meaning that if income increases then poverty will decrease.

5. The Effect of Indonesia's Democracy Index on Poverty

The Indonesian democracy index in Jambi Province has a negative and significant effect on poverty, this shows that if the Indonesian democracy index increases by 1 percent, poverty in Jambi Province decreases by 0.147 percent. In theory, the Indonesian democracy index is assumed to be an objective and empirical measuring tool for the condition of Democracy and the Political System in Indonesia.

6. The Effect of Investment in PMTB on Poverty

Investment in PMTB has a negative and significant effect on poverty, this shows that if PMTB investment increases by 1 percent, poverty in Jambi Province decreases by 0.300 percent, in theory investment activities allow a society to continuously increase economic activity and employment opportunities, increase national income and increase the level of prosperity of the community.

7. The Effect of Open Unemployment Rate on Poverty

The open unemployment rate has no significant effect on poverty, this shows that if the open unemployment rate increases by 1 percent, poverty in Jambi Province increases by 0.214 percent, with an increase in unemployment in a region having a positive impact on poverty.

IV. CONCLUSION

A) Conclusion

Economic growth, the Indonesian Democratic Index and Investment have a negative and significant effect on the Poverty Level in Jambi Province, thus if the three independent *variables* increase, the poverty rate in Jambi Province will decrease.

Economic Growth and Investment have a significant effect on unemployment, meaning that if these two *variables* increase, unemployment will decrease, while the Indonesian Democratic Index has a negative and insignificant effect, meaning that if the independent *variable increases*, unemployment in Jambi Province will also increase.

B) Advice

The Jambi provincial government should continue to increase its economic growth, one way is to facilitate and attract investment as much as possible, so that more job opportunities are opened in the context of alleviating poverty.

Continue to increase pro-poor political will by improving democratic life.

Interest Conflicts

The authors state that there is not any conflict of interest with this paper's publication.

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