

The Influence of Economic Growth on Poverty, Investment, and Human Development Index in Fak, Fak District, West Papua Indonesia

Suwandi

Faculty of Economics and Business Cendrawasih University of Jayapura Papua Indonesia

Abstract: *This paper discusses about the economic growth that has a direct impact on Human Development Index (HDI) and indirect one on the increase of investment absorption and decrease of poverty. Besides, we can know that economic growth has a direct impact on the increase of investment, as well as it directly affects the decrease of poverty level by using partial test quantitative analysis. To increase the economic growth and reduce poverty as well as to increase HDI, these are what to do (a) revitalizing the agriculture to help main sector of Fak Fak district (agriculture); (b) giving modal such as: banking soft loan with easy terms and revolving fund for the right target in the form of natura (cows, sheeps, etc.) that can accelerate the increase of economic; (c) regional government facilitates the linkage and partnership program with "win-win solution" concept.*

Keywords: *investment, economic growth, poverty, Human Development Index*

I. Introduction

To see to what extent development and prosperity of human being has succeeded, UNDP has published Human Development Index (HDI) as an indicator to measure the success of development and prosperity of a country. HDI is a benchmark of prosperity number of a region or country seen by three dimensions as follows: life expectancy at birth, literacy rate, mean years of schooling, and purchasing power parity. Life expectancy indicator measures the health, literacy rate indicator on adults and mean years of schooling measure the education, and purchasing power parity indicator measures the life standard. Three of them influence each other and can also be influenced by other factors such as the availability of working opportunity which is determined by the economic growth, infrastructure, and the government policy that HDI will increase as those three indicators increase. A high HDI indicates the success of economic development of a country (Saepudin, 2011). This index was first developed by Indian Nobel winners, Amartya Sen and Mahbub ul Haq, Pakistan economists helped by Gustav Ranis from Yale University and Lord Meghnad Desai from London School of Economics. In its development model, UNDP places human as the center point in all development process and activity.

Government as the implementer of development needs qualified human resource as the basic modal of development. Human in the role of a subject and object of development, which means humans as well as actors of development is also the target of development. In this case it takes a variety of facilities and infrastructure to encourage the human role in development. Therefore, investment is needed in order to create the formation of a productive human resource. Investment in human capital is expected to be a positive influence on economic performance, one of which can be observed from the aspect of education, health and poverty. The shaping of human capital has attracted the attention of many economists which then led the emergence of many models of economic growth which includes education as the substitute of knowledge as the source of the economic growth. The relation between education and economic growth is indirect but through process, in which a good education will provide a chance for the society to be involved in the economic growth and human development of a region. Besides, society household has an important role in human development in which its spending has a direct contribution on it such as: foods, health and education. The household spending is determined by the income. Compared to the rich, he poor will use mostly or even all of their income to fulfill the need of food. Today's evolving paradigm of development is the economic growth which is measured by human development that is seen from the level of human life quality of each country.

One of the benchmarks that can be used is Human Development Index (HDI) which is measured by the quality of education, health, and economic level (purchasing power). By increasing those three indicators, it is expected that the quality of human life will also increase. It is caused by the individual heterogeneity, geographic disparity, and vary social condition that then makes the increase of income cannot be used as the main benchmark to measure the success of development. However, the success of human development cannot be separated from the performance of government in creating regulation for the achievement of social order (Denni S Mirzap, 2012) and (Vo, 2009).

II. Review Of Literature

According to classical economist, there are four factors that influence the economic growth: amount of population, amount of capital goods, ground width, natural resources and level of used technology. Human development in Indonesia is identical to the decrease of poverty. Investment on educational and health field is more useful for the poor compared to the rich since their main asset is their manual labor. The availability of education facilities and economical health will help increase the productivity which later in its time will also increase the income. Hence, it can be said that the human development has not been done optimally because it only focuses on decreasing the poverty (Denni S Mirzap, 2012).

2.1. Economic Growth and Investment

Economic growth is defined as the increasing ability of an economy in producing goods and services. It shows to what extent the economical activities will produce additional income for the society in a certain period. In connection with the consumption and investment problems, consumption in Indonesia will increase if the disposable income and the previous consumption increase. On the contrary, if the disposable income and the previous consumption decrease, it will also decrease. Rate of interest significantly influences the previous consumption. It means that if the rate of interest decreases, the consumption will increase. (Dewi, Syamsul, & Efrizal, 2013). (Saragih, and Khadafi, M. S. (2003),

The shaping of human capital has attracted the attention of many economists which then led the emergence of many models of economic growth which includes education as the substitute of knowledge as the source of the economic growth. Investment on educational field will increase the quality of human resources that can be seen from the increase of knowledge and skills of the labors. It will boost the productivity of labors that the company will give higher wages/salary to them. In the end, someone with productivity will get a better prosperity that can be seen from the increase of their income and or consumptions (Saepudin, 2011).

2.2. Economic Growth and Poverty

A stable economic growth is very expected by a developing country such as Indonesia because it can overcome the poverty and jobless problems. According to Solow, economic growth is based on one or more than three factors of the increase of quantity and quality of labors (through the growth of total population and education improvement. By seeing between the amount of citizens who work and who look for jobs, the working citizens are bigger in amount but the increase each time is higher for job seekers. In development, citizens have a role as labors and it triggers a problem in providing job vacancies to emerge. Hence, the increase of total population in Indonesia from year to year that is imbalance with the job vacancies can cause competition among job seekers and the lack of chance to fulfill their prosperity need that may increase poverty (Supartoyo, Tatum, & Sendouw, 2013) and (Martinez-and McNab, 2005).

2.3. Economic Growth and Human Development Index

The new growth theory or well known as endogenous growth model has two types of theories; they are (1) Human Capital Model, and (2) Research and Development Model. Human Capital Human Capital Model emphasizes the accumulation of capital in its various forms such as physical capital, human capital, health capital, etc. that will produce economic growth. Between those two models, Human Capital Model is better to use since education is the main element of human capital. It then becomes reasonable if it is used as a manual in analyzing the influence of capital growth, the increase of skillful labors, unskilled labors, mean years of schooling, and the growth of government spending for education on the economic growth. From the view of monetary authority of central – region, money transfer mechanism potentially causes problem in operating monetary management. Fiscal decentralization potentially causes the risk of the change of fiscal management acts in regions. If the regional government allocates the fund to strengthen the regional economic foundation, it will give positive impact to the economic growth. The definition of Human Development, according to UNDP (United Nation Development Program), is a process of enlarging people's choices. Referring to that definition, citizens become the last goal of development, while the principal means becomes a medium to reach the goal. This definition is larger than the one which only give emphasize on the economic growth. In human development concept, development should be analyzed and understood not only from its human side but also from economic growth side.

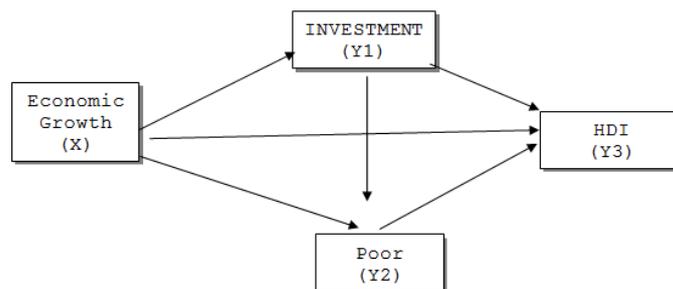
III. Methodology

3.1. Research Method and Data

This research used quantitative method in collecting the data. The research analysis was done in Fak Fak district, West papua. The data collected and used in this research are economic growth of gross domestic product, economic growth data, and national income.

3.2. Model and Data Analysis

The analysis was done using literature approach and secondary data processing. This research used analysis path as follows:



IV. Result

Path coefficient was got from multiple linear regression analysis. Path coefficient was got from the result of standardized regression coefficient (beta). Partial influence from that variable was done by test-t. Economic growth with the path coefficient 0.521 has a significant direct impact on investment absorption ($t=2.02$; $p=0.048$). It shows that the increase of economic growth will give a direct impact to the investment absorption. The increase of economic growth will be followed by the increase of investment. Economic growth with path coefficient -0.740 has a direct impact on poverty ($t=3.645$; $p=0.004$). It explains that economic growth has direct impact on poverty. Investment absorption with path coefficient -0.571 has direct impact on poverty ($t=2.308$; $p=0.041$). It explains that the increase of investment absorption gives direct impact to the decrease of poverty level. Economic growth with path coefficient 0.521 has a significant direct impact on HDI ($t=2.027$; $p=0.045$). It explains that the increase of economic growth gives direct impact to HDI. Investment absorption with path coefficient -0.721 has significant direct impact on HDI ($t=2.388$; $p=0.041$). It explains that the increase of investment absorption gives direct impact to the increase of HDI level. Poverty with path coefficient -0.582 gives significant direct impact to HDI ($t=2.371$; $p=0.037$). It shows that the decrease of poverty directly affect the increase of HDI.

V. Discussion

Human Capital theory explains that someone can increase his income by entering higher education level. Beside the delay of income, people who want to continue their study has to directly pay the bill. After finishing their study, they are expected to get higher income which will lead to the economic growth of their region. The higher the educational level positively affects the economic growth. The growth rate of human capital is seen as the main growth machine which has role to boost the economic growth. Solow's theory stated that the growth rate of human capital positively influences the economic growth which is caused by human capital as the input of main key for research sector so that new products and ideas are found. Hence, the economy of countries with higher early stock of human capital will grow faster. Human capital, then, is recognized as an important growth source in endogenous growth model (Supartoyo et al., 2013) and (Stern, and Rogers, 2005).and (Treisman, 2000) IFLS encompasses data of salary, investment and health, education, family planning, and social safety net program. The result of the study shows that after Indonesia experienced crisis for three years, individual HDI in IFLS data did not decrease/increase compared to the end of 1997 before crisis seen from many dimension of society's life standard. Based on estimation result between investment absorption and poverty in Fak Fak district, it shows that investment absorption gives negative influence on poverty. Hence, the hypothesis which stated that "Investment absorption gives negative and significant influence on poverty in Fak Fak district" can be accepted because it is statistically proved. Based on estimation result between economic growth and HDI in Fak Fak district, it shows that economic growth give positive influence on HDI. Hence, the hypothesis which stated that "Economic growth gives positive and significant influence on HDI in Fak Fak district" can be accepted because it is statistically proved. It also shows that the higher economic growth will increase the prosperity of the society in Fak Fak district. This result supports the previous study done by Martapina and Suwandi (2013) and (Rondinelli, 2001).and (Seda, 2004), and (Tanzi, 2000).and (Zhang, 1998) and (Xie, & Davoodi, 1999) which shows that there was especially a significant relation between HDI and economic growth. It can be seen that it has strengthened the social integration and solidarity, widened the ability to access health, education, domicile, and social protection service. There are two requirements needed in repairing the income and HDI distribution; they are widening the investment and increasing productivity. By widening the investment, the access potential of the society in getting income will be bigger even though they work at the same hour. It also forces people to determine the specialization that will

increase the productivity in a long term. Based on estimation result between investment absorption and HDI in Fak Fak district, it shows that investment absorption gives positive influence on HDI. Hence, the hypothesis which stated that "Investment absorption gives positive and significant influence on HDI in Fak Fak district" can be accepted because it is statistically proved. There are many limitations suggested by the experts, but generally, HDI can be explained as someone's ability level to fulfill their basic needs such as clothing, food, home, education and health. HDI can also be defined as someone's accessibility level in owning the production factors that they can use in a production process so they will get compensations from the use of those production factors. Based on estimation result between poverty and HDI in Fak Fak district, it shows that poverty gives negative influence on HDI. Hence, the hypothesis which stated that "Poverty gives negative and significant influence on HDI in Fak Fak district" can be accepted because it is statistically proved.

VI. Conclusion

Based on result analysis and discussion about influence of economic growth on investment absorption, poverty and HDI in Fak Fak district, it can be concluded that economic growth gives a direct impact on HDI, but it gives indirect impact through the increase of investment absorption and decrease of poverty. It gives direct impact on the increase of investment. It is also proved that the increase of investment gives direct impact on the decrease of poverty.

VII. Suggestions

To increase the economic growth and reduce poverty as well as to increase HDI, these are what to do (a) revitalizing the agriculture to help main sector of Fak Fak district (agriculture); (b) giving capital such as: banking soft loan with easy terms and revolving fund for the right target in the form of natura (cows, sheep, etc.) that can accelerate the increase of economic; (c) regional government facilitates the linkage and partnership program with "win-win solution" concept between small and big industries both in the field of raw material and output that it is able to boost the economy of each region. Government is expected not only to pursue the high growth rate of economy but also intensively implement development which is based on human development to increase the HDI of society through: a. increasing the quality of education, especially the elementary and intermediate education based on minimum service standard by adding budget allocation (20 percent from regional budget); b. increasing the level of health, boosting the independence of society to do healthy acts, increasing the health service to increase the health level of the society; c. increasing the fulfillment of basic needs. Government is expected to increase the HDI of the society by fulfilling their needs such as road, irrigation, electricity, telecommunication, BBM, etc.

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