
CAUSALITY: POVERTY, INCOME INEQUALITY, AND ECONOMICS GROWTH**Oleh****Rohani¹⁾ & Ikhsan Amar Jusman²⁾****^{1,2}Sekolah Tinggi Ilmu Ekonomi YPUP Makassar****Email: ¹rohanirohani.stieypup@gmail.com & ²ikhsanamar40@gmail.com****Abstract**

The research objective is to explain the causality of poverty, income inequality, and economic growth in the Bantaeng district. The data analysis used is descriptive analysis and inductive analysis. The method used is the Granger Causality. The data used is panel data with a period of 2015-2019 with 8 districts. The data source comes from the BPS report. The results showed that (1) there was no causality between poverty and income inequality (2) There is no causality between poverty and economic growth (3) There is a causality between income inequality and economic growth.

Keywords: Causality, Poverty, Income Inequality & Economic Growth**INTRODUCTION**

Poverty and income inequality are the most basic economic problems experienced by most developing regions, including in Bantaeng district. These regions have high levels of poverty and inequality, where every year the number of poor people tends to fluctuate. Most of it is caused by the lack of income received to make ends meet.

A condition of lack of welfare can be described as poverty, while income inequality is an indicator of how resources are distributed to society. The level of inequality between people who are above the poverty line causes high-income disparity and will weaken social stability and solidarity. High poverty and inequality can have a negative impact on social aspects and can lead to conflict (Maipita, 2014).

According to (Todaro, 2011), high inequality will lead to economic inefficiency, where the higher the level of inequality, the smaller the community will feel. The level of inequality that occurs in people who are above the poverty line will cause high-income disparity and will weaken social stability and solidarity, the worst impact of a high level of inequality will actually strengthen the power of community politicians from the rich, which will lead to various actions such as bribery, cronyism, and so forth.

Based on data, the level of poverty and income inequality in the Bantaeng district in the 2015-2019 period experienced fluctuating conditions. It is known that the number of poor people in 2015 was 512,604 people, down to 462,911 people in 2017 than in 2019 to 401,327 people. Meanwhile, income inequality can be seen from the Gini ratio in 2015 of 0.471 percent, down to 0.459 percent in 2018 and in 2019 it increased to 0.462 percent.

Seeing the high rate of poverty and income inequality requires serious handling by government and non-government agencies. From an economic point of view, the role of institutions is to overcome poverty and income distribution problems.

More equitable distribution in developing regions is a condition or requirement that supports economic growth. High inequality will cause economic inefficiency, so the higher the level of inequality in the income distribution of a region, it will have a negative impact on economic growth and welfare (Todaro, 2011).

Economic growth is a measure of the success of an area's development with the aim of community welfare, including poverty and income distribution. Economic growth is a process in which local governments and communities manage existing resources and form a partnership pattern between the

government and the private sector to create new jobs and stimulate the development of economic activity in the region (Arsyad, 2010).

LITERATURE REVIEW

Poverty

According to the Central Statistics Agency (Kuncoro, 2015), poverty is measured by the concept of the ability to meet basic needs. The poor are people who have per capita monthly expenditure that is below the poverty line, the higher the poverty line, the more people are classified as poor.

Poverty describes a condition of a group of people who do not have the expertise so that they cannot make changes, both in ownership of production factors or sufficient quality of products so that they do not benefit from the results of the development process (Arsyad, 2010). A poverty line is a number or level of income set by the government, where families whose income is less than this amount are legally declared poor (Mankiw, 2003).

Low income causes low savings rates, which in turn will result in low levels of investment and less capital so that it will have an impact on low productivity (Jhingan, 2012). Poverty is divided into 2, namely, first, absolute poverty, namely the very minimal ability of the community to meet their basic needs. This poverty is measured using the poverty boundary line. Second, relative poverty is a condition in which the level of income can meet the minimum basic needs but is still lower than the existence of the surrounding population. The wider the population that is always categorized as poor. With the increase in the population categorized as always poor, this is due to the increasing inequality between the income levels of poor and rich families (Arsyad, 2010).

Poverty has a relationship with low human resources and limited employment opportunities, which will cause low productivity. This will have an impact on the income to be received to be low so that savings and investment will be low and, in the end, will be underdeveloped (Kuncoro, 2015).

Where the characteristics of the poor are a country that has a large population that does not eat (hunger), is entangled by high foreign debt, large population, low national productivity, government and socio-political institutions and corrupt businesses, the people always cultivate a culture of life consumerism, low productivity, low or almost no people's ability to save, ultimately have an impact on the impact of limited employment opportunities (Yulhendri, 2009).

Income Inequality

Income inequality is a condition that describes the gap between people who have high income and those who have low income. According to (Todaro, 2011), it is explained that inequality of income is a disproportionate distribution of total income between households in the country. The increasing number of people who can be said to be always poor is due to the increasing inequality between the income levels of the poor and the rich (Arsyad, 2010).

According to (Hasan & Indris, 2016) states that the number of poor people has a positive and significant effect on inequality in income distribution. When the number of poor people increases, the inequality of income distribution will also increase.

According to (Trapeznikova, 2019) states that income inequality is the extent to which income is not evenly distributed across people or all households. According to (Todaro, 2011) there are several indicators to measure inequality, namely the Lorenz curve, where the Lorenz line is curved further away from the diagonal line, the higher the level of inequality, and vice versa, the closer to the diagonal line, the lower the inequality. Second, the Gini coefficient is used to calculate the ratio of the plane between the Lorenz curve and the diagonal plane and then divided by the total half-square area where the curve is located.

Economic Growth

Economic growth is an activity in the economy that causes goods and services produced in society to increase and the welfare

of society to increase. So economic growth measures the achievement of the development of an economy (Sukirno, 2011).

According to Harrod-Domar, economic growth is determined by the ratio of net national savings and the ratio of national capital-output simultaneously. This theory states that the higher the economic GDP that can be saved and invested, the higher the GDP growth is and is inversely proportional to the economy's capital-output ratio. With that, technological advances play a role in reducing the midal output ratio so that economic growth increases (Todaro, 2011).

Economic growth will increase if there is an innovation for technological progress and the importance of innovation, technological and technical progress are well defined and used for the stage of improving socio-economic prosperity (Schumpeter, 1942). From the theory above, it can be seen that one of the causes of increased economic growth is technology.

The economic growth of a nation is also influenced by technology and the further emphasis is placed on exogenous and endogenous models of economic growth. This model says that not only labour and capital causes the economy to increase as stated in the Cobb-Douglas production function, but technology also plays a role in socio-economic progress in a country.

RESEARCH METHODS

This research is classified as descriptive and associative research. This study analyses the causal relationship between poverty, income inequality, and economic growth in the Bantaeng district. This study uses panel data collected from 2015 to 2019 in 8 sub-districts of Bantaeng district. Sources of data come from related institutions and agencies, namely the regency Central Statistics Agency (BPS). The variables used are poverty (Y1), income inequality (Y2), and economic growth (Y3). The research method used is Vector Auto Regression (VAR). The empirical model of VAR analysis in the study is as follows.

$$KMKN_{it} = \beta_{10} + \sum_{i=0}^n \beta_{11} KPDD_{it} + \sum_{i=0}^n \beta_{12} KPDP_{it} + \sum_{i=0}^n \beta_{13} KMS_{it} + \varepsilon_{it} \quad (1)$$

$$KPDN_{it} = \beta_{20} + \sum_{i=0}^n \beta_{21} KPDP_{it} + \sum_{i=0}^n \beta_{22} KPDD_{it} + \sum_{i=0}^n \beta_{23} KMS_{it} + \varepsilon_{it} \quad (2)$$

$$PEKN_{it} = \beta_{30} + \sum_{i=0}^n \beta_{31} KMS_{it} + \sum_{i=0}^n \beta_{32} KPDD_{it} + \sum_{i=0}^n \beta_{33} KPDP_{it} + \varepsilon_{it} \quad (3)$$

Where KMKN is poverty, KPDN is income inequality, and PEKN is economic growth. The research data is processed using Eviews 9. This is useful to assist in analyzing the causality relationship between the variables in this study. There are several data tests, namely performing a stationary test, cointegration test, optimum lag test, Granger causality test, stability test, and also the implementation of the VAR model consisting of an impulse response function test and a variance decomposition test.

OPERATIONAL DEFINITION

Poverty is the number of people who are unable to meet their daily needs. The indicator is the number of poor people in percentage units.

Income Inequality is the income received is different for each community. The indicator is the Gini index in percentage units.

Economic Growth is increase in economic activity (goods/services) within a certain period. The indicator is the GDP growth rate.

RESULTS AND DISCUSSION

Estimation Result of Causality Test between Poverty, Income Inequality and Economic Growth in Bantaeng District

To see if there is a causal relationship between the variables Y1, Y2, Y3, Vector Auto Regression (VAR) analysis is used with panel data from 2015 to 2019. The data is processed using the Eviews 9 application. For this study, the optimum lag used is lag 2. And the results of research on the analysis of the causality relationship between poverty, income

inequality, and economic growth in the Bantaeng district can be seen in table 1.

Table 1. Estimation Result of Causality Test

Null Hypothesis:	Obs	F-Statistic	Prob.
KPDN does not Granger Cause KMKN KMKN does not Granger Cause KMNK	126	2.11693	0.1196
PEKN does not Granger Cause KMKN KMKN does not Granger Cause PEKN	126	4.43220	1.0729
KPDN does not Granger Cause PEKN PEKN does not Granger Cause KPDN	126	7.78316	0.0041
		4.33101	0.0067

Source: result of Eview 8

The Causality of Poverty and Income Inequality

The results of the Granger Causality test show that there is no causal relationship between poverty and income inequality, which can be proven by a probability value of $0.1196 > 0.05$. While income inequality affects poverty, it can be seen from the probability value that is $0.0253 < 0.05$. This concludes that there is only a one-way relationship between income inequality and poverty. Income inequality can affect poverty because it is associated with low human resources. Where a person's level of competence is seen from the extent of education he has, so that the higher the education one has, the higher the value of his human resources. So, the higher the quality of a person's resources, the greater the work opportunities and productivity that will result in him being above the poverty line. This condition is reflected in the people in Bantaeng District. This research is in line with the findings (Hatta & Azis, 2017) which found that the Gini ratio has a negative and significant effect on poverty levels. Where when there is high inequality it will increase poverty and vice versa.

The Causality of Poverty and Economic Inequality

The results of the Granger Causality test show that poverty does not affect economic

inequality, it can be proven from the probability value that is $1.0729 > 0.05$. Likewise, economic inequality does not affect poverty, it can be proven from the probability value, namely $0.5183 > 0.05$. The results of the analysis explain that there is no causal relationship between poverty and economic inequality that occurs in Bantaeng District. This is because when the economy of a region increases, there is no guarantee that it will have a direct impact on poverty levels. Even some assumptions from experts, sometimes a high economy can increase poverty. Moreover, economic sectors that have experienced an increase are only in certain sectors where the impact is not that big for the community.

The Causality of Income Inequality and Economic Inequality

The results of the Granger Causality test show that there is a causal relationship between income inequality and economic inequality, which results can be proven by a probability value of $0.0041 < 0.05$. Likewise, economic inequality affects income inequality, it can be seen from the probability value that is $0.0067 < 0.05$. The results of this analysis indicate that there is a causal relationship between income inequality and economic inequality. When there is high economic growth, the level of productivity will also increase. This certainly affects the use of a more competent workforce. So that this will be an opportunity for someone to improve their competence to get a much higher income.

This research is in line with the findings (Yuliani, 2015) regarding the effect of income inequality on economic growth which shows a significant effect. The same thing with the findings (Nugroho, 2014) states that income inequality has an interesting trend. When there is economic growth caused by increased economic activity, the flow of production will be smoother, which will have an impact on increasing income through the investment used.

CONCLUSION

Based on the results of the Granger Causality analysis, it can be concluded that: (1) there is no causal relationship between poverty and income inequality, which results can be proven by a probability value of $0.1196 > 0.05$. While income inequality affects poverty, it can be seen from the probability value that is $0.0253 < 0.05$. (2) Poverty does not affect economic inequality, it can be proven from the probability value, namely $1.0729 > 0.05$. Likewise, economic inequality does not affect poverty, it can be proven from the probability value, namely $0.5183 > 0.05$. (3) There is a causal relationship between income inequality and economic inequality, which results can be proven by a probability value of $0.0041 < 0.05$. Likewise, economic inequality affects income inequality, it can be seen from the probability value that is $0.0067 < 0.05$.

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HALAMAN INI SENGAJA DIKOSONGKAN