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The Effect of Inflation, Unemployment, and Poverty on Economic Growth in Indonesia (Literature Review)

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Abstract: The purpose of this article is to examine the effect of inflation, unemployement, and poverty on economic growth in Indonesia. The metodology for this article is library research based on online media such as *Google Scholar*, *Mendeley* and other academic online media. The result prove that 1) Inflation affects Economic Growth; 2) Unemployment affects Economic Growth; dan 3) Poverty affects Economic Growth. Other factors that affect economic growth including investment, export, and infrastructure.

Keyword: Economic Growth, Inflation, Unemployment and Poverty

INTRODUCTION

One of the indicators to measure the success of a country is economic growth. There are some aspects that affect economic growth in a country including inflation, unemployment and poverty. First of all, inflation is a general and persistent increase in the prices of goods and services in a country. High inflation rates can have a negative impact on economic growth. One of the negative impacts is the reduction in people's purchasing power. When prices rise, people will feel less able to buy goods and services, so that people's consumption decreases. This will have an impact on decreasing company revenue and reducing investment. In addition, high inflation can also reduce the exchange rate of the country's currency and disrupt overall economic stability. Therefore, keeping inflation low and stable is important to support healthy economic growth.

Furthermore, unemployment is a condition when someone who wants to work cannot find a job that suits his qualifications or desires. High unemployment rates can be an obstacle in achieving sustainable economic growth. Unemployment as a results in a decrease in individual income and reduces the purchasing power of society as a whole. When people have low income, they tend to reduce consumption, which in turn will affect company income. In addition, high unemployment also hinders overall economic productivity, due to unused human resources.

Poverty is a condition when a person or group does not have adequate access to resources, services or economic opportunities. High poverty can hinder economic growth. When the majority of the population lives in poverty, public consumption will be limited, which in turn will affect corporate and investment income. Poverty can also inhibit public education and health, which has an impact on labor productivity. Poor people have limited access to economic and business opportunities, which can hinder innovation and growth in the economic sector. Therefore, reducing poverty levels and increasing people's access to resources and economic opportunities are important in achieving inclusive economic growth.

Based on the introduction, problems can be formulated to be discussed in order to build hypotheses for further research?

1) Does inflation affect economic growth?
2) Does unemployment affect economic growth?
3) Does poverty affect economic growth?

THEORITICAL FRAMEWORK

Economic Growth

Economic growth is an increase in economic activity that results in increased production of products and services in a society, consequently increasing the prosperity of that society over time. A country's ability to produce products and services will also increase over time as a result of economic growth. (Sukirno, 2002). The dimension or indicator of economic growth is the value of all goods and services produced in a country during a given period measured as gross domestic product. (Sukirno, 2002).

According to Mankiw (2007) economic growth is a measure to assess the success of economic development in a country and becomes an important factor in determining subsequent development policies. A country experiences economic growth if there is an increase in national income and production of products and service. The dimension or indicator of economic growth is the value of Gross Domestic Product. GDP is the value of all income and expenditure on goods and services produced domestically in an economy during a specified period of time (Mankiw, 2007)

Gross domestic product and regional domestic product of an area can be used to measure economic growth as an effort to increase production capacity which results in increased production (Adisasmita, 2014). The dimensions or indicators of economic growth are Gross Domestic Product (GDP), employment growth, income inequality, structural transformation of the economy (Adisasmita, 2014).

Economic growth has been widely studied by previous researchers including Ronaldo (2019), Septiatin et al (2016), Simanungkalit (2020)

Inflation

According to Boediono (2001) a phenomenon known as inflation occurs when prices consistently tend to rise and if price increases are significant and have an impact on most other goods but when the price of one item or two goods increases it cannot be called inflation. If fluctuations occur when inflation can result in economic activity that tends to adjust to existing conditions. The inflation dimension or indicator is the Consumer Price Index which measures the average change in the price of a group of goods and services consumed by households in a country or region in a certain time (Boediono, 2001).

Inflation is a condition where the price of a commodity rises, usually due to a discrepancy between commodity procurement programs (production, price fixing, money supply) and people's income levels (Putong, 2013). The dimension or indicator of inflation is the Consumer Price Index, namely the price level of various types of goods that are traded in the market for basic needs of the community (Putong, 2013).

The process of increasing the general price of goods continuously is called inflation. The higher the inflation rate, the lower the fulfillment of daily needs in society due to price increases which can lead to poverty (Nopirin, 1987). The dimensions or indicators of inflation are the cost of living index, wholesale price index, and the GNP deflator (Nopirin, 1987).

Inflation has been studied by many previous researchers, including Ronaldo (2019), Salim and Purnamasari (2021), Susanto and Pangesti (2021).

Unemployment

Unemployment is a situation where someone who is included in the labor force category is unemployed and is not actively looking for work (Nanga, 2001). The dimension or indicator of unemployment is the unemployment rate which means the percentage of the labor force that is not working (Nanga, 2001).

According to Sukimo (2011), unemployment is a group of workers who do not have a job who are still trying to find work but have not yet found one. The dimension or indicator of unemployment is the Open Unemployment Rate (TPT) – which is the percentage of the total workforce that does not have a job and is actively looking for work to the total workforce (Sukimo, 2011).

Unemployed are those who currently do not work at all or work less than two days a week but are actively looking for work (Simanjuntak, 1985). The dimensions or indicators of unemployment are obtained from the percentage dividing the number of unemployed by the number of labor force and expressed in percent (Simanjuntak, 1985).

Unemployment has been widely studied by previous researchers including Paramita and Purbadharmaja (2015), Kalsum (2017), Utami (2020)

Poverty

According to BPS (2016) poverty refers to an individual's financial, material and physical inability to meet basic food needs other than food – compared to expenditure. The dimension or indicator of poverty is the poverty line is individuals whose expenditure on food and non-food is at a level below the poverty line set by BPS.

The definition of poverty is the loss of welfare (World Bank, 2000). Limitations of welfare is the core problem of poverty. The dimension or indicator of poverty is the poverty line which shows the consumption capacity of the family compared to a predetermined poverty limit. Poverty limits, such as less than $1 or $2m per day, or are set by respective governments. Families whose consumption capacity is below the poverty line are considered to live within the poverty line. People living in poverty have limited access to the resources needed to upgrade their skills and education, which limits their ability to find better jobs. Poverty can cause people to experience limitations in buying goods and services needed for life, thereby reducing market demand and hampering economic growth.

Poverty has a multi-dimensional nature due to diverse human needs. There are two aspects to poverty, namely the primary aspect and the secondary aspect. Primary aspects are related to shortages in resources such as food, clean water, health, and education. Meanwhile, secondary aspects are related to limitations in access to social networks, financial resources, and information. Concretely, manifestations of poverty in the form of malnutrition, unhealthy water, poor health care, and low levels of education. The dimensions or indicators of poverty are the level of rice consumption, income level, and gini coefficient to describe the inequality of income distribution if it is close to 1 then the distribution of income is increasingly uneven Arsyad (2016).

Poverty has been extensively studied by previous researchers including Novriansyah (2018), Imanto and Sumantri (2020), Prayitno and Yustie (2020).

METHODS

In order to write this literature review, I used a descriptive qualitative approach and conducted library research using sources from Mendeley, Google Scholar, and other online academic applications. The use of the literature review in qualitative research must be consistent with the methodological premises. This means that it must be applied deductively in order to avoid directing the researcher's inquiries. Because it is exploratory, qualitative research is one of the primary justifications for doing it. (Ali, H., & Limakrisna, 2013)

DISCUSSION

The discussion of this article is intended to assess the link between the studied variables and generate conceptual ideas for future research plans based on the study of pertinent theories and articles.

Reviewing pertinent papers as a foundation for formulating research hypotheses, highlighting parallels and contrasts between the study plan from pertinent studies and the outcomes of earlier investigations, as shown in table 1 below..

Tabel 1: Relevant Articles Review

No	Author (Year)	Previous research results	The similiarities to this articles	The differences to this articles	Hypothesis
1	Simanungkalit (2020)	Partially and simultaneously, inflation has a significant and negative effect on economic growth.	Inflation and unemployment have an effect on economic growth	Added unemployment and poverty as independent variables	H1
2	Salim dan Purnamasari (2021)	Partially and simultaneously, inflation has a significant and negative effect on economic growth.	Inflation has an effect on economic growth	Added unemployment and poverty as independent variables	H1
3	Wiriani (2020)	Partially and simultaneously, inflation has a significant and negative effect on economic growth.	Inflation has an effect on economic growth	a. Researcher didn't use exchange rates as independent variables b. Added unemployment and poverty as independent variables	H1
.4	Paramita dan Purbadharmaja (2015)	Partially and simultaneously, unemployment has a significant and negative effect on economic growth in Bali	Unemployment has an effect on economic growth	a. Researcher didn't use investment as independent variables b. Added poverty as independent variables c. Different research subject	H2
.5	Kalsum (2017)	Partially and simultaneously, unemployment has a significant and negative effect on economic growth in North Sumatra.	Unemployment and inflation have an effect on economic growth	a. Added poverty as independent variables b. Different research subject	H2

		Simultaneously, inflation has a significant effect on economic growth in North Sumatra			
6	Utami (2020)	Partially and simultaneously, unemployment and poverty has a significant and negative effect on economic growth in Aceh	Unemployment and poverty have an effect on economic growth	a. Researcher didn't use Human Development Index as independent variables b.Added poverty as independent variable c. Different research subject	H2
7	Novriansyah (2018)	Partially and simultaneously, unemployment and poverty has a significant and negative effect on economic growth in Gorontalo	Unemployment and poverty have an effect on economic growth	a. Added inflation as independent variable b. Different research subject	H3
8	Imanto dan Sumantri (2020)	Partially and simultaneously, unemployment and poverty has a significant and negative effect on economic growth in South Sumatra	Unemployment and poverty have an effect on economic growth	a. Added inflation as independent variable b. Different research subject	H3
9	Prayitno dan Yustie (2020)	Partially and simultaneously, unemployment and poverty has a significant and negative effect on economic growth in East Java District City	Poverty has an effect on economic growth	a. Researcher didn't use HDI and labor force as independent variables b. Added inflation as independent variable c. Different research subject	H3

FINDINGS AND DISCUSSION

The Effect of Inflation on Economic Growth

Inflation affects Economic Growth, where the dimension or indicator of inflation is the consumer price index which is the price level of various types of goods basic needs of the community that are traded in the market affects the dimension or indicator of economic growth in the form of GDP, namely the total value of income and expenditure of goods and services produced domestically in an economy during a certain period of time (Boediono, 2001).

Wiriani (2020) explains that there is a significant and negative effect of inflation on economic growth. This is because the higher the inflation, the lower the people's purchasing power, which ultimately affects the entire economy. If a country's inflation rate rises sharply, this can have a negative impact on economic growth and worsen the economy (Safuridar, 2018).

Inflation affects the economy when it exceeds 10%. When a country's inflation rises, the economy grows, but high inflation can negatively affect the country in the long run. The effect of high inflation shows that domestic goods are relatively more expensive compared to the price of imported goods (Septiatin and Rizki, 2016). Based on the explanation of some of the research results above, it can be concluded that when the inflation rate increases it will affect the decline in economic growth.

Inflation has an effect on growth the economy, this is in line with research conducted by: (Septiatin and Rizki, 2016), Wiriani (2020), and (Simanungkalit, 2020).

The Effect of Unemployment on Economic Growth

Unemployment has an effect on Economic Growth, where the dimension or indicator of unemployment is the unemployment rate which influences the dimension or indicator of economic growth in the form of GDP, namely the value of total income and expenditure of goods and services produced domestically in an economy during a certain period of time (Nanga, 2001).

The impact of unemployment on financial growth can be defined by Okun's law, that is, the relationship between unemployment and economic growth is negative. If economic growth increases, unemployment will decrease, and conversely, if economic growth decreases, unemployment will increase.Even though there is a high unemployment rate, it means that fewer people have enough income and purchasing power to buy goods and services. This can lead to a decrease in demand and production, thereby potentially reducing economic growth. Previous research by Kalsum (2017) showed negative results between unemployment and economic growth**.**.

There is a link between unemployment, job availability, investment, and national income. The availability of jobs is influenced by the existing unemployment rate, while investment is affected by the availability of jobs. The source of funds for investment comes from xaccumulated savings, which is the remaining x income that is not consumed. The higher the level of national income, the greater the potential for increasing production capacity. There is a positive impact on employment absorption due to the abundance of jobs that have sprung up (Septiatin and Rizki, 2016).

Due to unemployment affects economic growth, this is in line with research conducted by: Paramita and Purbadharmaja (2015), Kalsum (2017), Utami (2020).

The Effect of Poverty on Economic Growth

Poverty has an effect on Economic Growth, where the dimension or indicator of poverty is the poverty line that shows the ability of a family to consume compared to a predetermined poverty limit that affects the dimension or indicator of economic growth in the form of GDP, namely the total value of income and expenditure of goods and services produced domestically in an economy during a certain period of time (BPS, 2016).

Based on Novriansyah (2018) regarding the effect of poverty on economic growth shows that poverty has a negative effect on economic growth. Significant relationship between economic growth and poverty.v At the initial stage of development, poverty tends to rise. However, as the final level is improved, severe poverty within a country will decrease (Kuznet, 1995).

Economic growth that is not accompanied by an increase in employment opportunities can lead to inequality in the distribution of income which causes an increase in poverty and then impacts on economic growth. vBased on the explanation above, it can be concluded that there is a negative relationship between poverty and economic growth, which means that an increase in poverty can reduce economic growth.

Due to poverty has an effect on economic growth, this is in line with research conducted by:). Novriansyah (2018), Imanto and Sumantri (2020), Prayitno and Yustie (2020).

Conceptual Framework

Based on the formulation of the problem, theoretical studies and relevant articles, the conceptual framework for this article is obtained as shown in figure 1 below..

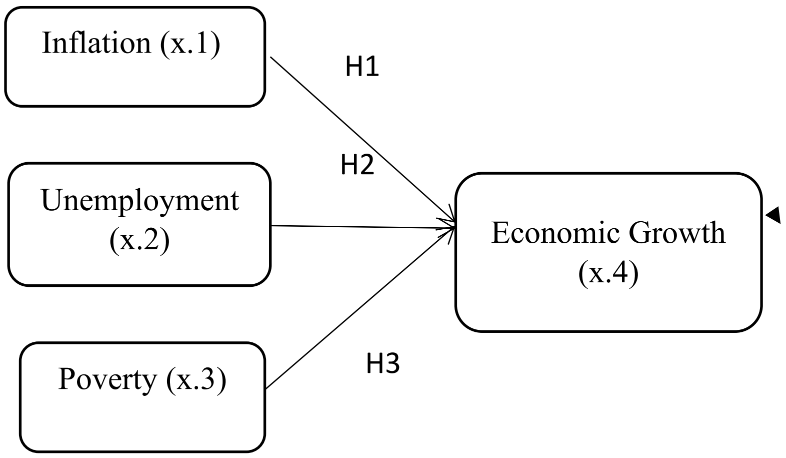

Figure 1: Conceptual Framework

Based on the conceptual framework above, then: Inflation, Unemployment and Poverty have an effect on Economic Growth

Apart from the three exogenous variables that affect economic growth, there are still many other variables that affect it, including**:**

1) Investment: (Harini et al., 2020), (Sulistiawati., 2012) dan (Sutawijaya., 2010)),
2) Export: (Asbiantari et al., 2016), (Ginting., 2017)**,** (Astuti & Ayuningtyas, 2018)
3) Infrastructure: (Maqin., 2014), (Maryaningsih et al., 2014), (Agussalim et al., 2020).

CONCLUSIONS AND SUGGESTIONS

Conclusions

Based on the formulation of the problem, theoretical study, analysis of relevant articles and discussion, the conclusion of this scientific literature review article is to build concepts or hypotheses for further research are:

1 Inflation affects Economic Growth
2 Unemployment affects Economic Growth
3 Poverty affects Economic Growth

Suggestions

Based on the conclusion above, the suggestion for the next author is that there are many other factors that affect economic growth apart from inflation, unemployment and poverty, therefore further studies are needed to look for these other factors. Other factors affect economic growth apart from the three variables examined in this article, such as investment, exports and infrastructure.

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