

**The Improvement of a Production and Productivity that is followed by  
Rearrangement of The Industrial Composition as a Part of Integral Policy to  
Reduce Poverty in Indonesia**

***Abstraksi***

*Kemiskinan adalah masalah yang inheren dalam kehidupan di negara manapun. Selain sebagai salah satu permasalahan utama dalam pembangunan di NSB, kemiskinan adalah variabel yang bisa mempengaruhi stabilitas politik ketika tidak ditangani dengan baik. Jika hal ini terjadi maka sedikit banyak akan mempengaruhi jalannya pembangunan di negara yang bersangkutan.*

*Kemiskinan bisa ditimbulkan karena persoalan kultural dari masyarakat yang bersangkutan namun seringkali kemiskinan diakibatkan karena adanya kesalahan dalam pembuatan kebijakan ataupun pelaksanaan kebijakan itu sendiri. Hal ini sering disebut kemiskinan struktural.*

*Fenomena lingkaran setan kemiskinan yang biasa terjadi di NSB yang dikemukakan oleh Harvey Leiberstein masih mendapatkan relevansinya ketika hal itu diterapkan dalam konteks perekonomian Indonesia. Pada lazimnya, ada dua cara untuk memutuskan lingkaran setan kemiskinan. Yang pertama adalah meningkatkan pendapatan riil masyarakat miskin dengan cara memberikan subsidi langsung berupa bantuan tunai dan yang kedua adalah peningkatan kualitas penduduk atau human capital investment baik berupa pendidikan ataupun pemberian fasilitas kesehatan. Dua cara tersebut bukanlah dua cara yang berdiri sendiri melainkan harus berjalan simultan dan saling melengkapi. Menurut hemat penulis, ada sisi lain yang harus dibenahi agar dapat digunakan sebagai pelengkap (komplemen) yang harus dilakukan secara simultan dengan dua cara sebelumnya. Cara yang ketiga ini difokuskan pada sisi produksi dan produktifitas ekonomi di Indonesia.*

**A. Introduction**

Poverty is an inherent problem in any states and constitutes one of main demographic problems especially in developing countries. In the discussion of development economic, there are three main problems. Those are economic growth, income distribution, and poverty (Arsyad, 1999). In brief, economic growth is the first condition for the people to achieve prosperity, then, automatically, the poverty is supposed to be eliminated.

With the growth, it does not mean that the problem is finished. When the decision maker determines a wrong policy, it is possible that the growth will only result in new problems. For example, the growth sometimes benefits just for certain people. If it happens, social instability will emerge. Finally, the process of economy development more or less will be disturbed. if it matter still goes on, poverty problem will not be solved.

Poverty is a crucial problem in any states and not more to be secret again that pressured by poverty can degrade one regime one to be changed by the other regime. The experience had proved that people of a state far from poverty or people guaranteed its prosperity so whatever political pressure will face any difficulties to replace the regime. Mahathir Muhammad had led State Malaysia for tens years where its democracy is paid attention less. However, the regime is unable to be put down and Mahathir Muhammad experience success change leadership smoothly. This matter can happen because its people far from poorness.

This phenomenon actually happens in Indonesia. The poverty was able to put down President Sukarno. In Suharto era, from the beginning until the first years 1990 decade, the regime held glory. World Bank (WB) had already appreciated to the success to reduce poverty rate. Indonesia was able to reduce the rate from 40.08 percents from the population in 1976 achieved to be 17.42 percents in 1987. However, in the middle 1990 decade, exactly 1998, Suharto was able to be putted down from the top because of political pressure that was caused by economy pressure. The pressure was the increasing of poverty rate caused by economy crisis. Not in line with causes of the crisis, it is clear that the poverty was the main factor of the mighty political pressure to Suharto regime's authority.

I (the writer) try to present the discussion about poverty in Indonesia and the overcome focused to economic production and productivity. The poverty has multidimensional aspects, hence, the overcome may not be carried on partially but must be integrated and simultan.

This paper will not detail about how to overcome integrally the poverty but only focused the overcome in production and productivity side and the rearrangement of industrial composition. It is expected to create employment fitted to demographic condition in Indonesia. This step is mean to be complement of conventional reduction of the poverty.

## **B. Poverty**

Poverty has broad meaning and not easily to be defined. Among the social scientist have different standards to determine whether the people classified to the poor or not. Poverty is indicated by the lackness of the access to get goods, services, assets, and any opportunity that belong to everyone's right (ADB, 2004). In general, poverty is classified to be absolute and relative poverty (Arsyad, 1999).

The absolute poverty is based to the level of income and need. Statistical Central Agency (it is called BPS) defines that poverty line is 2100 calories per person as need a day, it mean that any people who have income lower than the conversion of the need will classify to the poor. This numerical calorie is mean as basic need of a man a day. Internationally, WB determine that poverty line is US\$2 in urban area and US\$1 in rural.

The relative poverty emerges while a person or people have lower income compared to average income in the society. It is possible that the person classified the poor in the original area, but when he moves to the new one, it is possible to be

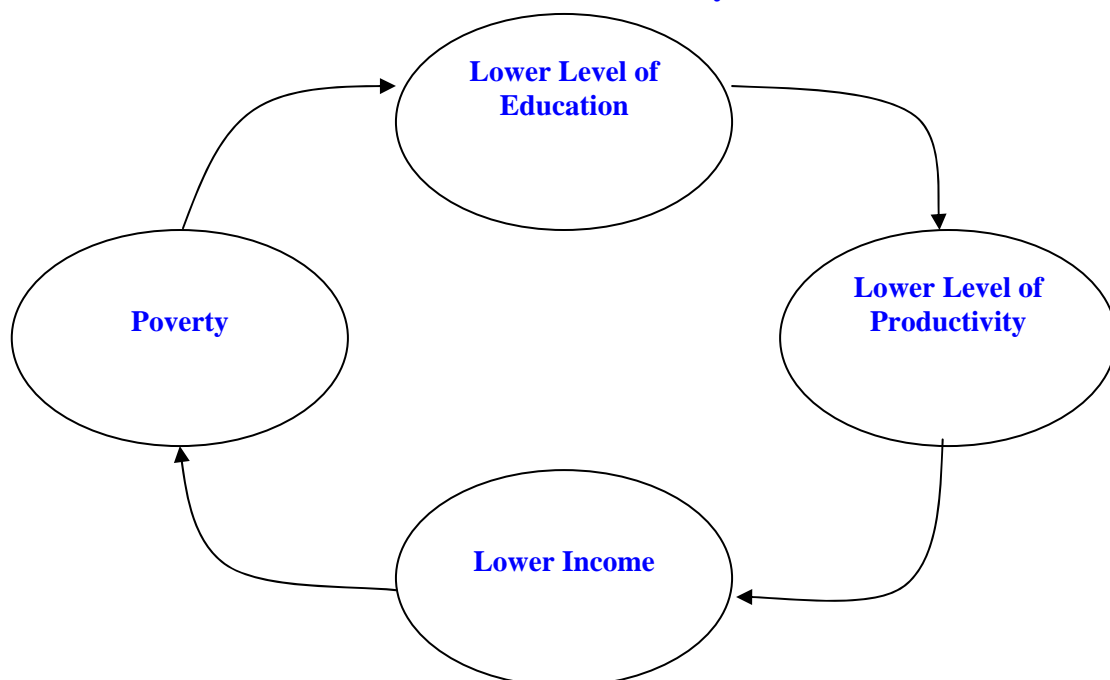
the rich. At the opposite, although he can fulfill basic need even more, it is possible to be the poor if average income in the new area has higher income than his.

Poverty is a condition of the society who has ability to have production factor or neither has good quality of the factor. Hence, really, they can get benefit from economic growth (Arsyad, 1999). This can happen because the people their self have no will and ability to participate in the process of economy development that is planned or carry on naturally. In other words, poverty emerges because of the existence of the problem of quality in production factor, productivity, or the society improvement. Those are often called cultural problem.

Poverty is also caused by the wrong policy. The policy can not obtain the target. The strategic and the policy are not proper to the ability of the society as subject of development. This condition is often called structural poverty.

The vicious circle phenomenon which usually happen in developing country was presented by Harvey Leiberstein still has relevant condition while it is applied in Indonesia. The phenomenon is figured in diagram below.

**Diagram 1**  
**The Vicious Circle of Poverty**



The diagram is clearly figured that lower level of the education of the person create the lower level of productivity. It caused by lower quality of labor input. The lower level of productivity certainly result lower income, hence, the person can not fulfill his basic need. He automatically classified to the poor. The poor certainly only afford to get the lower level education caused by hampering the cost of the education.

Looking at the diagram flow before, it can be concluded that the poor will always bear the poor too. To overcome the matter, it is important to cut the circle. Simply, there are two ways usually carried on. The first one is the way that is focused to cut the lower income by giving direct subsidize (it is called *Bantuan Langsung Tunai/BLT* in Indonesia). The same way was called *Progresa/Oportunidades* in Mexico. In the west, the same way too is giving the coupon/voucher to the target. By this way, there will be increasing of the real income of the poor. The second one is cutting flow of the circle with trying to increase quality of human resources (called human capital investment) such as increase the education level and services of health facility.

The first way is just for short term. This way look like not educated, but it is still needed because it can help to fulfill basic need of the poor. The poor is expected to survive during the economy development and recovery process to get the new better job. It was able to be pretended that any policies are carry on must have time lag until the policy its self bear the real result. Hence, the first way must be carried on simultaneously with other policy and can be stopped while the people their self can fulfill the basic need.

BLT is mean to be compensation for the poor. By this way, it can reduce poverty rate because of increasing price of fuel. On October 1, 2005, the government increased the fuel price on average 120 percent. It automatically increased inflation rate hence the poverty rate also increases. This subsidized Rp300,000 per household per three months. The first drawing is done on 1 October 2005 with amount of Rp4.6 trillion for 16.7 millions persons which are classified to the poor. SMERU (SMERU, 2006) estimated that the poverty line was Rp110,353 per kapita a month.

According to SMERU, if it had been fitted for the new level price, it would produce new poverty line. It was Rp112,909 per kapita a moth, hence, estimated rate of poverty was 22 percents or 45 millions population. If the policy get the appropriate target (100 percents), it will reduce only 17.9 percent rate of poverty. This level is still higher than the poverty rate before the increasing fuel, 16.7 percents. The poverty rate continues to increase while the prosperity of the program is lower. This matter can happen because of inaccurate executing the program especially in surveying the target. It was also caused by not proper cooperative between surveyor and local government (such as head of village, head of RT, RW), very strong political pressure from the citizen who do not accept BLT, and so on.

Quality improvement of human being in the form improvement of existence and service of education and health is a policy which is a long term orientation. Its benefit indirectly can be felt but affect in the long term. If this policy is not conducted hence a generation in the state will decrease in its quality. This matter will make state underdeveloped while pertinent generation will take over of the development estafette.

Before 1970s, most of our neighborhood countries including Malaysia imported teachers from Indonesia, but now, because of quality improvements and development which has a vision, Malaysia changes to be a more developed country compared to Indonesia. This now, Malaysia is one of education destination to continue the education of Indonesian. More than that, some of our people who depend their life in the state.

### **C. Empirical Condition in Indonesia**

Had been described in the section before, in Suharto Regime, the poverty rate was able to be decreased to 11.30 percent in 1996 from 40.10 percent in 1976. The success was realized by the world (Arsyad, 1999). In other aspect, the average growth in 1968-1996 was 7.5 percent. That was a phenomenal achievement which make we were a proud of it. However, the income gap or income distribution was not a good sound.

Inequality of the income distribution can be caused by several things. They are like the composition of the labor between formal sector and informal sector, inequality in education among the regions, inequality development between urban and rural area, centralistic region development in Java Island or Western Indonesia, and so on.

According to BPS, in 2005, estimation of Indonesian population who has age 15 year above was 155,549,736. There ware 105,802,372 from the number who were labor force that contained 94,948,118 were employments and the rest were unemployments or about 10.26 percent of the labor force. Most of them worked in informal sector; those were about 60.6 million people or about 64 percent.

Informal sector is an unorganized work, unlisted, and unprotected by the law (Nugroho, 2006). It is not a secret anymore that the sector could survive in economic crisis, even could employ the new workers from formal sector that were fired. However, the sector still is considered as the second class.

The reality shows that income of the sector often fulfill only the basic need and can not increase the prosperity because of no capital accumulation. BPS estimates that the average income of informal sector is Rp587,944 per person a month, in contrast, the formal sector has Rp841,708. This amount is excluded from the owner's income (Khairina, 2006). If it is included, the income gap automatically will be wider.

Poverty and income gap also are caused by the quality of the education. There are still 15.41 millions people whose age is 15-45 year old that is illiterate. In Jakarta, there are 128,000 people of it. This matter will burdened the government that can only decrease the number for 200,000 persons a year (Wisudo, 2005). Based on the education, there are 4.62 percent who graduate from the university and the rest who graduate high school and lower.

Human Development Index of Indonesia in 2002 was 65.8 and had position 110<sup>th</sup> in the world. HDI is an indicator of human development that contain components like life expectancy, rate of literate residents, years to school, and the level of consumption.

Centralistic development in rural and unequal region development also cause poverty and income gap. According to BPS, in 2003, most of industries in Indonesia or about 73.5 percent of all industries concentrate in Java and Bali Island, 12.6



percent in Sumatera. Table 1 illustrates that rural residents are poorer than in urban based on the number and the rate.

**Table 1**  
**Number and Rate of Poverty in Indonesia, 1976-2004**

Year	Number (in millions)			Rate of Poverty		
	Urban	Rural	Total	Urban (%)	Rural (%)	Total (%)
<b>1976</b>	10.00	44.20	54.20	38.80	40.40	40.10
<b>1980</b>	9.50	32.80	42.30	29.00	28.40	28.60
<b>1984</b>	9.30	25.70	35.00	23.10	21.20	21.64
<b>1990</b>	9.40	17.80	27.20	16.80	14.30	15.10
<b>1996</b>	9.60	24.90	34.50	13.60	19.90	11.30
<b>1998</b>	17.60	31.90	49.50	21.90	25.70	17.50
<b>1999</b>	15.60	32.30	47.90	19.41	26.03	23.43
<b>2000</b>	12.30	26.40	38.70	14.60	22.38	19.14
<b>2001</b>	8.60	29.30	37.90	9.79	24.84	18.41
<b>2002</b>	13.30	25.10	38.40	14.46	21.10	18.20
<b>2003</b>	12.30	25.10	37.40	13.57	20.23	17.42
<b>2004</b>	11.50	14.60	36.10	12.60	19.50	16.60

**Source: BPS**

The study by Akita and Alisjahbana in 2002 found that income gap among regions increase from 0.262 in 1993 to 0.287 in 1997. The study utilized process of decomposition of income regions with Theil Index. The improvement of the gap caused by the increasing of the gap in several provinces especially in Riau, Jakarta, East Java, and West Java (Tambunan, 2003). Ironically, because of the infrastructure limited in the regions, for example people in Nunukan, East Kalimantan, prefer to interact with people of Malaysia and the tradisional market located in Malaysia. In brief, the resident has Indonesia Identity Card but they are depended to Malaysia (Sodikin, 2005).

In industrial sector, most of industries in Indonesia are small and medium industries (SMI). According to BPS, in 2003, there were 3,006,112 small scale units, 16,411 medium scale units, and 7,593 large scale units. Based on the contribution to

Gross Domestic Product (GDP), each of them contribute sequentially Rp112.98 trillions, Rp86.01 trillions, and Rp312.42 trillions on constant price of 2000. It can be concluded that majority of labors in Indonesia depended to small scale enterprises (about 2/3) but majority of the income are owned by the large scale enterprises.

#### **D. How to Overcome Poverty in Production and Productivity Aspect**

Beside the two ways to overcome poverty described before, the writer has opinion that can be utilized to reduce poverty. This other way is not as alone program in reducing the poverty but it can be complement to cut poverty circle and carry on simultaneously with the ways before.

The third way is focused to production and productivity in Indonesia. The policy that is employed and focused in this aspect are providing the better infrastructure, rearranging industrial composition fitted to resources in Indonesia, improving services and enforcing the law to decrease high economic cost.

##### **D.1. The Availability of the Infrastructure**

In development economics, there are several strategies to be applied in developing countries. Two of the strategies are imbalance development and balance development strategy (Arsyad, 1999).

Balance development strategy is development that is employed building many industries simultaneously. This strategy is hoped can create market reciprocally among industries. Economist that discovered the strategy is Roseistein-Rodan and Nurske in 1953 and followed by Scitovsky and Lewis. Roseistein-Rodan and Nurske presented balance strategy in demand side but Scitovsky and Lewis in supply.

Main objective of the balance development strategy of Roseisten-Rodan and Nurske is to create many industries that are connected one to others and then can create positive economic externality because of industrializing process. The externality is intended in their theory is widening its market because there are income improvements of labors in the certain industry that can create demand to the second industry and sequentially imply to others. Hence, there are stimulants that emerge and imply the rising of new market in order to attract new investment.

Development balance theory was presented by Scitovsky dan Lewis is balance theory in supply side. This strategy is done by developing many industries that are connected. Hence, one industry can produce output that is utilized as input by other industry, this mechanism sequentially carry on by the others. The different industry can also have function as industry which supplies raw material, main input, or complementary output for other industry. This relationship is believed to be able to create efficiency because of the cut price of input. This matter automatically can decrease production cost and finally decrease the price of output.

The both theory get criticism because of their weakness. It is believed that the strategies which carry on developing many industries simultaneously need mighty capitals of funds; this matter will hamper development in the developing countries because capitalization is the main barrier. Beside, the balance development strategy need mighty affords of agricultural sector to fulfill demand of other industries. Labor or human resources that live in the sector are forced to increase production and productivity, hence, this need higher technology including the better quality of the human resources. In contrast, in developing countries especially in agricultural

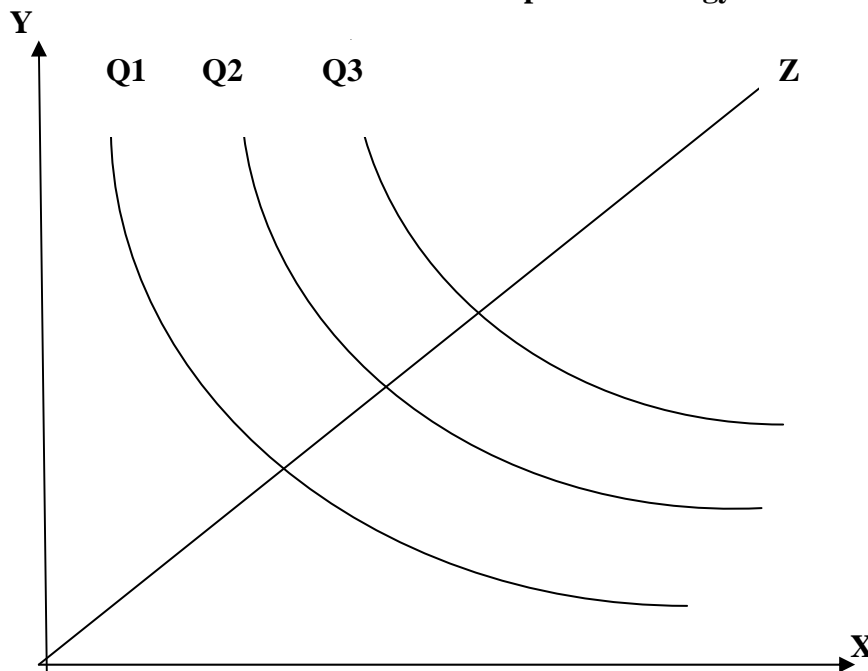
sector, it is believed that the human resources has low quality hence it is difficult to support the strategy because of the weakness.

Of the all critics, Hirschman's critics is considered be the best. Beside of expressing the weakness, this critic provides the solution. It is called imbalance development strategy. Hirschman said that doing balance development strategy is to forget historical reality that development is done gradually. It also creates diseconomies that are caused by the elimination of the pattern of traditional agricultural. It is believed that there will be new unemployment because the development is not proper or fitted to the traditional civil.

Hirschman stated that imbalance development strategy stressed the important of which project will be done for the first. This way was hoped to get an optimal development. Figure 1 illustrate that the imbalance development strategy means to stress infrastructure sector (X). This way will provide the infrastructure of economy activities; it is known as over capacity development. Other imbalance development strategy is development that is stressed for providing productive sector that can directly result goods to fulfill the society needs (it is called Directly Productivity Activities or DPA). According to Hirschman, imbalance development prefers to stress developing in DPA sector. It is considered as the best way in developing countries that are believed to avoid inefficiency of infrastructure utilizing.

Considering to the strategies above, the writer agree to the imbalance development because it is proper to the condition in developing countries including Indonesia. However, the writer does not totally agree with the choice of the strategy that prefers to stress development in DPA sector.

**Figure 1**  
**Imbalance Development Strategy**



Where:

- Q: the level of optimal product in full capacity condition
- X: available infrastructure or Social Overhead Capital (SOC)
- Y: productive sector or DPA
- Z: the curve that relates points in balance development

The writer considers development that provide infrastructure of economic activities is more proper to the condition in developing countries. This strategy automatically will reduce the fund that is needed for investment in consumption goods industry. By this way and only choosing only a few important industries, the development is expected to obtain optimally the goal and create sustainable development.

In the short term, doing infrastructure development will employ the people because it needs a lot of labors. This matter ever also experienced in USA while the Great Depression happened in 1930s. In the long term, infrastructure development such as irrigation, water piping, electricity, and transportation facility like streets,

bridges, and harbors, and infrastructure in communication will reduce production cost in the industries. Hence, the industries will have higher bargaining power because of the lower price of the output. The improvement of the industries and the lower of production cost automatically attract the private investors to invest their fund to build new industries. It will reduce the government duty to eliminate unemployment and the poverty will automatically be decreased.

The opposite condition will experience while development is stressed to DPA sector or developing many industries simultaneously with a few available infrastructure. This strategy will need a lot of fund. In other side, the societies are not ready to absorb products which are produced by the industries. Beside, it will create high cost economy in producing the goods, hence, the output resulted can not compete well in the aspect of price.

If this strategy is applied in this country, the lack of infrastructure will imply crowded of the roads in the capital city and the large cities or other industrial cities. Unsuitable condition of transportation infrastructure will result a longer time in traveling and indirectly will consume more fuel (*bahan bakar minyak /BBM*), then it will burden state financial. Industry developments are centered in Java and Sumatera Island, but ironically, until this now there is no toll road that connects directly the end points in the islands.

Simple figure in local area of Yogyakarta is how the availability of the ring road that influences economic activity. There is fast developing area around the road. Units of production emerge around it.

A study that involves entrepreneur shows that Indonesia business condition is not conducive for the business. The study employed by Global Competitiveness

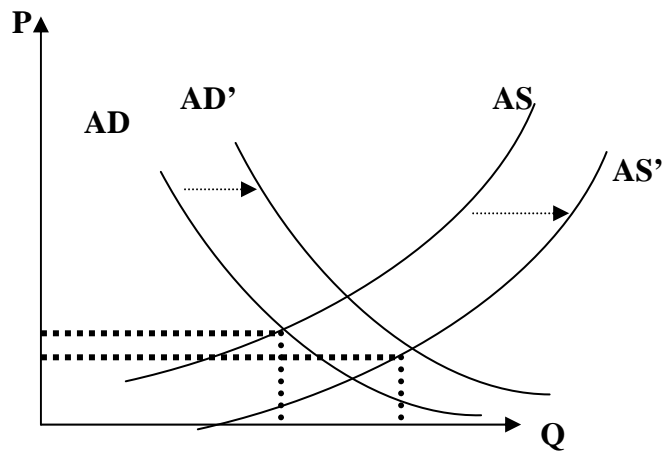
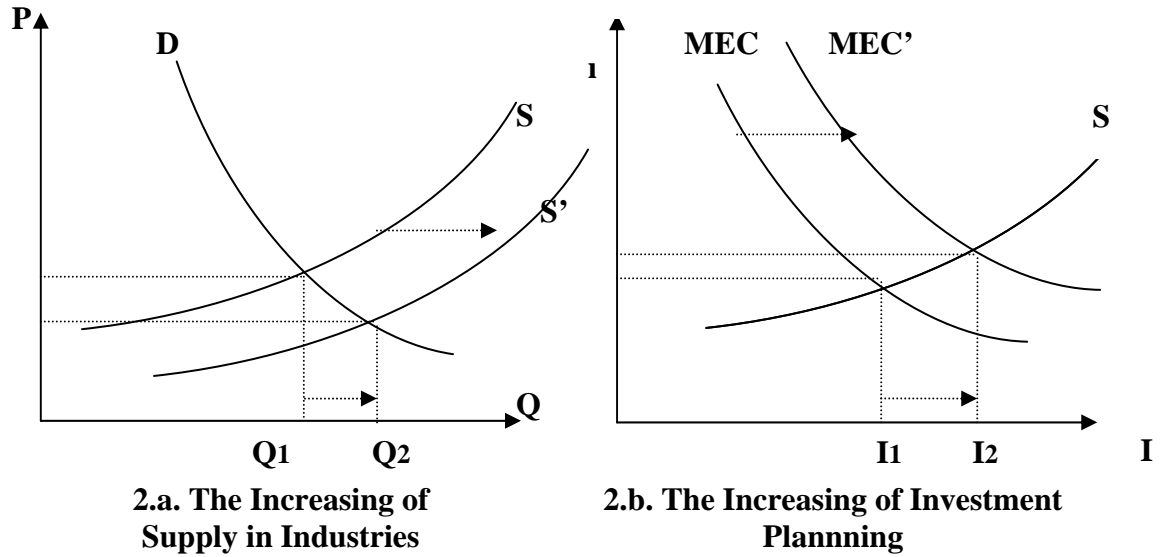
Report, World Economic Forum (WEF), from 2001 to 2005 conclude that businessmen feel not good to invest their fund in Indonesia because of several factors such as corruption, infrastructure, government birocracy, law of the tax, quality of the human resources, instability of the policy (Astono, 2006).

The study that has 4,700 samples of businessmen from 80 states position a barrier in form of bad infrastructures as the second main barrier after corruption. Other example is the lack of toll road compared to the population (Sodikin, 2006). The quotient is just 2.5 km per 1 million people in Indonesia. Japan has 92, China 77, South Korea 56, and Malaysia 55. This fact shows that Indonesia government is not seriously in developing infrastructure.

In brief, addition and restoring infrastructure is showed in Figure 2. In micro level, the improvement of infrastructure availability will decrease production cost, hence, it will lower output price (supply curve shifts to right). This results the increasing of output sale then it increase real output in macro level.

In macroeconomic level, this conducive condition caused by availability and improvement of the infrastructure will induce the production process to be more active and will decrease production cost. The cost meant is the cost that has directly connected with production activity for example input price or indirect cost for example communication cost. This matter will stimulate the entrepreneur to plan more investment in any level of interest (the figure shows that marginal efficiency of capital (MEC) shifts to right to be MEC'). Hence, the equilibrium level of investment will increase (to be  $I_2$ ).

**Figure 2**  
**The Effect of Repairing and Improving Infrastructure**



**2.c. The Increasing of Supply and Demand Aggregate**

The combination condition of the two ways before integrally will increase aggregate demand and supply. This matter is depicted by the shifting of AS and AD to right.



## **D.2. Rearranging of the Industrial Composition in Indonesia**

Indonesia is a state that has abundant natural resources in form of maritime, forestry, mining of gas and oil and so on. However, the management is not optimal. This condition is expressed by the foreign trade and the industrial structure.

Most of the export goods from Indonesia are in form of raw materials hence this valued lower nominally. It also has small influence in empowering human resources. If the raw materials of agricultural (including forestry and fishery product) and mining are manufactured domestically, it will be valued more. Forestry product like log should be processed in domestic pulp industries, petroleum processed to be fuel, gold and other raw materials of mining product processed to be final goods, fish processed in manufacturing industries, and so on.

Most of the exist industries in domestic has form of assembling industries or in textile industries has form as tailor. It caused by raw materials, components, or capital goods are often imported from abroad. Because of unlinked connection between primary and manufacturing sectors, the matter automatically has no independency in production process of domestic final goods. Cost of production also depended to the value of Rupiah, more depressed the exchange Rupiah higher cost hence it results instability of output price.

Table 2 figures that most of the contents of the import are classified to 90 percent as material and capital goods. In brief, this condition is good for improving our economy where the import is used for production activities. Material goods are utilized as input for domestic industry and capital goods such as machines and other factor productions are for production activities.

**Table 2**  
**Indonesia Import Based to Good Utilization**  
**January - May 2004 - 2005**

Type	Counted in CIF (Millions US\$)				% Change Jan-May 2005 to Jan-May 2004	% to Total Jan- May 2005
	April 2005	May 2005	Jan- May 2004	Jan- May 2005		
<b>Total</b>	<b>5,024.1</b>	<b>4,964.6</b>	<b>17,181.0</b>	<b>23,568.9</b>	<b>37.18</b>	<b>100.00</b>
<b>Consumption Goods</b>	<b>415.7</b>	<b>375.6</b>	<b>1,456.8</b>	<b>1,833.4</b>	<b>25.85</b>	<b>7.78</b>
<b>Intermediary Goods</b>	<b>3,908.5</b>	<b>3,900.9</b>	<b>13,604.7</b>	<b>18,483.8</b>	<b>35.86</b>	<b>78.42</b>
<b>Capital Goods</b>	<b>699.9</b>	<b>688.1</b>	<b>2,119.5</b>	<b>3,251.7</b>	<b>53.42</b>	<b>13.80</b>

**Source: BPS**

In the long term, this condition is worried to be able to cause domestic industries are depended to import. This matter implies that domestic production activities will be hampered if the material and capital goods to be scarce or the price increase. In Balance of Payment side, this condition will not be profitable. While Rupiah is depressed, price of domestic goods (from Indonesia) should be cheaper that can raise the export of Indonesia. Because of most of material, component, and capital goods are imported from the foreign so there the depreciation of Rupiah will automatically create imported inflation. This imported inflation will induce the raising of production cost and increase the price of the output; hence, the depreciation of Rupiah will not automatically increase export.

While industries which produce material, component, and capital goods are built in Indonesia hence the existence industries have function not only as assembling industries for foreign goods but also have function as a partner for other domestic industries. The combination between abundant natural resources and the industries will create forward linkage and backward linkages between primary sector and many domestic industries. This condition will create independency of the nation

and can absorb a lot of labors and finally will reduce unemployment, the poverty will be eliminated. The next, there will be a question, “Who should build the industries?”

The industries must not directly built by the government. The government must provide only physical infrastructure such as living needs like irrigation, electrical power, water piping; transportation infrastructure such as bridges, roads, and harbors; nonphysical infrastructure such as law and rules that can make easier for investor to invest their fund.

For an example, the government can offer tax holiday to income of investors who builds the manufacture in Indonesia in 10 years, in the next five year discount in amount 50 percent, and 25 percent in the next five years. Analogically, we must not cut fat chicken to obtain the meat but let it grow and then we can get the eggs.

Besides building the industries, Indonesia can also fulfill the emptiness in industries whose medium level technology. Industries that exist in Indonesia are industries that contain low and high level technology such as electronic industries. High level technology industries considered not fitted to human resources hence it is not compatible to be applied in Indonesia.

PT. Dirgantara Indonesia (PT DI) is industry has high level technology; it is probably feasible in technological aspect but not feasible in economic aspect. In Suharto era, PT DI was considered as prestigious and strategic project that can not be audited by anyone, but entering reformation and crisis era, it happen firing the employer in a lot. This matter indicates that industries that will be built should be compatible to Indonesia condition; it must fit to natural resources and the quality of human resources.

### **D.3. the Improving in Administration Services and Law Enforcement**

Recently, the government should change to the new paradigm as administrator to be public service provider and also as a good manager for the firm in form of Negara Kesatuan Republik Indonesia (NKRI). Supremacy of the law is also an important thing that must be enforced seriously. It is needed for conduciveness in order to attract investor to invest their capital.

In line with *Otonomi Daerah* (OTDA), an authority of the region has strengthened. This momentum is often abused by the government in the region (such as region legislative and executive) to maximize afford to increase *Pendapatan Asli daerah* (PAD) a lot. In the long run, this matter will suffer the region self. The meaning of OTDA is releasing the authority to the region to fully manage the expenditure not fully authority to manage the revenue side (Karseno, 2000). The expenditure is also able to be arranged by the region government in certain accounts that are allowed in line with *UU No. 33 2004* about Region Financial Balancing. During OTDA implemented, rules that are released by the region are often create high economic cost, this condition violates *UU No. 33 2004 pasal 7* it self.

The same condition also happens in the center government level, there are many complain sounded by the investor who want to invest. There are many problems in the matter such as uncertainty in length of the time and the cost of getting the permit in investing; there are also many illegal quotations for the official or the civilian (Kuncoro, 2005). As an illustration, Indonesia, as a target country of investment, has bad ranking in several aspects for investment. From the survey of 155 countries, Indonesia has ranking at 115<sup>th</sup> in facilitating the investment, 144<sup>th</sup> to in

starting the business, 107<sup>th</sup> in getting the permit, 120<sup>th</sup> in workers side, 107<sup>th</sup> in enrolling the property, and 63<sup>rd</sup> in credit accessing.

Not conducive condition in investment is also influenced by inexistency of the supremacy of law in Indonesia. The low enforcement in law by the official like attorney, police, and the judge in implementing the duty can cause many corruptions in many bureaucracy areas. Our bureaucrats have not function as public servant but as the exploiter. This matter also emerges an illegal quotation by several officials.

Whatever good the economic policy implemented will not has good impact while the law is played for personal interest. Lower tax rate, good condition of infrastructure, and lower rate of the workers will not attract the investor while there are many illegal quotations and uncertainty in business. In other words, the economy will not develop well when certainty in the law as the first condition is not fulfilled. Politic bargaining also often plays the role to violate the law.

### **E. Conclusion and Suggestion**

Poverty is inherent in life in any state. This matter is one of the main problems in developing process in developing country, beside that, poverty is also as a variable that can influence political stability when the matter is not handled well. While the matter happened, it can automatically induce the developing process.

From all of parts of the paper described, there are several points that can be underlined:

1. In general, the poverty can be classified to two types; those are absolute and relative poverty.

2. Poverty can emerge because of cultural problem from the society, but the poverty is also caused by the improper policy in policy making or the implementing the policy. This is mentioned as structural poverty.
3. The phenomenon is presented by Harvey Leiberstein, it is called vicious circle of poverty, that often happens in developing country gets its relevancy in Indonesia.
4. There are two conventional ways to cut the circle. The first one is improving real income of the poor by giving direct subsidize in form of cash subsidize such BLT in Indonesia (the same way is also carried on in Mexico) or in form of voucher or coupon to the target like in Australia and US. The second one is improving the quality oh human capital by providing better education and health facility. The both ways do not stand independently but they must be held simultaneously and complemented each other.
5. The writer has opinion that there is other aspect that can be reformed to be used as complementary way that also be implemented simultaneously with the ways before. The third one is a way that is focused to production and economic productivity in Indonesia.
6. Policy that can be implemented and focused to the aspect are providing the better infrastructure, rearranging industrial composition that is fitted with the human resources in Indonesia, and improving administration service and the law enforcement to reduce high cost economic and make conducive condition in investment.

7. In macro level, availability and feasibility of infrastructure can reduce cost of production that imply reducing output price hence the macroeconomic output will increase. In other side, easier business process and lower cost of production will stimulate businessman to plan more investment in any level of interest rate. Finally, investment level in equilibrium condition will increase.
8. In creating more employment in Indonesia, it is important to build industries that produce materials, components, and capital goods. This matter can reduce employment and also develop nation independency in economic and strengthen the domestic industries to face exchange rate (Rupiah) instability.
9. Both central and regional development should change the paradigm as governor to be public servant and totally has function as good manager to create good public administrative for providing conducive condition in investment.
10. Whatever good policy implemented will not have meaning when there are many personal interests in enforcing the law. All of the economic policy in investment will role well when there is certain implementation and supremacy of the law and order.

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