

HUMAN DEVELOPMENT QUALITY AND ITS PROBLEMS IN INDONESIA

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Abstract: Human development has been the main theme of the world along with the publication of the Human Development Report first time by the United Nations in 1990. Development orientation shifted from economic development which only focuses on simply revenue growth to be human-oriented development. One of the indicators used to measure the success rate of development of a society is the Human Development Index (HDI). HDI value created by the United Nations for Development Programme in 2010, ranked Indonesia at 108 of 169 countries with a HDI score of 0.600. This score is better than the score in 2009 of 0.593, with a rank at 111.

This study examines the effect of economic growth, income distribution, income per capita, population growth rate, unemployment rate, the number of poor, local government budget allocations for education, local government budget allocations for health, local government budget allocations for the environment, local government budget allocations for housing and public facilities, the implementation of regional autonomy, the implementation of the Law no. 20 of 2003 on National Education System toward human development quality in Indonesia? This study uses panel regression methods and the data cross of 26 (twenty six) provinces in Indonesia as well as the data series from 1993-2009.

The results showed there were six variables that affect significantly i.e : economic growth, per capita income, population growth, growth in the unemployment, allocation of education fund and

dummy of regional autonomy toward human development quality. From the six variables, only per capita income, allocation of government funds spent on education and dummy of regional autonomy are positively related to human development quality, and in the meantime; economic growth, population growth, and growth in the unemployment is negatively related to human development quality.

Variables income distribution, the number of poor, local government allocation of funds expended for health sector, local government allocation of funds expended for environmental, local government allocation of funds expended for housing and public facilities, as well as dummy Act No.20 of 2003 about the national education system had no significant effect toward human development quality.

From these results, economic growth cannot always be used as an indicator of the implementation of economic development. Where economic development is also about human development. Although Indonesia's economy is currently quite high, but have not been able to provide a better welfare for its people. This condition is suspected due to the economic growth is not fully in favor of the people. Also found from the results; the high levels of income inequality among the provinces, the high rate of population growth and high unemployment are causing these variables have a negative impact on the quality of human development.

Allocation of funds used for education have significant effect in improving the quality of human

development and has appropriate with the theory. In this case the role of government is needed to give more attention to this education sector, because it has a direct impact on the improvement of quality of life. But the allocation of funds in the health sector has yet to have a significant effect and the resulting coefficients are also contrary to the theory. This can be caused by the health funds are delegated from central to local government has been only to the extent of infrastructure development and facilities improvement. So that the allocation of these funds cannot be directly enjoyed by most of the people, especially people with middle and lower classes. Allocation of funds for the environment and the allocation of funds for housing and public facilities have not significantly influence the quality of human development. This means that the allocation of funds to this sector need to be considered again by the Government; considering to the portion for environmental improvement, building cheap transportation and free road facilities (so that experts such as teachers and health workers able to reach concession areas), serving and maintain clean water and energy (hence rural communities can also enjoy the outcomes of development), is still very minimal. Though the environment and facilities is necessary to make healthy communities and quality of human development has also increased. Furthermore, dummy regional autonomy has positive and significant, have been shown to improve the human development quality due to the implementation of regional autonomy in Indonesia.

Keywords: economic growth, human development index, number of poor, population growth, panel regression methods.

INTRODUCTION

Human development has become the world's major theme as the first Human Development Report issued by the United Nations in 1990. Orientation of development shifted from a focus on economic development revenue growth simply be human-oriented development. Human or resident should enjoy the outcomes of development significantly. According to the United Nations Development Programme, human development is a process to increase the choice for the people, the freedom to live a healthier, more educated, and can enjoy a decent standard of living.

Development strategy that focused on growth without looking at the potential of population, natural resources and environmental conditions that exist in fact, would not take place continuously (sustained). According to Emil Salim (see Aziz, et al, 2010) "although conventional development has been successful in increasing economic growth, but it's failed in the social and environmental aspects. It

caused that conventional development lay at the center of economic growth and put the issue of social and environmental factors are less important positions.

One of the indicators used to measure the success rate of development of a society is the Human Development Index (HDI) which developed by the Mahbub ul Haq in 1990. According to UNDP (HDI Report 2008-2009), the HDI measures the performance of human development based on a number of basic components of quality of life, namely: (i). Healthy life and longevity are measured using life expectancy, (ii). Knowledge as measured by the level of adult literacy (two-thirds weight) and an average length of the school (one-third weight), and (iii). Standard of living is measured by indicators of purchasing power parity in U.S. dollars and adjusted to Indonesian Rupiahs.

Based on HDI value that created by the United Nations for Development Programme in 2010, ranked Indonesia at 108 of 169 countries with a HDI score of 0.600. This score is better than the score in 2009 of 0.593, with a rank at 111. Despite the rise of three ranks, the position of Indonesia is far behind from the position of some neighboring countries such as Singapore (27) and Brunei Darussalam (37), which are at very high category. And when compared with the ten ASEAN countries, Indonesia is in the 6th position. Government of Indonesia has been trying to improve the welfare of the people, one of which is to issue a national policy of regional autonomy that has been poured in the form of Law 22/1999 on Local Government which is equipped by the Law No.25/1999 on Financial Balance between Central and Local Government. Furthermore, in education area, the government passed Law no. 20 of 2003 which aims to improve the quality of human life.

Based on the above background this study attempts to assess the effect of economic growth, income distribution (the gini coefficient), per capita income, population growth rate, unemployment rate, the number of poor, local government budget allocations for education, local government budget allocations for health, allocation local government for the environment, local government budget allocations for housing and public facilities, the implementation of regional autonomy, and the implementation of the Law no 20/2003 on National Education System toward the Quality of Human Development (HDI) in Indonesia.

THEORETICAL BACKGROUND AND METHODS

Theoretical Background

During recent years, sustainable development has represented one of the most important policy objectives at the global level. In consideration of the

social dimension of sustainable development, including health, education and employment, the HDI of the UN Development Program is a widely accepted methodology that can be used as a starting point for building a more sustainable development (Costantini and Monni, 2007). This opinion is also supported by Xiaoyan and Liming (2008) which states that the HDI is an effective tool for evaluating sustainable development in a regional area.

Meanwhile, according to UNDP (1990), the definition of human development is a development paradigm that is more extensive than simply increasing or decreasing the national income. Human development is an effort to create an environment where people can develop around the ability or potential and lead to a productive effort, and creative lives in accordance with the needs and wants. Society is the true wealth of a country. Development with regard to expanding the options for people to go to a more rewarding life (see <http://hdr.undp.org/en/humandev/2011>). From this definition it can be concluded that the focus of a country's development is a human as a valuable state asset. Definition of human development is essentially includes the dimensions of the broader development of the definition of development which emphasizes only on economic growth. The main objective of development is to create an environment that allows people to enjoy long life, healthy, and running a productive life (HDI report 2008-2009). The Approach to human development is closely related to the idea of human capabilities proposed by Sen (1999) and further developed by, among others, Nussbaum (2006) and Ranis, et.al (2006).

Some previous researchers have discussed the variables that affect the HDI, such as Ramirez, et.al (1998); Costantini and Martini, (2006); Costantini and Monni, (2007); Muhammad, (2010), Yasmien, et al, (2011) which discusses the link between economic growth with human development. Other studies have also linked the macro-economic variables such as income per capita, income distribution (among others: Anand and Martin, 1993 and Alvan, 2010), poverty, unemployment on human development index (Sasana, 2009). In addition to the above variables on the allocation of research expenditure by function related to the HDI has also been carried out by Dasgupta (2007) and Damayanti (2007).

Of the few studies above, this study combines several such studies to include an important variable in the course of the progress of life in Indonesia, namely the decentralization policy and education of laws are more pro-to the people.

Methods

This study uses quantitative methods to analyze the influence of variables related to the HDI in Indonesia. The data used are secondary data, drawn from relevant sources, in which the research variables used can be measured with numbers corresponding to the unit established in the State. Unit analysis of this study was 26 (twenty six) provinces in Indonesia. Data taken from the years 1993-2009 collected from the BPS, the Ministry of Finance and other literatures.

The research model can be written as follows:

$$\text{HDI}_{it} = \alpha_0 + \beta_1 \text{PE}_{it} + \beta_2 \text{GR}_{it} + \beta_3 \text{I/Cap}_{it} + \beta_4 \text{Pop}_{it} + \beta_5 \text{Unemploy}_{it} + \beta_6 \text{Poor}_{it} + \beta_7 \text{BPUP}_{it} + \beta_8 \text{BPUK}_{it} + \beta_9 \text{BPUFU}_{it} + \beta_{10} \text{BPULK}_{it} + \beta_{11} \text{Dummy 1}_{it} + \beta_{12} \text{Dummy 2}_{it} + e$$

Where as :

HDI	=	Human Development Quality (Human Development Index)
PE	=	Economic Growth
GR	=	Income Distribution (Gini Ratio)
I/Cap	=	Per capita Income (IDR)
POP	=	Population Growth
Unemploy	=	Unemployment rate
Poor	=	Number of Poor
BPUP	=	Local government expenditure for education
BPUK	=	Local government expenditure for health
BPULK	=	Local government expenditure for life environmental
BPUFU	=	Local government expenditure for Housing and Public Facilities
Dummy 1	=	Local Autonomy Policy/law No.22/1999
Dummy 2	=	Law No.20/2003 about the national education system
α_0	=	Constants
$\beta_1, \beta_2, \beta_3, \dots, \beta_{12}$	=	Parameter
I	=	1, 2, 3,, N (amount of 26 provinces)
T	=	1, 2, 3,, T (amount year observation)

RESULTS AND DISCUSSION

Testing data in this study uses panel data and processed with the software E-views 7. Panel data is a data that is used to see the general behavior of a variable from a variety of units (individuals) and across time (across individuals) (Gujarati, 2004).

Table 1: Estimation Result with Random Effect Method

Dependent Variables: Human Development Quality (HDI)				
Independent Variables	Theory	Coefficient	Prob	Std. Error
Constants	+	61.98255	0.0000	3,316371
Economic Growth	+	-0.153720	0.0000***	0,022462
Income Distribution	-	-6.270155	0.5706	11,04536
Per capita Income	+	1.23E-06	0.0000***	2,63E-07
Population Growth	-	-0.190563	0.0547*	0,098906
Unemployment rate	-	-0.076505	0.0000***	0,007990
Number of Poor	-	-0.049525	0.3412	0,051981
Local Gov. Exp. Education	+	18.62751	0.0008***	5,537082
Local Gov. Exp. Health	+	6.405984	0.3052	6,240016
Local Gov. Exp. Environment	+	41.65010	0.3097	40,95286
Local Gov. Exp. Housing and Public Facilities	+	-3.931557	0.7360	11,65210
Dummy Local Autonomy Policy	+	4.785291	0.0000***	1,136236
Dummy Law No.20/2003	+	-1.450219	0.3459	1,536875
R-squared			0,459840	
Adjusted R-squared			0,444731	
F-stat			30,43414	
Prob F-stat			0,000000	

Sources : BPS processed by Eviews 7.0

Notes: * Significant at 10%

** Significant at 5%

*** Significant at 1%

Results

From the twelve independent variables studied, showed that the study of the theory presented by several experts in the field of empirical studies generally did not follow the hypothesis. Based on the results of data processing by using panel data with random effects models obtained the following results:

Discussion and Analysis

From the table, there are six variables of twelve independent variables tested that have a significant effect on HDI in 26 provinces in Indonesia over the period 1993 to 2009, i.e. economic growth, income per capita, population growth, growing unemployment, the allocation of funds on education and dummy of regional autonomy. Theoretically, economic growth will lead to an increase in the value of HDI. However, the results showed the negative and significant effect on HDI. This means that although economic growth increased but did not make the HDI to be increased as well. Economic growth is not of sufficient quality to improve the quality of life, has not been felt by the majority of the people and only enjoyed by a group of people in certain sectors and regions.

Income per capita has a positive and significant impact on HDI. This means that rising income per capita impact on improving the quality of human life. While population growth has a significant and negative effect on HDI. This means that the higher the rate of population growth by province decrease the quality of human life. The magnitude of the population and the uneven distribution of the population became one of Indonesia's population problems. Large population with low quality, make the population as a burden for the development and will reduce the HDI. It required the efforts and concrete measures to reduce the rate of population growth and improve the quality of the population through various programs, both in terms of quality and quantity.

The growth of the unemployment rate is negatively affect the HDI. This means that large numbers of people who are unemployed will result in decreased quality of human development. This is presumably due to lack of employment in sectors that provide high income as the industrial sector, while the absorption is higher in the agricultural sector is only able to provide low-income community. For that the government needs to revitalize agriculture from

upstream to downstream to help the district based on primary sector (agriculture). If this program can be effectively run, may indirectly foster rural economy and reduce economic disparities. Meanwhile, based on these results, the allocation of government funds spent on education has positive and significant in improving the HDI. This means that an increase in education funding allocations issued by the government to increase HDI. This suggests that the allocation of government funding for education goes well. Theoretical and statistical calculation is in accordance with the hypothesis.

Other variables that influence HDI positive and significant is dummy of regional autonomy. This means that there are significant differences in effect or condition prior to the enactment of regional autonomy law (data of 1993-2000) with the following regional autonomy law enacted (data of 2001-2009). Variables that do not significantly influence the HDI is income inequality, poverty, government allocation of funds for the health sector, housing and public facilities, environmental as well as dummy Act of 20/2003 on the national education system. It should be noted as: low income inequality, poverty levels continue to decline and good infrastructure will improve the quality of human life or HDI.

CONCLUSION AND SUGGESTION

Conclusion

From the above findings it can be concluded that economic growth cannot always be used as an indicator of economic development. Due to the economic development is also about human development. Indonesia's economic growth is relatively high but has not been able to provide higher welfare for the community. This condition is suspected due to the economic growth is not fully in favor of the people. Which seem the levels of income inequality still high among the provinces, rates of population growth and the unemployment rate are also still high which causes these variables have a negative impact on HDI. To promote economic growth and improving people's welfare, the Government should try to improve the ability of local governments in fiscal capacity through the development of economic activity with region commodity-based. Meanwhile, because of population growth rate is high, the government should make the efforts of revitalization of family planning program. Government also needs to revitalize agriculture from upstream to downstream, to reduce unemployment. The Government is expected to continue keeping the allocation of government funds on education as a positive and significant effect in improving HDI and increase oversight of the allocation of funds for infrastructure development, which has not been going well. Government and society must make in order to

gain easily access on education and healthcare, improve the environment, housing and public facilities.

Suggestion

From these results, the next researchers need to include additional variables such as investment and inflation. Where through the investment data can be viewed the employment opportunities in suppressing levels of unemployment. Similarly, through the inflation data, which will be seen the development of purchasing power. Even so the addition of these two variables should be able to see the development of HDI in line with increased in economic development and sustainable in all fields.

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