THE ANALYSIS OF FISCAL ADJUSTMENT IMPACT ON INCOME DISTRIBUTION AND POVERTY IN INDONESIA: COMPUTABLE GENERAL EQUILIBRIUM APPROACH

INDRA MAIPITA

DOCTOR OF PHILOSOPHY
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THE ANALYSIS OF FISCAL ADJUSTMENT IMPACT ON INCOME DISTRIBUTION AND POVERTY IN INDONESIA: COMPUTABLE GENERAL EQUILIBRIUM APPROACH

A thesis submitted to the College of Arts and Sciences in full fulfillment of the Requirements for the Degree of Doctor of Philosophy (Economics) Universiti Utara Malaysia

By

INDRA MAIPITA
91036

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COLLEGE OF ARTS AND SCIENCES
UNIVERSITI UTARA MALAYSIA

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ABSTRACT

The general objective of this study is to analyze the fiscal policy of government expenditure on the Indonesian economic performance. Specifically, this study attempts to analyze the effects of (1) the contraction and expansion of the fiscal policy on the change in economic indicators, (2) the policy to reduce subsidy on fuel accompanied by giving compensation to poor household in the form of direct cash aid, (3) the policy of diverting fuel subsidy to food crops in agricultural sector on poverty level and income distribution, and (4) the policy of diverting fuel subsidy to other crops in an agricultural sector on poverty level and income distribution. The Indonesian government has implemented various policies to promote growth and at the same time to reduce the poverty level. However, there is a problem of budget deficit as a result of a big expenditure on subsidy. Thus, the government has tried to reduce fuel subsidy as it is a well known fact that fuel subsidy is less effective to alleviate poverty because the non-poor group receives more benefits of the subsidy compared to those of the poor. However, a fuel subsidy reduction has a negative effect on the poor. Therefore, the government implemented a compensation plan in the form of direct cash aid to the poor. Thus, this study attempts to analyze the advantages and disadvantages of this policy. This study also to analyze the alternative policies of the direct cash aid such as diverting fuel subsidy to the food crops and other crops in the agricultural sector. To achieve the above mentioned objectives, this study employed the Computable General Equilibrium (CGE) model, Foster-Greer-Thorbecke (FGT) Index, and beta density distribution function. It was found that the policy of giving direct cash aid to the poor as a result of a reduction in fuel subsidy has a negative impact on macro economics performance and an increase in poverty level, income disparity, and depth of poverty. Thus, the policy of diverting fuel subsidy to the food crops and other crops in the agricultural sector is an alternative policy to reduce the level of poverty and the disparity in income.
DEDICATION

To

My late mother, Umak Rohma

My wife Fitrabaty, and my children Ghaisa & Danish
Challenged by exhausting obstacles, eventually I managed to complete this study at the Universiti Utara Malaysia (UUM). Because of this achievement, I would like to say Alhamdullillah, the highest gratitude to Allah SWT for His continuous blessing and guidance until this thesis is materialized.

During the writing of this thesis, the author continuously had intervened by the riddle and constraints, but God’s hand and other fellow’s assistance were the truly grant in completing this thesis. For that, the author humbly thanks a sincere gratitude to:

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I sincerely hope that Allah SWT bless you all. Amen.

Grateful,

Indra Maipita (91036)

Sintok, Kedah, Malaysia
April, 2011
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1.1 Background of the Study

The disparity in income distribution, welfare of the public, and poverty have been attracting the interest of the various groups of people such as policy makers, social scientists, politicians, and the society at large. Income distribution, welfare, and poverty are major problems in many developing countries, including Indonesia. These problems might become so severe and if there is no action is taken, most likely there will be followed by social unrest and political instability. Poverty and disparity in income contribute to lagging in development and chaos. The tragedies of Malari in 1975 and May 1998 were two examples of social unrest during Suharto era. Until now, the people of Indonesia still looking for the answer of “if the socio-economic situation in Indonesia was comparable to those of Swiss, did the students’ movement and demonstration take place until the Suharto’s administration collapsed?” (Tambunan, 2006).

Realizing that there were problems of poverty and income distribution, the government has been implementing poverty alleviation programs, such as to fulfill the basic needs of the people, since 1960s as stipulated in the Eight-Year National Development Plan (Pembangunan Nasional Berencana Delapan Tahun, Penasbede). However, this program was aborted as a result of the political crisis
The contents of the thesis is for internal user only
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