ANALYSIS OF THE EFFECT OF OPEN UNEMPLOYMENT RATE, POVERTY, AVERAGE YEARS OF SCHOOLING, AND PER CAPITA GROSS DOMESTIC PRODUCT ON INDONESIA'S INCLUSIVE ECONOMIC DEVELOPMENT IN 2016-2021

Aza Amalia\textsuperscript{1}, Lorentino Togar Laut\textsuperscript{2}, Emma Dwi Ratnasari\textsuperscript{3}

\textsuperscript{1,3}Faculty of Economics, Universitas Tidar, Magelang, Indonesia
E-mail: \textsuperscript{1)} amaliaaza13@gmail.com

Abstract

Good economic development is not only measured by the growth rate but also considers various factors related to community welfare. In Indonesia, the current economic growth is insufficient to address social issues such as inequality, poverty, and limited access to employment opportunities for the population. This study aims to examine the impact of the Open Unemployment Rate, Poverty, Average Years of Schooling, and GRDP Per Capita on Indonesia's inclusive economic development between 2016 and 2021. The study utilizes secondary data from the Central Statistics Agency (BPS) and the National Development Planning Agency (Bappenas). Panel data regression analysis techniques, employing the Partial Adjustment Model (PAM) approach through the E-views 10 program, are applied to analyze the data. The findings reveal that the Open Unemployment Rate and poverty variables have a significant negative impact on Indonesia's inclusive economic development. Conversely, Average Years of Schooling and GRDP Per Capita have a positive and significant effect on Indonesia's inclusive economic development from 2016 to 2021.

Keywords: Average Years of Schooling, GRDP Per Capita, Inclusive Economic Development, Open Unemployment Rate, Poverty

1. INTRODUCTION

Sustainable development is a crucial benchmark for assessing a country's level of success. It ensures the preservation of human life quality in a sustainable manner, both in the present and the future (Sutrisno, 2021). However, sustainable development alone cannot fully describe the success of a country's progress without the integration of inclusive development. Inclusive economic development, as defined by Bappenas (2018), refers to responsible economic growth that provides equal access and opportunities for all individuals, reduces inequality, and enhances welfare across various groups and regions. Similarly, the World Bank (2018) defines inclusive economic growth as a form of growth that reduces poverty and guarantees economic security for all segments of society. In essence, as a country's economy expands, it should concurrently reduce poverty, inequality, and unemployment. Inclusive economic development is an integral part of sustainable economic development, as outlined in the global consensus on the Sustainable Development Goals (SDGs). It entails economic growth that fosters equity, diminishes poverty and unemployment, and accelerates overall economic progress (Hendra Andy Mulia Panjaitan et al., 2020).

The first pillar, economic growth and development, is measured through the economic growth index, specifically the real GRDP growth per capita indicator.
Meanwhile, the second pillar, income equality and poverty reduction, employs the inequality index, calculated through indicators such as the Gini income ratio and the poverty index. The poverty index consists of two indicators: the percentage of people living in poverty and the average daily per capita protein consumption. The third pillar, expansion of access and opportunities, utilizes the human capability index, measured by the expected years of schooling indicator.

Many developing countries, including Indonesia, often find themselves trapped in exclusive economic development paradigms (Stievany & Jalunggono, 2022). They prioritize increasing economic growth but overlook the accompanying consequences, such as inequality and unemployment. For instance, the manufacturing and service industries experience significant growth due to their substantial contribution to the Indonesian economy. However, these sectors only provide limited employment opportunities. On the other hand, the agricultural sector, which absorbs a large portion of the labor force, faces challenges in accessing necessary facilities and infrastructure, hindering its optimal growth. The emphasis on economic growth without considering its social aspects leads to issues of unemployment and income inequality among individuals working in different sectors.

Source: Central Statistics Agency (BPS), 2021

Figure 1. Indonesia’s Economic Growth, Poverty Rate, Inequality, and Unemployment Rate 2012-2021

There are several indicators used to measure inclusive economic development, including high economic growth, reduced poverty, inequality, and unemployment. The graph provided above illustrates Indonesia's economic growth rate, poverty rate, inequality (measured by the Gini ratio), and unemployment rate from 2012 to 2021. Throughout this period, Indonesia's economic growth rate showed a downward trend, with an average annual growth of 5.2 percent. Furthermore, between 2012 and 2021, the country's economic growth appeared to plateau at around 5.0 percent. This suggests that
achieving a high-income status becomes challenging for Indonesia if its economic growth rate remains within this range.

In relation to inclusive development, Sholihah (2014) highlights that Indonesia's current economic growth is insufficient to address prevalent social issues, such as inequality, poverty, and limited access to employment opportunities for the community. It is essential to recognize that good economic development should not solely be measured by the economic growth rate but should also consider the welfare of the community from a broader perspective.

In the second indicator, the number of people living in poverty shows a downward trend, although there was a slight increase in 2020 to 10.19 thousand people. However, despite the overall decreasing trend, this decline is not accompanied by a reduction in the poverty gap each year. In 2017, the number of poor people in Indonesia decreased compared to the previous year, but the decline was less significant than the previous year. Similarly, in 2018 and 2019, the declines were also less substantial compared to the preceding years. This indicates that Indonesia's economic growth has not consistently and significantly reduced the poverty rate.

Moreover, the decline in the poverty rate falls short of the target set by the government in the National Medium-Term Development Plan (RPJMN), which aimed to reduce poverty by 15.20 thousand people. This goal remains distant and challenging to achieve without significant improvements in poverty reduction measures in Indonesia. Furthermore, the Gini ratio, the third indicator during the 2012-2021 period, remained stagnant at around 0.4 percent. This implies that the distribution of wealth is not optimal and primarily favors the affluent population, while marginalized groups do not benefit adequately. Consequently, the wealth gap between these groups continues to widen. Additionally, individuals in poverty who lack access to capital and technology fall further behind. As a result, the equitable distribution of welfare across different societal groups remains elusive, despite the overall positive macroeconomic performance in Indonesia.

The growing income inequality highlights that economic growth, despite its continuous increase, does not guarantee equal benefits for all individuals. Uncontrolled income inequality has severe negative consequences, such as poverty and even the potential to hinder economic growth. According to the Kuznets Hypothesis, an increase in per capita income can reduce existing income inequality, provided there is a shift from a traditional to a modern economy. This is because income inequality adversely affects both political stability and social cohesion, which are crucial for ensuring sustainable development. Hence, reducing inequality plays a vital role in formulating inclusive economic development policies (Sholihah, 2014).

The final indicator, the open unemployment rate, serves as a social indicator that reflects a region's employment achievements. A lower open unemployment rate signifies success in development, particularly within the labor sector. However, despite efforts to expand access and opportunities, Indonesia's open unemployment rate during the 2012-2021 period has not decreased. Figure 1.1 illustrates that the rate has remained stagnant, with a notable increase in 2020 due to the Covid-19 pandemic. Nevertheless, prior to 2021, the open unemployment rate had not been effectively reduced through existing access and employment opportunities. In contrast, the National Medium-Term Development Plan (RPJMN) targets an open unemployment rate of 3.6-4.3 percent,
which remains significantly lower than Indonesia’s actual rate of 5.0-7.0 percent during the 2012-2021 period. Furthermore, based on data from the Central Statistics Agency (BPS) between 2012 and 2021, the decline in open unemployment in Indonesia has been slower than the growth rate of the labor force population. This finding aligns with the research conducted by Ibnu Hidayat, Sri Mulatsih, and Wiwiek Rindayati (2020) titled “The Determinants of Inclusive Economic Growth in Yogyakarta,” which indicates a negative impact of open unemployment on inclusive economic growth. The aim of this research is to examine the factors that impact inclusive economic growth. Specifically, the study highlights the negative influence of the open unemployment rate on inclusive economic growth. These findings suggest that the labor absorption and increased access to opportunities that have taken place in Indonesia thus far have not reached their optimal potential. Therefore, it is crucial to implement more suitable policy reforms to address this issue effectively. By doing so, Indonesia can enhance its inclusive economic growth and ensure that its labor market and opportunities are optimized for the benefit of all individuals.

2. RESEARCH METHODS
2.1. Research design
The research methodology employed in this study is a descriptive approach with a quantitative method. As mentioned by Ahyar (2020), the preordained design is suitable for quantitative research, wherein the design is predetermined and remains fixed during the field research. The purpose of this quantitative descriptive method is to provide a precise and systematic description of the characteristics of the subjects and objects under investigation.

The study utilizes quantitative data on inclusive economic development, open unemployment rate, poverty level, average years of schooling, and GRDP per capita in Indonesia for the period 2016-2021. The data utilized in this research is obtained from reliable sources such as the Central Statistics Agency and the National Development Planning Agency (Bappenas).

The objective of this study is to elucidate the impact of the open unemployment rate, poverty level, average years of schooling, and GRDP per capita on inclusive economic development in Indonesia from 2016 to 2021. The collected data is managed and analyzed using statistical methods, employing the Eviews computer program.

2.2. Data Collection Technique
The data for this study were obtained from secondary sources, specifically the Central Statistics Agency (BPS) and the National Development Planning Agency (Bappenas). Secondary data refers to information collected from existing publications or records rather than directly by the researchers themselves. In this study, the data collection technique employed was documentation, involving the collection and analysis of data from various sources such as journals, books, websites, and other credible references.

The data used in this study were sourced from the Central Statistics Agency (BPS) and the National Development Planning Agency (Bappenas), as well as relevant literature, websites, and journals used as study materials.
2.3. Data Analysis Technique

The data analysis technique used in this study is panel data regression analysis. The model aims to identify and analyze the factors influencing Inclusive Economic Development in Indonesia from 2016 to 2021. The dependent variable is Inclusive Economic Development, while the independent variables are Open Unemployment Rate, Poverty, Average Length of Schooling, and Per Capita GDP. The regression equation is as follows:

\[ y_{it} = \beta_0 + \beta_1 OUR_{it} + \beta_2 P_{it} + \beta_3 AYS_{it} + \beta_4 GPD_{it} + \epsilon_{it} \]

Panel data regression combines time series and cross-sectional data, measuring the same unit across different time periods. Three types of panel data regression models are considered: Pooled Least Square (PLS)/Common Effect Model, Fixed Effect Model (FEM), and Random Effect Model (REM). Chow and Hausman tests are conducted to determine the best model, and Lagrange Multiplier test is used to compare CEM and REM. Classic assumption tests, including normality, multicollinearity, heteroscedasticity, and autocorrelation, are also performed.

The study evaluates the normality of residuals, checks for multicollinearity using correlation matrices, tests for heteroscedasticity using various statistical tests (e.g., Park, Glejser, White), and examines autocorrelation to assess the quality of the regression model. Additionally, significance tests such as F-test, determination coefficient \( R^2 \), and simultaneous significance test \( F \)-simultaneous are conducted.

These analyses aim to determine the best model, understand the relationship between independent and dependent variables, and assess the overall performance and significance of the regression model.

3. RESULTS AND DISCUSSION

3.1. Research Results

3.1.1. Chow And Hausman Test

<table>
<thead>
<tr>
<th>Table 1. Chow Test and Hausman Test Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Probability</td>
</tr>
<tr>
<td>--------------------------------------------</td>
</tr>
<tr>
<td>Chow test</td>
</tr>
<tr>
<td>Hausman test</td>
</tr>
</tbody>
</table>

Source: Eviews, 2022 data processed

As shown in Table 1, the results of the Chow test indicate a probability of 0.0000, which is lower than the significance level \( \alpha = 0.05 \). This implies that \( H_0 \) is rejected and \( H_a \) is accepted, thus indicating that the Fixed Effect Model (FEM) is the chosen model. Once the FEM is selected, additional tests are conducted to determine the preferable model between the Random Effect Model (REM) and the Fixed Effect Model (FEM) using the Hausman test. In the table, the Hausman test results demonstrate a probability of 0.0000, which is less than \( \alpha = 0.05 \). This leads to the rejection of \( H_0 \) and acceptance of
Ha. Based on these two tests, it can be concluded that the Fixed Effect Model (FEM) is the most suitable model for this study. The panel data regression yields the following equation:

\[
Y_{it} = 2.1248802 - 0.136564OUR_{it} - 0.0000681P_{it} + 0.317337AYS_{it} + 0.000039GP_{it}
\]

The coefficients in the above equation can be interpreted as follows:

a. The constant value (\( \beta_0 \)) of the equation is 2.1248802. This indicates that when the coefficients of the open unemployment rate, poverty, average years of schooling, and GRDP per capita are all equal to zero, the inclusive economic development index in Indonesia is 2.12%.

b. The constant value (\( \beta_1 \)) of the open unemployment rate is 0.136564. This means that a 1% increase in the open unemployment rate will lead to a decrease in Indonesia's inclusive economic development index by 0.136%.

c. The constant value (\( \beta_2 \)) of poverty is -0.0000681. This implies that a 1% increase in poverty will result in a reduction of Indonesia's inclusive economic development index by 0.0000681%.

d. The constant value (\( \beta_4 \)) of the average length of schooling is 0.317337. This indicates that a 1% increase in the average length of schooling will lead to an increase in Indonesia's inclusive economic development index by 0.317%.

e. The constant value (\( \beta_5 \)) of GRDP per capita is 0.000039. This means that a 1% increase in GRDP per capita will lead to an increase in Indonesia's inclusive economic development index by 0.000039%.

3.1.2. Classic Assumption Test

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistics</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>2.124802</td>
<td>0.411072</td>
<td>5.168929</td>
<td>0.0000</td>
</tr>
<tr>
<td>OUR</td>
<td>-0.136564</td>
<td>0.016919</td>
<td>-8.071574</td>
<td>0.0000</td>
</tr>
<tr>
<td>P</td>
<td>-6.81E-05</td>
<td>0.000152</td>
<td>-2.449488</td>
<td>0.0453</td>
</tr>
<tr>
<td>AYS</td>
<td>0.317337</td>
<td>0.050959</td>
<td>6.272116</td>
<td>0.0000</td>
</tr>
<tr>
<td>GP</td>
<td>3.90E-05</td>
<td>5.16E-06</td>
<td>7.570336</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Source: Eviews, 2022 data processed
Based on the multicollinearity test conducted above, the correlation matrix value is less than 0.85, indicating the absence of multicollinearity issues.

The final classic assumption test is the heteroscedasticity test. The results of the heteroscedasticity test for panel data regression are presented in the table below:

**Table 4. Heteroscedasticity Test Results**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistics</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.143038</td>
<td>0.060549</td>
<td>2.362334</td>
<td>0.0629</td>
</tr>
<tr>
<td>OUR</td>
<td>0.002828</td>
<td>0.004648</td>
<td>0.608465</td>
<td>0.5436</td>
</tr>
<tr>
<td>P</td>
<td>-9.43E-05</td>
<td>6.93E-06</td>
<td>-2.068685</td>
<td>0.0699</td>
</tr>
<tr>
<td>AYS</td>
<td>-0.001594</td>
<td>0.008167</td>
<td>-0.195228</td>
<td>0.8454</td>
</tr>
<tr>
<td>GP</td>
<td>-3.38E-07</td>
<td>2.69E-07</td>
<td>-1.257242</td>
<td>0.2101</td>
</tr>
</tbody>
</table>

According to Table 4 above, it is evident that the probability value for each variable is greater than the significance level (α = 0.05). Therefore, it can be concluded that there is no heteroscedasticity issue in this model.

3.1.3. The coefficient of determination Test ($R^2$)

**Table 5. Result Coefficient of Determination ($R^2$)**

<table>
<thead>
<tr>
<th>R-squared</th>
<th>0.942725</th>
<th>Mean dependent var</th>
<th>5.752696</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted R-squared</td>
<td>0.929959</td>
<td>S.D. dependent var</td>
<td>0.653639</td>
</tr>
</tbody>
</table>

Based on the estimation results, it is found that the Adjusted R-squared value is 0.929959. This indicates that the independent variables, namely the Open Unemployment Rate, Poverty, Average Years of Schooling, and GRDP per capita, collectively explain 92 percent of the variation in the dependent variable, which is the inclusive economic development index. The remaining 8 percent is attributed to other variables not included in the model.

3.1.4. F test

**Table 6. F Test Results**

<table>
<thead>
<tr>
<th>F-statistics</th>
<th>73.84584</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prob(F-statistic)</td>
<td>0.000000</td>
</tr>
</tbody>
</table>

Based on the obtained estimation results, the F-value is 73.84584, which is greater than F-table of 2.42. This indicates statistical significance. Consequently, it can be concluded that the variables, namely Open Unemployment Rate, Poverty, Average Years of Schooling, and GRDP per capita, collectively have a significant impact on Indonesia's Inclusive Economic Development.
3.1.5. T test

Table 7. t Test Result

<table>
<thead>
<tr>
<th>Variables</th>
<th>t-Statistics</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>5.168929</td>
<td>0.0000</td>
</tr>
<tr>
<td>OUR</td>
<td>-8.071574</td>
<td>0.0000</td>
</tr>
<tr>
<td>P</td>
<td>-2.449488</td>
<td>0.0453</td>
</tr>
<tr>
<td>AYS</td>
<td>6.272116</td>
<td>0.0000</td>
</tr>
<tr>
<td>GP</td>
<td>7.570336</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Source: Eviews, 2022 data processed

Based on Table 7, it is observed that the t-value of the Open Unemployment Rate (OUR) variable is 8.071574, which exceeds the t-table of 1.97196. This indicates statistical significance, suggesting that the Open Unemployment Rate has a significant impact on Indonesia’s Inclusive Economic Development, as stated by the t-test results.

The Poverty variable has a t-value of 2.449488, which exceeds the t-table of 1.97196. This indicates statistical significance, suggesting that the Poverty variable has a significant impact on Indonesia’s Inclusive Economic Development, as indicated by the t-test results.

Furthermore, the Average Years of Schooling variable has a t-value of 6.272116, which exceeds the t-table value of 1.97196. This indicates statistical significance, implying that the Average Years of Schooling variable has a significant influence on Indonesia’s Inclusive Economic Development, as stated by the t-test results.

Meanwhile, the GRDP per capita variable also has a t-value that exceeds the t-table value of 7.570336. This indicates statistical significance, implying that the GRDP per capita variable has a significant influence on Indonesia’s Inclusive Economic Development, according to the test results.

3.2. Discussion

3.2.1. The Impact of Open Unemployment Rate on Inclusive Economic Development from 2016 to 2021

Based on the analysis conducted, it is evident that the Open Unemployment Rate variable during the period of 2016 to 2021 has a negative effect on the Inclusive Economic Development Index in Indonesia. The coefficient value of -0.136564 signifies that for every 1 percent increase in the Open Unemployment Rate, there is a corresponding decrease of 0.136564 percent in the Inclusive Economic Development Index.

Furthermore, the analysis reveals a probability value of 0.0000, which is lower than the significance level of $\alpha = 5\%$. This implies that the Open Unemployment Rate variable exhibits a negative and statistically significant impact on the Inclusive Economic Development Index in Indonesia throughout the 2016-2021 period. Consequently, it can be concluded that hypothesis 1 is supported.

Theoretically, this relationship can be explained through the poverty pathway. An increase in open unemployment leads to a rise in the poverty rate. This is primarily due to the large number of unemployed individuals, resulting in a decline in per capita income...
and ultimately leading to poverty. The escalation of poverty acts as an obstacle to inclusive development.

These findings align with previous research conducted by Hidayat et al. (2020) and Azwar & Saragih (2018), which also concluded that the open unemployment rate has a negative influence on inclusive economic growth.

3.2.2. The Impact of Poverty on Inclusive Economic Development in Indonesia from 2016 to 2021

The analysis conducted reveals that the Poverty variable during the period of 2016 to 2021 has a negative effect on the Inclusive Economic Development Index in Indonesia. The coefficient value of -0.0000681 indicates that for every increase of 1 thousand people in poverty, there is a corresponding decrease of -0.0000681 percent in the Inclusive Economic Development Index.

Furthermore, the analysis demonstrates a probability value of 0.0453, which is lower than the significance level \( \alpha = 5\% \). This suggests that the Poverty variable has a negative and statistically significant impact on the Inclusive Economic Development Index in Indonesia throughout the 2016-2021 period. Therefore, it can be concluded that hypothesis 2 is supported.

These findings align with previous research conducted by Fitrianasari (2021) and Hidayat et al. (2020), which also concluded that the Poverty variable has a negative and significant effect on Inclusive Economic Growth.

The Impact of Average Years of Schooling on Inclusive Economic Development in Indonesia from 2016 to 2021

The analysis conducted demonstrates that the Average Years of Schooling variable during the period of 2016 to 2021 has a positive impact on the Inclusive Economic Development Index in Indonesia. The coefficient value of 0.317337 indicates that for every increase of 1 year in average years of schooling, there is a corresponding increase of 0.317337 percent in the Inclusive Economic Development Index.

Furthermore, the analysis reveals a probability value of 0.0000, which is lower than the significance level \( \alpha = 5\% \). This suggests that the Average Years of Schooling variable has a positive and statistically significant effect on the Inclusive Economic Development Index in Indonesia throughout the 2016-2021 period. Therefore, it can be concluded that hypothesis 3 is supported.

These findings align with previous research conducted by Ramadhan & Setiadi (2019) and Hidayat et al. (2020), which also concluded that the variable of human resource development, specifically the average length of schooling, has a positive and significant effect on the inclusive index of economic growth in Indonesia. Higher average years of schooling contribute to more inclusive economic growth.

3.2.3. The Impact of GRDP Per Capita on Inclusive Economic Development in Indonesia from 2016 to 2021

The analysis conducted reveals that GRDP per capita during the period of 2016 to 2021 has a positive impact on the Inclusive Economic Development Index in Indonesia. The coefficient value of 0.000039 indicates that for every increase of 1 thousand rupiah
in GRDP per capita, there is a corresponding increase of 0.000039 percent in the Inclusive Economic Development Index.

Furthermore, the analysis demonstrates a probability value of 0.0000, which is lower than the significance level $\alpha = 5\%$. This suggests that the GRDP per capita variable has a positive and statistically significant effect on the Inclusive Economic Development Index in Indonesia throughout the 2016-2021 period. Therefore, it can be concluded that hypothesis 4 is supported.

These findings align with previous research conducted by Safitri (2021) and Hidayat et al. (2020), which also concluded that per capita gross domestic product has a positive and significant effect on inclusive economic growth in the long term.

4. CONCLUSION

The study aimed to investigate the impact of the Open Unemployment Rate, Poverty, Average Years of Schooling, and GRDP Per Capita on Inclusive Economic Development in Indonesia from 2016 to 2021. The analysis involved panel data regression, leading to the following conclusions:

Firstly, the Open Unemployment Rate exhibited a significant negative effect on Indonesian Inclusive Economic Development during the specified period. This finding emphasizes the urgent need to address the country's unemployment issue. To tackle this problem effectively, measures such as enhancing the quality of human resources and labor skills should be prioritized. Furthermore, promoting informal economic activities, including the development of home industries, can contribute to job creation and absorption of labor. Secondly, Poverty was found to have a significant negative impact on Indonesian Inclusive Economic Development from 2016 to 2021. To combat poverty, it is crucial to focus on developing potential sectors. Implementing long-term initiatives like the Family Hope Program (PKH) can break the cycle of poverty. Additionally, the Poor Student Assistance Program (BSM) plays a vital role in supporting underprivileged students, reducing school dropouts, and increasing access to higher education.

Thirdly, Average Years of Schooling showed a significant positive influence on Indonesian Inclusive Economic Development during the studied period. This highlights the importance of investing in education. Enhancing educational opportunities and ensuring access to quality education can contribute to inclusive economic growth and development. Lastly, GRDP Per Capita exhibited a significant positive effect on Indonesian Inclusive Economic Development from 2016 to 2021. This suggests that increasing the gross regional domestic product per capita can contribute to overall economic development in the country.

Based on these findings, several suggestions can be made. Firstly, urgent action should be taken to address unemployment through efforts to improve human resources and labor skills, as well as promoting informal economic activities. Secondly, combating poverty requires focusing on potential sectors and implementing long-term programs like PKH and BSM. Thirdly, an effective social safety net strategy, supported by improved basic public services, is essential to protect vulnerable labor groups. Finally, future research should consider additional variables that may influence inclusive economic development in Indonesia, enriching our understanding of the topic.
REFERENCES

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