



Analysis of the Effect of Poverty and Unemployment on Indonesian People's Welfare during the Covid-19 Pandemic for 2020-2021

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Abstract

Coronavirus disease 2019 or better known as COVID-19 was first detected in December 2019 in China, and the first case was detected outside China on January 13 in Thailand. Often seen from an economic perspective, poverty covers all aspects of social welfare in an area. Poor households often lack food security, and access to basic education, health care, clean water, and energy sources. A supply shock will lead to a demand shock. Calculations of only first-order supply shocks and subsequent demand have predicted a major economic slowdown. The global economic contraction that occurred due to COVID-19 could reach -3% or could be even worse than the 2008-2009 global financial crisis. An economic recession will push millions of people into poverty. A rapid simulation covering 138 developing countries and 26 high-income economic countries found that even in the mildest scenario, COVID-19 could cause an increase in the number of poor people by 85 million people. The research method in this study is a literature study. This literature study is research conducted by examining various literature studies needed in research. The results of this study are that the level of poverty and unemployment has a role in establishing the level of welfare of the Indonesian people during Covid-19 from 2010-2021.

Keywords: *Poverty; Unemployment; Welfare; COVID-19*

Introduction

Coronavirus disease 2019 or better known as COVID-19 was first detected in December 2019 in China, and the first case was detected outside China on January 13 in Thailand. News related to the COVID-19 outbreak is the most popular. The virus caused by an acute respiratory syndrome known as coronavirus 2 (SARS-CoV-2) became a pandemic after it was first discovered in Wuhan, China, and then rapidly spread to more than 190 countries and regions. The first two cases of COVID-19 in Indonesia were reported on 2 March 2020. As of 31 March 2020, there were a total of 1,528 confirmed cases and 136 deaths. Furthermore, as many as 2,956 confirmed cases and 240 deaths were recorded on April 8, 2020, then on June 14, 2020, the death rate increased to 2,134, with 38,277 confirmed cases, and continues to increase over time. The economic impact of COVID-19 begins with a negative supply. There are two things that happen, first, workers are infected which results in companies being forced to reduce production capacity. When 10% of the population is infected, key financial and economic infrastructure will face a severe shortage of staff. Second, activity restrictions are needed as part of disease suppression.

As previously mentioned, reducing social contact by as high as 75% may be required to control the spread of COVID-19 (Suryahadi et al., 2020).

A supply shock will lead to a demand shock. Calculations of only first-order supply shocks and subsequent demand have predicted a major economic slowdown. Rio-chanona et al. (2020) estimate a 25% reduction in American value-added. Supply shocks are responsible for most of the reduction in demand. In countries with incomplete markets and consumers constrained by liquidity, the initial supply shock can lead to even larger demand shocks (Guerrieri et al., 2020). It can be concluded, that the economic downturn is a certainty. The International Monetary Fund (IMF) (2020) stated that the global economic contraction that occurred due to COVID-19 could reach -3% or could even be worse than the 2008-2009 global financial crisis. An economic recession will push millions of people into poverty. A rapid simulation covering 138 developing countries and 26 high-income economic countries found that even in the mildest scenario, COVID-19 could cause an increase in the number of poor people by 85 million people (Sumner et al., 2020).

Often seen from an economic perspective, poverty covers all aspects of people's welfare in an area (Bourguignon & Chakravarty, 2011). Poor households often lack food security, and access to basic education, health care, clean water, and energy sources (Bloom et al., 2001). OECD (2001) defines poverty as five dimensions that are essentially related to each other, which include lack of economic capacity, human capacity, socio-cultural capacity, political ability, and/or protection capability. Ineffective and ineffective sharing of natural resource revenues, vulnerability to climate change, and a lack of basic skills mean that people are forced to spend most of their time working low-level jobs and/or gathering resources (Barbier, 2010; Bauer et al., 2016; Bradshaw, 2009). The world's poorest rural people are often forced into resource exploitation, which can degrade the natural resources on which their survival depends and reduce their ability to access capacity-building opportunities to escape the poverty trap (Barbier & Hochard, 2018).

The downward spiral concept includes the idea that people living in poverty place increasing pressure on their local environment, creating a feedback loop that increases the human population, further limits access to natural resources, and limits the capacity for sustainable resource management (Scherr, 2000). The resulting environmental degradation will eventually lead to a decrease in wage rates, consumption levels, human health levels, and food security levels (Animashaun., 2019; Cleaver; & Schreiber, 1994). This ultimately makes people who live in poverty trapped in a vicious cycle of poverty (Animashaun., 2019; Barbier & Hochard, 2018; Kassa et al., 2020). The poverty-unemployment relationship is an important consideration in the context of COVID-19, which is threatening rural life, especially in low and middle-income countries (LMICs). For the first time in the two decades of the global poverty reduction process, the poverty rate will increase (Mahler et al., 2021).

As the global economy continues to fall into recession, unemployment rates will rise, wage rates will decline, and the vast majority of remaining jobs will be part-time, low-quality, and have little or no security. Widespread border closures, and restrictions on travel and public gatherings, have also brought global tourism to a near standstill (Gössling et al., 2020). Informal employment and rural incomes are threatened by reduced urban market demand for goods and services, the imposition of social distancing measures, and a lack of choices in childcare (threats most impacting women-owned businesses) (Fox & Signé, 2020). The pandemic will continue to cause disruption to the system in various services in society, including welfare, education, and most importantly health care (Mahler et al., 2021). Based on the unidimensional definition of income poverty, the Mahler et al. (2021) estimates that between 119-124 million people in the world fall below and/or cannot even get out of the extreme poverty line in 2020 as a result of COVID-19.

Estimation of the potential impact of COVID-19 on global monetary poverty through per capita household income or consumption contraction. There are three scenarios used by Sumner et al., (2020) in

their research, namely low (5%), moderate (10%), and high (20%) contractions with an estimated impact on the poverty rate using the international poverty line of USD 1.90; USD 3.20; and USD 5.50 per day (2011 purchasing power parity price (PPP)). This estimate has several important limitations that should be noted. First, it is not yet known which one is closest to the final world outcome from the three scenarios previously mentioned. Second, it is assumed that the effect of economic contraction is distribution neutral, and eliminates the differential effects through important transmissions, especially in the labor market. Third, there are other transmission channels from the pandemic to poverty apart from changes in consumption. Fourth, there is a non-monetary impact of poverty, not only on the health indicator but also on the education indicator and other poverty dimensions that have not been included in this consumption loss estimate. Finally, fifth, while many governments in middle-income developing countries have introduced social and worker protection programs in response to the crisis, particularly in the presence of cash transfers, recent policy interventions were not included in the forecast.

Literature Review

Welfare is the goal of life and is a source of inspiration and motivation to move because when a level of well-being is achieved, life feels more meaningful and dignified. Various efforts will be made by individuals to achieve this level of well-being both for themselves and their families. Welfare is a concept in economics that is often the subject of study and research. Welfare theory generally adopts from Adam Smith's approach in his book *The Wealth of Nations* (1776), that individuals have the desire to fulfill their desires and needs. There is a tendency for individuals to always try to satisfy that desire. Then welfare is achieved when satisfaction can be achieved optimally. The achievement of this level of satisfaction is the subject of study by economic scientists. Various approaches can explain how individuals or households can be prosperous, namely, the marginality approach, the utility approach, market efficiency, and opportunity cost.

The marginality approach is more likely to emphasize household efforts to add units of goods and services consumed to increase welfare, each additional unit of goods and services consumed will increase one's satisfaction to a certain point. Also included in the behavior of producers, each added input will increase the product to be produced so that it reaches a certain point. The market efficiency approach tends to focus on how the market can create producer surplus and consumer surplus. Household satisfaction or welfare, especially consumer households, can be measured by consumer surplus. Where is the measure of the added value that consumers receive from an item purchased that exceeds what they are able to pay, or the market price is lower than the purchasing power of consumers. Meanwhile, producers get a surplus when the surplus value received by producers from a product exceeds the opportunity cost that arises from producing that item (Nicholson, 2002).

Reflects the fee that producers are willing to pay voluntarily for the right to sell a product at the prevailing market price. In the utility approach, the measure of household welfare is determined by the budget owned by individuals or households, the higher the budget line and the higher the likelihood of household satisfaction in consuming (Nicholson, 2002). Consumer surplus is defined as the difference between how much is available to be paid by consumers for a good and what is actually paid by consumers when buying that good. Meanwhile, producer surplus is defined as the sum of all units produced from the difference between the market price of the item and the marginal cost of production (Pindyck & Rubinfeld, 2018). In the market efficiency approach, welfare is a surplus enjoyed by consumers when there is a difference in the budget held to buy goods and services at the price of rill created by the market.

Producer welfare occurs when there is a difference between sales and costs to produce goods and services or the cost of production or the cost of goods sold. An individual chooses based on his own utility function or on the basis of his own measure of prosperity. While the community or community chooses the size of its prosperity based on the function of social prosperity that is able to realize the ethics

of that society. But wealth is not a measure that can be used to measure perfect prosperity. Welfare can be viewed from two sides, namely the consumer household side and the producer household side. In consumer households, the level of welfare is measured by the level of individual satisfaction in using or spending the use value of goods (utility). Meanwhile, from the producer side, the level of satisfaction is measured by the level of profit or better known as the surplus, benefit, or profit obtained when adding one production input, known as marginality.

Welfare in the utility approach is related to the welfare of the family household (Case & Fair, 2007). In a family there are several individuals who have their own welfare function. The individual will feel satisfied or prosperous if his parents as the head of the family can fulfill his own wishes. The individual will also feel that his welfare is fulfilled if the relationship in the family is harmonious. In the context of the family, welfare is a condition in which the family achieves the maximum level of satisfaction. The level of well-being can also be measured by the level of fulfillment of Maslow's needs (Maslow, 1954). Measurement of family welfare can be identified by combining economic and non-economic (social and psychological) aspects. Particularly the psychological impact on a family's interaction with other family members and responses to resource ownership, namely money, goods and services (Rettig & Bubolz, 1983)

Indicators of well-being in the family include affection, service, and money. Affection is an expression of positive appreciation or comfort for open communication, such as eye contact, touch, greeting, closeness, and presentation. Service is the direct involvement of fellow family members so that they become more helpful and need each other, increase comfort, and save energy used by each. Meanwhile, money is a stimulant for increasing welfare, and money is a tool to meet physical needs, and a symbol of attention among family members (Rettig & Bubolz, 1983). There the development of three approaches that can be used to measure family welfare. First is the human environment theory approach, in this approach, human dependence on the physical, biological, and social environment includes matters relating to information resources. Second, in resource theory, family welfare is calculated by family comfort, information obtained, and ownership of a certain amount of money, goods, and services. Third, in behavioral theory, in this theory family welfare is calculated on a scale that varies with individual perceptions in the family about their welfare (Rettig & Leichtentritt, 1999). Adopting Maslow hierarchy (1954), the level of human needs is divided into five levels, namely:

1. Physiological needs: basic needs, such as hunger, thirst, shelter, sex, sleep, oxygen, and other physical needs.
2. The need for security: includes safety and protection against physical and emotional harm.
3. Social needs: includes the need for a sense of belonging and belonging, affection, being well received, and friendship.
4. The need for appreciation: includes internal respect factors such as self-esteem, autonomy, and achievement; as well as external rewards such as status, recognition, and attention.
5. The need for self-actualization: includes the desire to become more and more fully one's own abilities, to become anything according to one's abilities.

Research Method

The research method in this study is a literature study. This literature study is research conducted by examining various literature studies needed in research. The purpose of using the literature study method in this research is as an initial step in planning research by utilizing the literature to obtain data in the field without having to go directly to the field to collect data. To obtain relevant studies, some literature related to this research was collected. This study will concentrate more on Indonesia, based on the collected literature, with different focuses on different countries and different approaches. Where in fact economic growth continues as a world that is still developing and is still ongoing. This research uses qualitative evidence collected from various authoritative sources, such as publications released by a

number of related institutions such as the Central Bureau of Statistics (BPS), as well as previous research journals.

Discussion

The Effect of Poverty on Average Public Consumption

The number of poor people is a variable that shows the level of poverty in Indonesia. Poverty is a problem that can be related to many aspects, namely low income, illiteracy, low health status and inequality between the sexes, and bad environment (World Bank, 2004). In addition, poverty is also a complex problem that is influenced by various interrelated factors, including income levels, economic growth, unemployment rates, health, education, access to goods and services, location, geography, gender, and environmental conditions. Data on the number of poor people and their rate of development can be seen in Table 1.

Table 1 .Number of poor population (thousands) and growth rate (percent) in Indonesia 2019 - 2020

Tahun	Rata-rata Upah	Laju Perkembangan
2019	24.785,87	-3,59
2020	27.549,00	10,03
2021	26.503,00	-3,95

Source: BPS, processed

Based on Table 1, it can be seen that in 2020 there will be an increase in the number of poor people in Indonesia with a growth rate of 10.03%. This is in line with the increase in the open unemployment rate (TPT) in Graph 4.2, the open unemployment rate also increased in the same year, namely 2020. This was due to the soaring number of COVID-19 cases in Indonesia in 2020 which in turn had an impact on the massive termination of employment rights (PHK) in Indonesian employment to reduce production costs, and directly result in an increase in the open unemployment rate and reduce the amount of income received, thereby indirectly increasing the number of poor people.

Loss of income has played an important role in reducing consumption during the pandemic. Amartya Sen (1981) said that food insecurity and even hunger are often not related to physical food shortages, but rather to people's ability to access food. Some people have experienced a decrease in income or even have no income at all, which is a direct result of disease, such as missing worker time. At the same time, the rest comes from government policies to reduce disease transmission in the community, such as PSBB (Laborde et al., 2021). According to Ram & Yadav (2021), the inherent nature of having a regular stream of income places households with a fixed salary in a relatively more affluent group, whereas according to the absolute nature of a regular household wage, it is estimated that they will fall into poverty due to deductions, and lose their job. Patel et al. (2020) stated in their research that those in low socioeconomic status groups tend to be more unstable in their working conditions and income, making it difficult for them to make ends meet.

The Effect of the Open Unemployment Rate (TPT) on Average Public Consumption

The value of the open unemployment rate (TPT) in an area can also be used to see the level of welfare in that area. The lower the unemployment rate, the lower the level of social welfare, because people do not have wages/income or people have income but it is not sufficient to meet their needs. The Open Unemployment Rate (TPT) and its development rate can be seen in Graph 1. Based on Graph 1 there is an increase in the unemployment rate with a development rate of 26.03% in 2020, this is a result of massive layoffs carried out by companies to reduce production costs as company expenses. Then in 2021, TPT fell by -8.94% from the previous year, this was due to the fact that there were people who took

advantage of the situation as a business opportunity such as selling and/or producing medical devices (masks, PPE, etc.) to increase their income to fulfill their daily needs, so that the number of unemployed is reduced new jobs are created, and companies have started to open job vacancies even though the absorption rate of workers is still very limited.



Figure 1 Open Unemployment Rate (TPT) (Percent) and Growth Rate (Percent) in Indonesia 2019 – 2021

Source: BPS, processed

Even though the pandemic has resulted in people losing their jobs, being laid off, changing jobs, limited working hours, and lowered wages, on the other hand, it has also created new jobs, such as selling medical masks/cloth masks and connectors, convections that produce PPE, sell hand sanitizers or disinfectants, sellers of hand washing soap and procurement of other medical equipment (Kurniasih, 2020). According to Han et al. (2020), most of those who have experienced termination of employment receive unemployment insurance or severance pay from the company where they previously worked, so that they can still make ends meet and establish their own businesses to produce medical devices (masks and/or PPE) to be sold in the community as efforts to survive and meet their needs. According to research by Mueller et al. (2021) which was conducted in June and July 2020 in rural America, stated that the COVID-19 pandemic had an external impact on rural welfare. From one year before the pandemic, one in five adults working full time is no longer working full time, corresponding to a 9.74% increase in unemployment (larger than the national increase of 7.40%). As a result, reliance on unemployment insurance has increased tremendously. In addition, half of the rural respondents feel some degree of negative impact on their overall lives, and perceptions of the health of the local economy have declined dramatically.

According to Ranchod & Daniels (2021) patterns of relative gains and losses in the labor market are evident among all demographic groups (race, gender, age group, geographic region, and education level) considered. Urban respondents are more likely to have a job and less likely to be unemployed than people living in traditional areas. Young people experience a much more challenging labor market than individuals of prime working age, while adults of prime working age also have a better experience of employment and unemployment than older adults. Looking at the established pattern that those with some form of post-matric education are substantially more likely to work and less likely to be unemployed, compared to those who do not finish high school or have only a degree of education.

Conclusion

The existence of job termination makes the community lose their income, even though the community has set up their own business with severance pay provided by the company, it is unlikely for them to get the same amount of wages as when they worked at the previous company. The community

must calculate expenses correctly and determine what are the primary needs, such as eliminating the urge to buy clothes to meet food and drink needs. The existence of layoff policies implemented by companies can increase the number of poor people. However, people who are victims of layoffs at their workplaces still receive severance pay which is used by some people to set up their own businesses to survive amid the COVID-19 pandemic. For example, by selling and/or making masks and PPE so that they can still meet their daily needs, even though the amount of income is not as much as when they worked at the company. In addition to meeting their needs, those who create new jobs can also help the surrounding community by absorbing new workers to launch their businesses.

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