

# The Role of Human Capital Investment in Poverty Alleviation and Improvement of Indonesian Human Performance in Dignified Economic Independence

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## Abstract

This research studies the role of human capital investment through the mechanism of improving education and health services in efforts to alleviate poverty and increase economic independence with dignity in the form of improving the performance of Indonesia's human resources which is reflected in Indonesia's economic growth. This study uses secondary data from world banks and processed regression using the moving average autoregression method. We find that investment in education and investment in health is positively related to economic growth. And, poverty is negatively related to economic growth. This indicates that human capital investment in Indonesia is able to promote economic growth and alleviate poverty in Indonesia.

**Keywords:** Poverty, Indonesia, Human Capital  
**JEL Classification :** C0, J24,J64

## Background

Human capital theory explains that a person's income depends on the human capital they have. The higher the human capital owned, the person has the potential to earn greater income. When someone's income is small or limited, it is possible that they do not have sufficient human capital and better job opportunities (Acemoglu,2008).

When a person's income is below 3.2 USD per day, it can be said to be poor because the income is not enough to meet the needs of a decent life. When someone is in the poor category, that person will have difficulty increasing human capital by investing to increase human capital independently, such as paying for education and training for certain skills. So that when someone lives below the poverty line, that person will find it difficult to develop and get an increase in income (Anker & Anker,2017).

The role of government investment in spending investment in education and health is important. Such as student fees for the poor or underprivileged, free health services for the poor and so on. Government investment in improving population education and population health is a human capital investment issued by the government (Lee et al,2020).

Education and health services which are subsidized or assisted by the government as a form of investment in human capital by the government of course provide the poor with increasing human capital for themselves. This is important because when a person's human capital increases, the possibility of his / her income will increase higher so that performance increases and income has the

potential to increase. This has an impact on dignity and has the potential to alleviate poverty (Schware,2005).

## Literature review

Human capital is closely related to performance. When a person's human capital increases or increases, that person can work faster and better so that that person's performance will increase (El-Saharty et al,2020).

The role of human capital investment is the addition of knowledge, skills and experience as well as health so that a person can work better so that one's performance is getting better. Human capital investment can be financed independently and also from government subsidies (Widarni & Bawono,2020).

Government investment in human capital, either in the form of subsidies or assistance, has a direct impact on the welfare of society. When the government spends human capital investment for the community, the performance of human resources collectively can increase so that production increases and the welfare and independence of the community will get better (Belli,2001).

When people's performance is getting better and economic growth is getting better, poverty can be alleviated. Through investment in human capital by the government, the poor can participate and have the opportunity to develop themselves, their knowledge and skills so that they can gain increased performance and the potential for income will increase or get a better type of job so that they can escape poverty (Andrianto,2006).

## Research Method

This research studies the role of human capital investment through the mechanism of improving education and health services in efforts to alleviate poverty and increase economic independence with dignity in the form of improving the performance of Indonesia's human resources which is reflected in Indonesia's economic growth. This study uses secondary data from world banks and processed regression using the moving average autoregression method with the following equation:

$$GDP_t = C_t + \beta_1 EI_{t1} + \beta_2 HI_{t2} + \beta_3 POV_{t3} + e_t$$

Where,

GDP = Gross Domestic Product

C = Constant

POV = Poverty

EI = Educational Investment

HI = Health Investment

e = Error Term

All financial data is calculated in USD, poverty data is calculated as the number of population or per poor person with an income below 3.2 USD per day in Indonesia.

## Result and Discussion

The estimation results are as follows:

$$\text{GDP} = 996024880868 + 2.90044037991 \cdot \text{EI} + 3.3275851563 \cdot \text{HI} - 7790.85078335 \cdot \text{POV}$$

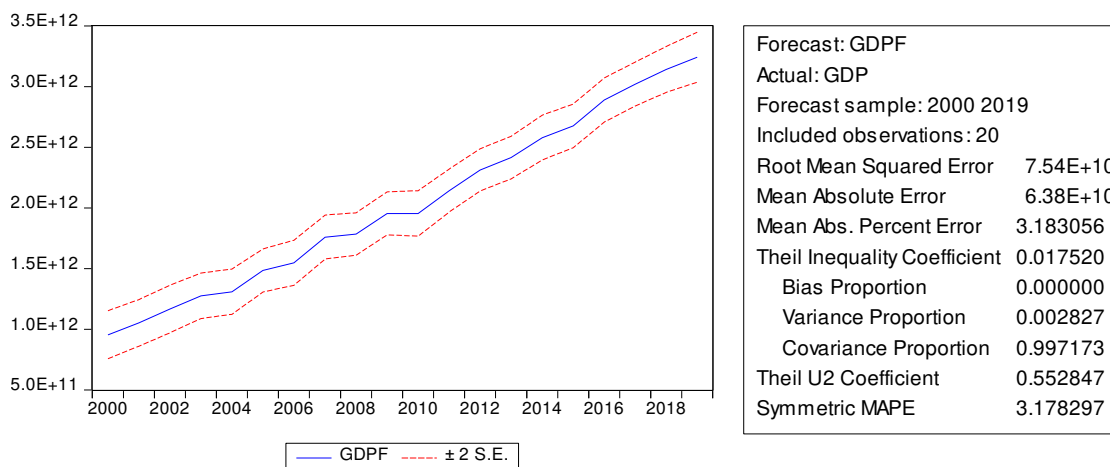
From the estimation results, education investment (EI) and health investment (HI) are positively related to economic growth. And, poverty (POV) is negatively related to economic growth. This indicates that human capital investment in Indonesia is capable of driving economic growth and alleviating poverty in Indonesia. Table 1 illustrates the estimation results as follows:

**Table 1.** Estimation Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.96E+11	4.51E+11	2.210835	0.042
EI	2.90	0.841399	3.447164	0.0033
HI	3.327585	0.984465	3.380096	0.0038
POV	-7790.851	5161.119	-1.509528	1.51E-01
R-squared	0.99	Mean dependent var		2.03E+12
Adjusted R-squared	0.99	S.D. dependent var		7.30E+11
S.E. of regression	8.43E+10	Akaike info criterion		53.33084
Sum squared resid	1.14E+23	Schwarz criterion		53.52999
Log likelihood	-529.3084	Hannan-Quinn criter.		53.36972
F-statistic	468.9646	Durbin-Watson stat		0.937837

Based on the estimation results described in Table 1., it can be seen that the R-square is quite high, namely 0.99, so the quantitative calculation results show the 99% level of truth. Figure 1. Shows the forecasting of economic growth in Indonesia

**Figure 1.** Forecasting Economic Growth in Indonesia



Source: Author Computing

From the results of forecasting, it can be seen that economic growth in Indonesia has experienced very rapid growth by taking into account human capital investment and poverty in forecasting economic growth. It can be seen that Indonesia's economic growth is increasing based on the estimation results of directional relationships between variables, forecasting results show that human capital investment is

able to increase the people's economic independence in a dignified manner in the form of human resource performance which is reflected in economic growth as well as being able to alleviate poverty with the direction of a negative poverty relationship. it means that when economic growth increases poverty will decrease.

## Conclusion

Human capital investment in Indonesia issued by the Indonesian government in an effort to increase Indonesia's human capital through educational mechanisms and improving health services for the Indonesian people is able to improve the performance of human resources which is a reflection of dignified independence as indicated by Indonesia's economic growth as well as being able to alleviate poverty by means of improve community productivity.

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