# URBAN POVERTY: EVIDENCE FROM LAMPUNG PROVINCE

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## Abstract

One of the big issues in economic development is poverty. This paper models the poverty in Bandar Lampung and Metro cites  in Lampung Province for the period of 2002 to 2007. It estimates a linear regression model using secondary data. The results show that per capita income and dependence ratio significantly influence the poverty, and that education level does not significantly influence the poverty. It also uncovers the existence of structural poverty in the area, indicated by the evidence of income in-equality.

**Keywords:** Urban poverty, education, per capita income, dependence ratio, structural poverty
**JEL classification numbers**: I32, R13

## Abstrak

Salah satu isu besar dalam ekonomi pembangunan adalah kemiskinan. Penelitian ini memodelkan kemiskinan di Bandar Lampung dan kota-kota Metro di Provinsi Lampung Metro untuk periode 2002 hingga 2007. Paper ini mengestimasi model regresi linear dengan menggunakan data sekunder. Hasil penelitian menunjukkan bahwa pendapatan per kapita dan rasio ketergantungan berpengaruh signifikan terhadap kemiskinan, dan bahwa tingkat pendidikan tidak berpengaruh signifikan terhadap kemiskinan. Hal ini juga mengungkap adanya kemiskinan struktural di daerah, ditunjukkan dengan bukti pendapatan dalam kesetaraan.

**Keywords:**  Kemiskinan di perkotaan, pendidikan, pendapatan per kapita, rasio ketergantungan, kemiskinan struktural
**JEL classification numbers**: I32, R13

## INTRODUCTION

Poverty has been argued as a result of and cause for low level of education. The low level of education of a family head makes his or her families miss the ability to compete and increase their productivity. Unfortunately, those who are poor generally cannot get access to education, which makes it difficult to improve the quality of human resources of the family. This is followed by the high family dependence ratio. This condition will get worse if these poor families have a lot of family members and do not have access to health care. The famous mindset and culture of "more kids more good fortune" will further worsen the condition of families in poverty.

Poverty can also be caused by the impact of government policies. Policies that spur economic growth without paying attention on income distribution will bring new problems of income inequality. The process of trickle-down effect that is believed by the government to distribute development outcomes has failed to occur. Results of development can only be enjoyed by a small group of people, while the bulk the people are remain poor.

Poverty is also a result of and a cause for the high number of employed labour force in agriculture. This sector is

suspected to have low labour productivity, low labour costs, low production capacity, and as a sector absorbing low qualified labour. Thus, groups that work in the agricultural sector tend to get stuck in poverty because they have low per capita income.

Some studies such as Galor (2000) in Kimhi (2004), Knowles (2002), Cameron (2000), Sukherman (2001), Balisacan et al. (2003), Foster and Szekely (2002), Booth (2000), Niskanen (1996), Islam (2003), and Iradian (2005) explain that the causes of poverty are the low per capita income, low education level and higher adult literacy, the high dependence ratio, the inequity of income distribution, the high percentage of the workforce in the agricultural sector, and low labour participation in the sector industry. The studies also recommend that in order to determine the poverty reduction policy, one must first know the causes of the poverty. This is because poverty is a vicious circle that can only be terminated if we really know exactly where to start to cut it. The vicious circle of poverty says that poverty is a consequence of and reason for the poverty itself.

The researches by the World Bank (1990), and Fields and Jakobson (1989), indicates that there is no correlation between economic growth with poverty level. Research Adelman and Morris (1973) in Basri (2003) reveal the role of economic development in developing countries where these countries not only face the decline in relative poverty due to economic growth, but also the problem of the rise in absolute poverty. Adelman and Morris draw the conclusion that the overall process of growth-oriented economic development in extreme circumstances, namely when the economic backwardness and advancement of economic development, has caused a worse situation for about 60% of the population who are poor and there is no trickle down effect is automatically that drain the development to the poor segments of soci-ety. The process of downward flux occurs only if it is supported by political will and governmental programs and policies.

Galor (2000) in Kimhi (2004) shows that the inequality of income distribution increases when the government focuses on growth by emphasizing on physical capital accumulation, and it will decrease after it focuses on the accumulation of human capital as the engine of growth. Knowles (2002) shows that a high birth rate implies a high dependence ratio. Developing countries in Asia which successfully reduce the birth rate enjoy a low dependence ratio. In increase in dependence ratio will increase the proportion of population living in poverty. A research by Cameron (2000) on poverty in Java concludes that poverty reduction is associated with increasing education, income, educated workforce, and income earned outside the agricultural sector. This led to the movement of labour from agriculture to non-agricultural sectors. Sukherman (2001) shows that the poverty in West Java is influenced by the infant mortality rate, total fertility, the Gini ratio, the percentage of non-food consumption, per capita income, percentage of literacy rate, and the industrial sector's contribution to the regional economy.

Balisacan et al. (2003) suggests that economic growth and level of education affects poverty in Indonesia. In this case the income of poor people increased by 7.74% in line with the increase of 10% of revenues at the district or municipality and the percentage of adult literacy affect poverty reduction amounted to 0.129%. A research by Foster and Szekely (2002) shows that economic growth does not affect the effort to raise incomes of poor people and cannot reduce the income gap with the poor rich people in 185 households from 33 countries in Europe, Latin America, Asia, and Canada. Booth (2000) shows that there is a trade-off between economic growth and poverty reduction in Indonesia during

the period of 1985 to 1996. This indicates the existence of inequality equitable development outcomes. Rural poverty in Indonesia could be reduced by increasing the value-added agricultural products, so that rural and agricultural development to increase productivity per hectare, or at home, should be prioritized for the islands outside Java and Bali is high poverty.

Niskanen (1996) shows that the poverty in the USA decreases following an increase in both per capita income and education. The research of Islam (2003) conducted in 23 developing countries shows the increase in poverty increases its percentage of the workforce in the agricultural sector and the increasing dependence ratio. Poverty decreases as education and the percentage of the workforce in the industrial sector increase. The research by Iradian (2005) conducted in 82 countries in 1965-2003 shows that the high growth in per capita income will not significantly reduce the poverty if it is not accompanied by improved income distribution. Changes in income per capita have a negative impact on poverty and greater inequality of income distribution (Gini ratio) the greater the poverty level.

In 2007, Lampung Province consists of eight regencies and two municipalties namely Bandar Lampung and Metro City. On the island of Sumatra, Lampung Province is the second poorest province after the province of Nanggroe AcehD a-russalam. In Indonesia, Lampung is the poorest province. Local governments would prioritize poverty alleviation programs in long-term development plan in 2008.

The parameters of inequality in income distribution (the Gini Index) of Lampung Province in 2005 is 0.375, showing medium inequality. This index is the highest in Indonesia. The Human Development Index (HDI) of Lampung Province in 2004 constitutes rank 18 in Indonesia or 8 of nine province in Sumatra. The number of poor people in Lampung Province in 2004 was 1.5617 million people. Per capita income of Lampung Province in 2005 was USD 4.04 million, lower than the per capita income of Sumatra (Rp 6.3 million) and West Indonesia (USD 7.4 million). This per capita income is ranked 8 out of 10 provinces in Sumatra.

Issues to be studied in this research are the factors that cause poverty in the city of Bandar Lampung and Metro City in 2002-2007. The purpose of this study is to determine the influence of socioeconomic factors that cause poverty in the city of Bandar Lampung and Metro City in 2002-2007.

**Factors of Poverty**

There are some criteria to describe poverty. One of them is Head Count Index (HCI). HCI is a measure that states the percentage of population with per capita consumption level below the poverty line. Another measurement is Human Poverty Index HPI), which is a composite index that measures the retardation in three dimensions, namely length of life, knowledge, and decent living standards.

Ahluwalia et al. (1978) states that the cause of poverty is an uncontrolled population explosion, where the population explosion leads to a high dependence ratio. The argument is in line with that of a school of thought that links economic and social diseases with the population. The population is considered as the principal cause of poverty, low living standards, malnutrition, poor health, and environmental degradation.

Poverty is also said to be the result of government policies on economic growth which is not accompanied by equitable distribution of income (see Khan, 2001). As a result of the policy, the income per capita will rise, but the increase can only be enjoyed by a small group in a community. As a result, there was strutural poverty in which high economic

growth can only be enjoyed by a few people rich, while the bulk of the people remain poor. This situation is in accordance to the theory of trade off between growth and equity which states that high economic growth will lead to large disparities in income distribution is uneven, or equal distribution of income realized in the low economic growth. Some other studies claim that poverty is influenced by economic growth and income distribution, like Bourguignon (2004), Thurlow and Wobst (2006), and Iradian (2005).

Islam (2003) suggest that the cause of poverty is the low education which can bring out the natural poverty, namely poverty caused by the limitations human and natural resources. Education is considered influential on a person's ability to acquire and utilize the factors of production. The agricultural sector is considered as a trigger of poverty because it is the subsistence sector with excess population, and has a marginal productivity of labour which is almost equal to zero.

**METHODS**

The purpose of this study is to investigate socio-economic factors that affect poverty in the city of Bandar Lampung and Metro City in 2002-2007. Socioeconomic factors consisted of education, dependence ratio, and per capita income. The data used are secondary data from Indonesia Central Bureau of Statistics and BKKBN. To analyze the data, the paper estimates a multiple linear regression as follows:

$$POV_{i,t} = \alpha_{0i} + \alpha_1 EDU_{i,t} + \alpha_2 PC_{i,t} + \alpha_3 DR_{i,t} + \varepsilon_{i,t} \qquad (1)$$

where $POV$ is poverty, namely the percentage of poor people (Pre-S & KS-I) to the total population, $EDU$ is education, namely the percentage of residents who are graduated from junior high and above to the total population aged 10 years or more, $PC$ is per capita, namely per capita income community at 2000 constant prices, $DR$ is dependence ratio, namely the percentage ratio of non-productive age population of productive age population, $\varepsilon$ is error term, $i$ is the $i^{th}$ city, $t$ is year, $\alpha_0$ is constant, and $\alpha_1$, $\alpha_2$, $\alpha_3$, $\alpha_4$, $\alpha_5$ are regression coefficients. The classical assumption tests to provide Best Linear Unbiased Estimator (BLUE) discussed are tests of multicollinearity, heteroscedasticity, and autocorrelation.

**RESULTS DISCUSSION**

The estimation result of Equation (1) is in Table 1.

**Tabel 1:** Estimation Results of Equation (1)

| Variabel | POV |
|---|---|
| $C$ (Intercept) | 28.62365 |
| | $(1.982167)^{*}$ |
| $EDU$ | -0.279411 |
| | (-1.387429) |
| $PC$ | 5.65E-06 |
| | $(7.138327)^{***}$ |
| $DR$ | 0.271575 |
| | $(2.536611)^{**}$ |
| $F$-statistic | $24.51934^{***}$ |
| $R^2$ | 0.901910 |
| Adjusted $R$-squared | 0.865127 |

Notes: (1) Entries in parentheses are the $t$-ratios. (2) Entries in *, **, and *** are significant at 10%, 5%, and 1% confidence level, respectively.
Source: Data estimation.

The result of Table 1 can be expressed in Equation (4) as follows:

$$POV = 28.62365 - 0.279411 EDU$$
$$(1.982167) \quad (-1.387429)$$
$$+ 5.65 \text{ X } 10^{-6} PC + 0.271575 DR + \varepsilon_t$$
$$(7.138327) \quad (2.536611)$$

The multicollinearity test using correlation matrix shows that there is no strong correloation across independent variables. The correlations are lower than 80%, which means that Equation (4) is free from multicollinearity. The $\chi^2$ at $\alpha$ = 5% and degree of freedom = 7 is 14.0671. The test of heteroscedasticity using White's General Heteroscedasticity test shows that the $\chi^2$ value is 10.04076, so we cannot reject H0, which means that there is no heteroscedasticity in the model.

Autocorrelation test using *Beu sch-Godfrey* (BG) test shows that the $\chi^2$ is 3.261881. Since the $\chi^2_{(\alpha=0.05; \quad df=7)}$ is 14.0671, we can reject $H_0$ which means that the model is free from autocorrelation.

The *t*-critical at *df* = 8 (*df* = *n-k*-1 = 12-3-1) and $\alpha$ = 5% is 2.306. The t-test from the estimation is available in Table 1 are as follows: *EDU* = 1.387429, *PC* = 7.138327 and *DR* = 2.536611. Comparing the *t*-critical and *t*-tests, we can conclude that all independent variables significantly influence absolute poverty except for *EDU*. The coefficient of *EDU* shows that 1% increase in the number of junior high school graduates reduces absolute poverty by 0.279411%, however the influence is not significant. The coefficient of *PC* shows that Rp 1 increase in per capita income increases absolute poverty by 5.65 X $10^{-6}$ %. The coefficient of *DR* shows that 1% increase in per capita income increases absolute poverty by 0.271575%.

The overall significant test using $F_{test}$ shows that the F-critical is 4.46 (*df*$_1$ = *k*-1 = 3-1 = 2, *df*$_2$ = *n-k*-1 = 12-3-1 = 8, and $\alpha$ = 5%). The *F*-statistic is 24.51934. Comparing both F values we can conclude that all independent variables, namely *EDU*, *PC*, and *DR* simultaneously influence absolute poverty. The estimation result also shows that the adjusted $R^2$ is 0.865127 which means that variation in the dependent variables explains 86.5127% variation in the dependent variable.

## Determinants of Poverty in Bandar Lampung and Metro Town: Education Level of Population

Based on the estimates as shown in Table 1, it can be shown that the percentage of residents who graduated from junior high or more (EDU) has a insignificant negative impact on absolute poverty (POV) in the city of Bandar Lampung and Metro City. This means that an increase of one percent of the population who graduated from secondary education or more reduces poverty by 0.279411 percent, but the decline is not significant. Although the estimate is not significant, but the sign of regression coefficient of EDU is negative, means that the estimate is consistent with a priori expectations. The goodness of a regression model can be judged by the significance of the estimates and the sign of the regression coefficient, which is in accordance to the priori expectations.

The insignificant coefficient of EDU provides some possibilities. First, education in both cities has payed lessa ttention to factors of "link and match" so that although its population education levels rise, but they are still difficult to realize prosperity. Second, education in these two cities does not have enough practice so that even though the population had a higher educational level, but they still find some difficulties in finding a job. Third, Metro City Government in particular should pay more attention to the implementation of Metro City Vision for Education City. The government must find out "what was wrong" from the implementation of the Vision City Metro, because of the efforts of Metro City Vision to be the embodiment of

Education City was no significant effect on poverty reduction efforts. Meanwhile, the city of Bandar Lampung as the largest city and capital of Lampung Province should further improve itself to improving the quality of education they have. This is very important because almost all educational institutions and most educated people are in the province of Lampung in Bandar Lampung, but the level of education which is owned by residents has no significant impact on poverty reduction efforts in the city of Bandar Lampung.

Population education level Bandar Lampung and Metro City in 2001-2007 was dominated by residents who graduated from junior high or better in the city of Bandar Lampung and Metro City. This reflects that the two areas are urban areas, where the general level of education and the level of literacy is higher than that of rural areas (districts). The data also showed that the percentage of residents who graduated from junior high or more in the city of Bandar Lampung and Metro City is higher than the percentage of residents who graduated from junior high or more for the whole province of Lampung. These data also reflect that the City of Bandar Lampung and Metro City as a regional city in the province of Lampung, so that they really deserve to be called as a regional city (municipality), central cities of educational development, and trade. Based on the second picture, the average percentage of residents who graduated from junior high, high school, diploma, and Bachelor in Bandar Lampung are 16.45%, 25.79%, 3.03%, and 5.06%, respectively. The corresponding statistics at Metro City is 19.74%, 28.08%, 2.83%, and 4.29%, respectively.

Comparing both cities, it turns out as the capital city of Bandar Lampung, Lampung province has more causes of poverty compared to Metro City, because the average percentage of Bandar Lampung city residents who do not complete primary school is bigger than those in Metro City.

These data indicate the existence of significant variables that cause poverty both in the city of Bandar Lampung and Metro City, because one of the factors causing the emergence of poverty is the low level of education of the population. Based on data from Indonesia Central Bureau of Statistics (2008), the average percentage of residents who do not complete primary school in the city of Bandar Lampung and in the City and Metro are 22.85% and 21.08%, respectively. The average percentage of residents who complete primary school each are 20% and 18.28%, respectively. The average percentage of residents who graduated from junior high or more in the city of Bandar Lampung is also lower than in Metro City, namely 50.32% and 54.94%, respectively. More detailed data show that the average percentage of residents who graduated from junior high, high school, and Diploma in Bandar Lampung are also lower than that of Metro City. These data for the city of Bandar Lampung is 16.45%, 25.79%, 3.03%, respectively, and for Metro City in a row is 19.74%, 28.08% and 2.83%, respectively. However, the average percentage of residents who graduated Bachelor (S1/S2/S3) to Bandar Lampung are higher than that in Metro City, namely 5.06% and 4.29%, respectively. Meanwhile, the Human Development Index (HDI) also shows that the city of Bandar Lampung has a lower HDI compared to Metro City, namely 72.9 and 74.3, respectively. Based on these data, the majority of the population in the city of Bandar Lampung and Metro city who graduated from junior high or lower are 58.3% and 59.1%, respectively. This fact is one of the factors leading to education in these two cities are not significant factors in reducing poverty.

The unemployment level in the city of Bandar Lampung is very high, namely 8.6%. The high unemployment is caused by, among others, the role of Bandar Lampung as the central of economic activities in Lampung Province, which absorbs job

seekers from other districts. In addition, Bandar Lampung and Metro City are the educational centres which attracting students from other districts. This can be seen from the high percentage of students in the city of Bandar Lampung (13.5%), compared with that in City Metro (11.6%) and the District of North Lampung (10.1%).

Another indicator for poverty in the province of Lampung is the Human Development Index (HDI). Sutyastie (2006) states that if a HDI indicates poverty. In other words, a high HDI means that the development in the area is correlated with the efforts to reduce poverty. Metro City has the highest HDI (74.3) compares to that in Bandar Lampung city (72.9). This is due to, among other things, the role of both cities as centres of education and trade development. HDI is the lowest in West Lampung District, followed by Regency Way Kanan, namely 66.4 and 66.6, respectively (Indonesia Central Bureau of Statistics, 2004). However, the high HDI as a result of educational development in both cities was not significant in reducing the poverty. This indicates the educational process in these two cities do not have the link and match with the world of work.

## Determinants of Poverty in Bandar Lampung and Metro City: Population Per Capita Income

Based on estimates in Table 1, we see that per capita income of population (PC) are significantly and positively influence absolute poverty (POV) in the city of Bandar Lampung and Metro City. The coefficient sign is not the same as suggested by the priori expectations, indicates that income inequality has occurred in the city of Bandar Lampung and Metro City. The results are consistent with the World Bank study (1990), and Fields and Jakobson (1989) which state that there is no correlation between economic growth with poverty level. The high economic growth is not able to reduce poverty, because high economic

growth only triggered the emergence of unequal income distribution. The same result is suggested by Foster and Szekely (2002) which states that economic growth does not affect the effort to raise the incomes of the poor and economic growth, and cannot reduce the income gap between rich and poor people in 185 households from 33 countries in Europe, Latin America, Asia and Canada.

This finding is in line with the research by Booth (2000), which shows that there has been a trade off between economic growth and poverty reduction in Indonesia during 1985-1996, which indicates the presence of inequality in the distribution of development outcomes in Indonesia in during the time. This finding is in line with the research by Iradian (2005), conducted in 82 countries for the years 1965-2003 which shows that the high growth of per capita income will not significantly reduce poverty if it is not accompanied by equal income distribution. Changes in income per capita have a negative effect on poverty and greater inequality of income distribution (Gini ratio), namely greater poverty level. The same result is also generated in the research Adelman and Morris (1973) in Basri (2003). Adelman and Morris reveal the role of economic development in developing countries where the countries not only face the decline in relative poverty due to economic growth, but also the problem of the increase in absolute poverty. Adelman and Morris draw general conclusions that the process of growth-oriented economic development in its extreme circumstances, namely in the condition of economic backwardness accompanied by high economic development, has causes the worst situation for around 60% of the population who are poor.

The positive sign of coefficient of PCs provides some indications. First, the productivity of the population in both cities is low. This means that even though their per capita income increase, but they are

still poor. Data at the provincial level shows that most residents work in the informal sector which is suspected to have low productivity and wage, and producing a lot of excess labour. Second, wage level in both cities is low. This means that the increase in their per capita income is not able to cover minimum living needs (KHM), so they remain in poor condition. Such conditions might lead to absolute poverty.

Similar results are delivered by BKKBN which states that a person is considered poor if she belongs to the class of Pre Prosperous and Prosperous Family I (KS I). This means that she is unable to meet the basic needs. Third, there has been a failure in evenly distributing the development outcomes that result in inequality of income. The local government has endeavoured to carry out development and economic growth, but the policy failed to disseminate the results of development and growth proportionally throughout the whole population. The process might lead to structural poverty, a poverty that is caused directly or indirectly by a variety of policies, regulations, and development decisions (Nugroho and Dahuri, 2004).

Based on data from Indonesia Central Bureau of Statistics (2005), during the period 1998-2004, with a relatively high level of economy and population is relatively small, the city of Bandar Lampung has the largest per capita income. Per capita income in Bandar Lampung is higher than per capita income of Lampung Province. In 1998, 2000, 2002 and 2004, the real per capita income communities in Lampung Province (constant 2000 prices) are USD 2.838 million; Rp 3.49 million; Rp 4.28 million; and Rp 5.23 million, respectively, while the per capita income in Banda Lampung city are USD 4.191 million; Rp 4.89 million; USD 6.264 and USD 7.633 million, respectively. At the same time per capita income District in Way Kanan and Metro City are the smallest. These data

suggest that there has been structural poverty in the city of Bandar Lampung, where the increase in income per capita are not able to reduce the causes of poverty, but actually increase poverty in the city. This means that the success of development and growth characterized by increased income per capita is only dinikamti by a small population.

The approach to calculate poverty level using consumption-based poverty line shows that in Sumatra, Lampung Province is the second lowest after the province of Bengkulu, with 117.135/capita/month and Rp 115.569/capita/month, respectively. According to Ritonga (2006), this approach uses the concept of poverty that is associated with a decent living needs to a person or household. In this case, poverty is seen as an inability to meet the food needs of 2100 calories/capita/day, and non-food basic needs, namely clothing, housing, education and health. Lampung resident who has consumption below the poverty line (USD 117.135/capita/month) is categorized as poor, although his limit is very low (under estimation) in comparison with other provinces in Sumatra.

Based on the business field, Lampung Province population living in urban areas mostly working in the S sector (trade and services), namely 54.5%, M sector (mining, industry, electricity & gas, and buildings), namely 25.6%, and A sector (agriculture), namely 19.9%. The high absorption of sector $S$ is caused, in part, by the number of seasonal workers engaged in informal sector. Based on the BPS (2005), most residents work in the informal sector (namely family workers, running small business on their own, and casual workers, among others) in the business field A, with the percentage of 87.8% and 91.9% for male and female, respectively. Meanwhile, in the formal sector (business with permanent workers, as well as the employees), the bulk of their work in the field of business M is 57.8% and 50.7% for male and

female, respectively. The number of resident who work in the informal sector reinforce the fact that the increase in per capita income will not reduce poverty in the province of Lampung, because in general the informal sector has the characteristics of low productivity coupled with low wages as well. Thus, despite an increase in wages (income per capita), wages are still not able to cover the needs of decent living (KHL). Thus the people remain in poor condition.

## A Factor Influencing Poverty in Bandar Lampung City and Metro City: Population Dependence Ratio

Based on the estimates as shown in Table 1, we can state that the percentage of the population dependence ratio (DR) has a positive and significant impact on absolute poverty (POV) in Bandar Lampung and Metro City. This means that an increase in the dependence ratio by 1% would increase the absolute poverty of 12.27%. The results are consistent with the findings of Knowles (2002) which states that an increase in the dependence ratio will increase the proportion of population living in poverty. In addition, the study by Islam (2003) conducted in 23 developing countries showed similar results, namely poverty will increase with increasing percentage of the workforce in the agricultural sector and the dependence ratio.

One of the factors causing the dependence ratio is the high birth rates. Ahluwalia et al. (1978) state that the cause of poverty is the population explosion, or the uncontrolled population growth. The result of a survey conducted by BKKBN Lampung Province in 2007 showed that the average total fertility rate (TVR) for Lampung Province is 2.5. This means that on average, each family has three children, or there are five people in a family. The greater the number of children, the greater the number of people that should be covered by the head of the family is. Furthermore, the greater the number of people aged unproductive, the greater the dependents must be covered by the population of productive age.

Based on the data from BPS (2005b), the three largest regions with percentage of residents who work, from the largest to the smallest, are in the district of West Lampung (72.6%), district of Central Lampung (57.2%), and district of Bone Onion (65.3%). The three smallest regions with percentage of working residents, from the smallest to the largest, are a city of Bandar Lampung (55%), Metro City (55.3%), and district of North Lampung (58.1).

The large number of housewives, unemployed, and student in the city of Bandar Lampung and Metro City has leads to the high population dependence ratio. In addition, the results of this study indicate that the level of education did not significantly influence poverty reduction. This means that if the students have left school, their presence will not help much to reduce poverty. Their presence will only add greater value dependence ratio. This may occur because of an education system that allegedly does not have the link and match and poor skills.

The average dependence ratio of Bandar Lampung, Metro City, and Lampung Provinces are 50.17, 42.21, and 55.58, respectively. The data show that the city of Bandar Lampung has a greater potential to increase the rate of poverty compared to Metro City. However, both regions have much lower dependence ratio compared to the other regions in Lampung Province. This provides additional evidence that rural areas have higher potential to have high poverty level than the district. In general, poverty is more apt to occur in rural areas because of low per capita income, unemployment (both absolute and seasonal), high birth rates, and low levels of education.

## CONCLUSION

This study concluded that per capita income and the dependence ratio had positive

and significant impacts in determining the causes of absolute poverty in the city of Bandar Lampung and Metro City in 2002-2007. However, education levels attained no significant effect. There was indicated structural poverty which was caused by unequal distribution of income and the failure of government policy in distributing the results of development equitably to all residents. The indicators could be seen from the existence of a positive and significant effect of per capita income against absolute poverty. This meant that greater value of income per capita leads to the increase in absolute poverty. The effect should, as a priori expectations, be negative and significant. This meant that greater value of per capita income leads to the decrease in the absolute poverty.

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