



Journal of Community Service

Volume 4, Issue 2, December 2022

P-ISSN 2715-2901

E-ISSN 2715-291X

Open Access at: <https://idm.or.id/JCS/index.php/JCS>

THE IMPACT OF THE POLICY ON RISING FUEL PRICES ON INCREASING POVERTY RATES IN INDONESIA

DAMPAK KEBIJAKAN MENAIKKAN HARGA BBM TERHADAP PENINGKATAN TINGKAT KEMISKINAN DI INDONESIA

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ARTICLE INFO

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Keywords:

Policy, Fuel Oil, Poverty, Inflation.

Website:

<http://idm.or.id/JCS/index/JCS>

page: 185 - 198

ABSTRACT

The surge in world oil prices was caused by the impact of the war in Europe between Russia and Ukraine. As a result of this war impacted the increase in oil prices almost all over the world. The existence of a surge in world oil is considered to have a significant impact on economic conditions in Indonesia. From now on, referred to as BBM, the amount of subsidized fuel oil worth almost 520 trillion is very burdensome and drains the state budget. Hence, the government considers it very urgent to increase the price of subsidized and non-subsidized fuel. Carry out meticulous and accurate calculations in calculating the fuel price increases in the country. The increase in the impact of the fuel price increase will have implications for inflation, so in the end, it will also affect the number of poor people in Indonesia. This study aims to determine the impact of the policy of increasing fuel prices on increasing the number of poor people in Indonesia. This study uses a qualitative approach with a descriptive method. The results of the study show that the reason for the policy of increasing fuel prices is to reduce the world's supply of crude oil, which does not match supply and demand, also because the existing subsidies have not been well targeted, where these subsidies are enjoyed mainly by middle and upper-class people. As for the impact of the increase in fuel prices for the community, among others, the increase in the price of goods and services, increasing the fare of public transportation, raising the prices of nine basic needs, hampering the rate of economic growth and decreasing the number of unemployed. The government can take policies in response to the increase in fuel prices to control and stabilize the prices of basic needs, provide direct assistance to the underprivileged, increase fuel prices gradually and issue regulations that limit motor vehicle ownership.

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INFO ARTIKEL**Koresponden:****Ii Sumantri**iisumantri73@gmail.com**Kata Kunci:**Kebijakan, Bahan Bakar
Minyak, Kemiskinan, Inflasi.**Website:**<http://idm.or.id/JCS/index/ICS>

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ABSTRAK

Lonjakan harga minyak dunia tersebut disebabkan dampak perang di Eropa antara Rusia dan Ukraina. Akibat perang ini berdampak pada kenaikan harga minyak hampir di seluruh dunia. Adanya lonjakan minyak dunia dinilai berdampak signifikan terhadap kondisi perekonomian di Indonesia. Mulai saat ini, yang disebut BBM, jumlah BBM bersubsidi senilai hampir 520 triliun itu sangat memberatkan dan menguras APBN. Oleh karena itu, pemerintah memandang sangat mendesak untuk menaikkan harga BBM bersubsidi dan nonsubsidi. Melakukan perhitungan yang cermat dan akurat dalam menghitung kenaikan harga BBM di dalam negeri. Kenaikan dampak kenaikan harga BBM akan berimplikasi pada inflasi, sehingga pada akhirnya juga akan mempengaruhi jumlah penduduk miskin di Indonesia. Penelitian ini bertujuan untuk mengetahui dampak kebijakan kenaikan harga BBM terhadap peningkatan jumlah penduduk miskin di Indonesia. Penelitian ini menggunakan pendekatan kualitatif dengan metode deskriptif. Hasil kajian menunjukkan bahwa alasan kebijakan kenaikan harga BBM adalah untuk mengurangi suplai minyak mentah dunia yang tidak sesuai dengan supply dan demand, juga karena subsidi yang ada belum tepat sasaran dimana subsidi tersebut dinikmati, terutama oleh kalangan menengah ke atas. Adapun dampak kenaikan harga BBM bagi masyarakat antara lain kenaikan harga barang dan jasa, kenaikan tarif angkutan umum, kenaikan harga sembako, menghambat laju pertumbuhan ekonomi dan penurunan jumlah pengangguran. Pemerintah dapat mengambil kebijakan dalam menanggapi kenaikan harga BBM untuk mengendalikan dan menstabilkan harga kebutuhan pokok, memberikan bantuan langsung kepada masyarakat kurang mampu, menaikkan harga BBM secara bertahap dan mengeluarkan peraturan yang membatasi kepemilikan kendaraan bermotor.

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INTRODUCTION

Fuel oil (BBM) is a commodity that plays a vital role in all economic activities (Creti et al., 2013). The direct impact of changes in oil prices changes in operating costs which result in the level of profit from direct investment activities being corrected (Ji & Fan, 2012). Simply put, investment aims to maximize prosperity through profit maximization, and investors always try to invest in efficient and safe assets (Wackernagel & Rees, 1997).

The increase in fuel prices increases the burden on the small community in general and the business world in particular (Janicke, 2008). This is due to an increase in production cost items, thereby increasing overall costs and increasing production price (Eti et al, 2006). The multiple effects of this fuel increase include increasing factory overhead costs due to rising raw material costs, transportation costs, and

employee demands to increase wages. Ultimately, the company's profits are decreasing (Tang et al., 2010).

The fluctuations in world oil prices have been seen since 2000. In the next three years, prices continued to rise in line with the decline in oil reserve capacity (Barsky & Kilian, 2004). Several factors are causing this turmoil, one of which is the perception of the current low reserve capacity of oil prices, the second is rising demand, and on the other hand, there is concern over the inability of producing countries to increase production (Power & Stevenson, 1987). Meanwhile, the problem of the level of utilization of oil refineries in several countries and the declining supply of gasoline in the United States also contributed to oil prices rising (Pirog, 2005).

Regarding the policy of increasing fuel prices, there was a fierce debate among economists in the country, some economists supported the policy of increasing fuel prices, and others carried the increasing fuel prices. There are several reasons for the government to increase fuel prices, among others; First, it is more in favor of the little ones because fuel subsidies (BBM) help people from the upper middle class who are already well off (Del Granado et al., 20120). They enjoy subsidies more because they have a private car. Second, they are more efficient and environmentally friendly because of the cuts. Subsidies make the price of Premium and Solar more reasonable (Kuo, 2017). The price of Premium and Solar, which is much cheaper than it, should encourage people to be wasteful and careless in consuming. Third, it is more beneficial because the funds that should have been spent on subsidies can be diverted to use it to finance spending on others that are more useful to the people (Surrey, 1970). The budget can be used to finance various projects to improve the quality of life of the poor, such as building infrastructure and improving education services. Fourth, it is more trustworthy because cutting subsidies reduces the incentives for fraud and smuggling (Williams, 2011). So far, the difference in fuel prices has subsidies with non-subsidized fuel that are too large to encourage fraud and smuggling abroad or are used by unauthorized users, where the price of Indonesian fuel is the lowest compared to the price of fuel in Asian countries. Fifth, it is more durable because the positive effects of reducing Premium and Solar subsidies will be felt in the long term (Wiser & Pickle, 1998). The 2022 fiscal year and the positive effect of cutting fuel subsidies will ease the burden on the state in the coming years.

Meanwhile, those who are against the increase in fuel prices have several reasons, including: first, the price of goods is getting more expensive, because the need for fuel has touched all aspects of life, not only regarding transportation but includes the entire distribution of goods and the mobility of people. The price of fuel commodities will affect the prices of other goods or services (Ferdous et al., 2010). Second, people's purchasing power decreases because the increase in fuel prices accompanied by an increase in the price of goods can result in a decreased in people's purchasing power (Pyndyck & Rotemberg, 1984). This, of course, is very burdensome for the small community when the fuel price increase is close to the fasting month and entering

school. Third, inflation is difficult to control because it is predictable that the increase in transportation fares cannot be contained, and traders' expectations about the prices of basic needs and agricultural products. Not to mention the actions of speculators who take advantage of the momentum of the fuel price hike (Chaudhry & Chaudhry, 2008). Fourth, unemployment increases because the increase in fuel prices will increase production costs, for example, the cost of raw materials, distribution of materials, the cost of processing raw materials into raw materials, promotion costs, and so on (Brown & Yucel, 2002).

Although the government believes the impact on the poor will be reduced through the conversion of fuel subsidies, not a few economists and observers think that the compensation is only adequate for a moment (Dercon, 2014). However, the policy of increasing the price of fuel has a broad impact and cannot only be suppressed by providing various government assistance programs. With the increase in subsidized fuel prices, it is clear that transportation costs will undoubtedly increase (Sdravovich et al., 2014). People's income will also be depleted the transportation costs. The burden of transportation costs is getting heavier for the poor, making them even poorer.

Moreover, the component of people's transportation costs in Indonesia is relatively high (Rafiq, 2019). Based on World Bank standards, transportation costs compared to people's income should only reach 10%. However, Indonesians already spend around 25-30% of their monthly income (Binswanger & Landell-Mills, 1995).

After the reformation, some people could get out of Poverty, but they were people who lived slightly above the poverty line. Suppose there is an economic shock, such as an increase in prices (food and non-food prices), as a representation of basic needs. In that case, they will be very vulnerable to falling back into Poverty (Kuniawansyah et al., 2020). Groups at the very bottom of the poverty line and those who live slightly above the poverty line and are vulnerable to falling into Poverty are priority groups to pay attention to and find solutions to help escape the threat of Poverty (Septiadi et al., 2016).

Meanwhile, Narayan (2003) said. Poverty is multidimensional. There are at least six dimensions of Poverty, namely: (1) lack of food and hunger, (2) powerlessness, inability to speak, dependence, lack of confidence or shame, (3) lack of access to infrastructure, transportation roads, and clean water, (4) low education and low quality of education, (5) weak and generally diseased health, and (6) inability to manage physical, human, social and environmental assets.

It is interesting to follow the debate about BBM. When associated with the government's efforts to reduce Poverty. Due to the increase in fuel prices, the government has carried out various programs to improve the community's welfare, especially for the poor (Iping, 2020). Among the compensation programs for the increase in fuel prices are the Community Temporary Direct Assistance Program,

Additional rice allocation from the Rice for the Poor program, Additional aid value and total coverage of students receiving Poor Student Assistance, Additional aid value for 2.4 million households participating in the Family Hope Program, the Program for the Acceleration and Expansion of Infrastructure Development, and various other programs (National, 2014).

The volatile and drastic increase in world oil prices forced Indonesia to spend much budget, causing difficulties in meeting the development budget (Yustika & Prestyantoko, 2021). The main reason is that the calculation of the APBN is the world oil price. However, Indonesia's current position, which is not a petroleum supplier but an importer of petroleum, makes it very difficult to fulfill the development budget (Dartanto, 2005). Therefore, for the welfare of the Indonesian people, especially consumers of fuel oil, most of whom are low-income groups, the government provides subsidies for domestic fuel prices (Abidin, 2016). It is certain that this will put pressure on the state budget because the burden that must be carried is certainly getting heavier every year. The Indonesian government decided to reduce the burden on the state budget by reducing subsidies on fuel (Handoko & Patriadi, 2005). This policy seems to harm the increase in the prices of other materials, so many people complain and protest because it is seen that the policies taken by the government are not appropriate because they can increase the poverty rate in Indonesia (Rivani, 2014).

Based on this explanation, this study aims to analyze the concept and development of Poverty in Indonesia and determine the impact of the current policy of increasing fuel prices by the government on increasing poverty rates in Indonesia, especially after the COVID-19 pandemic.

METHOD

Our research strategy for this study is descriptive analysis mixed with a qualitative research technique. Creswell et al. (2007) define qualitative research as an approach to investigate and comprehend the meaning that a number of individuals or groups of people consider to be derived from social or humanitarian issues. Qualitative research can be defined as an approach to investigate and comprehend the meaning that individuals and groups of people consider to be derived from social or humanitarian issues. This method of qualitative research requires considerable effort, including the use of a variety of questions and procedures, the collection of specific data from participants, inductive data analysis that progresses from specific themes to general themes, and the interpretation of the meaning of the data. In addition, Garna (2009) explains that "a qualitative method is distinguished by research objectives that strive to comprehend the symptoms in such a manner that does not necessarily necessitate quantification." The use of qualitative research and a description of the analysis because descriptive research is a type of study that aims to

describe the solution to the current problem based on data from the field and to have a deeper understanding of how that solution arrived. The Effect of Indonesia's Government's Policy on Rising Fuel Prices on the Country's Increasing Poverty Rates.

RESULT AND DISCUSSION

Reasons for the Policy to Increase Subsidized Fuel Prices in Indonesia

It is undeniable that all countries worldwide are very dependent on oil and natural gas, including Indonesia. The actual situation is that Indonesia is currently very dependent on the natural resources of oil and natural gas to meet the needs of its people (Baswedan, 1997). Based on data from Pertamina for 2013, the total National Demand for Petroleum was 77.00 million KL, while the national refinery production capacity was only 38.10 million KL. Hence, in 2013, there was a deficit of 38.9 million KL, or around 51%. .1 (Chandranegara, 2017). This gap in oil demand with production capacity is expected to be stable or even increase if rescue measures are not taken immediately. This condition is exacerbated by the fact that the performance of oil reserves and production has relatively decreased since the second peak of Indonesia's oil production, so assuming no oil reserves are found, the age of Indonesian oil is only about 12 years (Najicha, 2017).

One of the initial causes of the increase in the price of fuel oil, especially Pertamax, was the world crude oil price which reached more than USD100 as of March 2022 and this condition is still the same as the current situation. The use of Pertamax fuel is currently increasing to reach 21% of the total fuel consumption. However, pertalite still dominates fuel oil consumption, which is 78% of the total fuel use. Compared to the full use of national fuel, the use of Pertamax fuel continues to increase by close to 14% (Silbaqolbina & Najicha, 2022).

Several parties previously pushed Pertamina to increase the price of Pertamax fuel oil. The Ministry of Energy and Mineral Resources has also set an economical price or an upper limit on the price of RON 92 fuel, which is Rp. 14,562 per liter in March. Even in April 2022, the economic price of Pertamax is predicted to reach Rp. 16,000 per liter. The government still maintains the price of Pertamax fuel below its economical price to maintain inflation and people's purchasing power (Latif, 2015).

However, the inaccuracy of the subsidy and in order to keep the company's operations running, Pertamina raised the price of Pertamax fuel. The decision must have been through various considerations by the parties concerned. The most significant component of the financing structure of fuel oil is the cost of acquiring the product itself, whereas the price of oil that is used as the basis for the government to determine the price of domestic fuel is the Means of Plants (MOPS), which is increasing in price due to the conflict between Russia and Ukraine. Commission VI of the House of Representatives of the Republic of Indonesia, in which one its duties is to oversee the state-owned enterprise (BUMN) sector, encourages Pertamina to adjust

the fuel price immediately. However, if this policy is long-term, it will cause the allocation of fuel subsidies to increase. Of course, it will burden the state budget, even though the allocation of fuel subsidies can be diverted to other more productive sectors or to encourage accelerated development of the new renewable energy sector (EBT). Taking into account the realization and the existing challenges, the subsidy policy in 2022 is directed to be more targeted to maintain price stability and people's purchasing power, especially the poor and vulnerable.

In order to be consistent with Article 33 of the 1945 Constitution, the management of oil and gas must adhere to seven constitutional features, as outlined by Subianto Tjakrawerdaja (2008). Second, having the general public share in the benefits of ownership, production, and use. This is in line with the wording of Article 33(a)(1) and (aa)(4) of the Constitution of 1945. Third, a fair market mechanism based on healthy competition and the responsibility and authority of the state to act in the case of market failure is necessary for the economy to be managed in accordance with Article 33 paragraph (4) of the 1945 Constitution, which is the principle of fair efficiency. 16 Fourth, the state's involvement in national economic planning must be ensured as required by Article 33 paragraph and paragraph (3) of the 1945 Constitution (Hambali & Rivai, 2017)

The government's primary objective in increasing the price of Pertamina fuel is, of course, to balance APBN funds, whose ultimate goal is also for the welfare of the people. Efforts made by the government in managing oil are also very appropriate to the situation, given the growing development of vehicles in Indonesia, thus increasing the need for fuel oil for all these vehicles. The world's dwindling crude oil supply must also be overcome with policies that can indeed increase public awareness about the importance of saving fuel oil so that it can continue to be used by our children and grandchildren in the future.

The increase in fuel prices triggers an increase in the number of people in Poverty.

The government's policy to increase the price of subsidized fuel impacts the increase in goods and services and triggers inflation. This will erode people's purchasing ability, eventually affecting the number of poor people soaring. The price of pertalite-type fuel rose by 30.72% to Rp. 10,000,- per liter; diesel by 32.04% to Rp. 6.800,- per liter; and Pertamina by 16 percent to Rp. 14,500 per liter.

The government raised the price of subsidized fuel and distributed direct cash assistance to affected communities who met the requirements, with direct cash assistance of only Rp. 600,000, which is the same as Rp. 50,000 per month. This is not a social cushion because, before the increase, people could buy 6.5 liters of Pertalite, but after the price increase, Pertalite could only buy 5 liters. If this is a trade-off that the government intended for the policy of increasing subsidized fuel, it is not appropriate. The increase in subsidized fuel by more than 30% will trigger an

increase in specific sectors directly, such as the logistics and distribution, transportation, and manufacturing industries, in the range of 10-25%.

The government has reduced the poverty rate based on BPS data. However, the amount of social support provided for vulnerable community groups affected by the fuel price hike is only Rp 72.14 trillion, which will not be enough to solve the problem. This figure is only enough to be distributed to 40.2 million people, while the poverty rate, according to the Central Statistics Agency (BPS) report in Indonesia, is 9.54% as of March 2022. This figure has decreased by 0.17 points compared to September 2021, which was 9.71%. However, the decline in Indonesia's poverty rate as of March 2022 has not been able to reach a lower figure, such as the percentage achieved before the Covid-19 pandemic occurred (BPS, 2022).

Based on the region, the percentage of Indonesia's poor in rural areas is 12.29%. This figure is down from September 2021 which was 12.53%. Meanwhile, the percentage of poor people in urban areas was 7.50% in March 2022, a decrease from September 2021, 7.60% or 0.10%. Furthermore, please note that the number of poor people in March 2022 was recorded at 26.16 million people, or a decrease of 0.34 million to September 2021, and decreased by 1.38 million people compared to the number in March 2021. If social support is given to 26.16 million people, then another 14.04 million people are targeted. If this figure is used as the impact caused by the increase in subsidized fuel prices, it is clear that there are different vulnerable groups of people outside the BPS poverty rate (BPS, 2022).

Based on the island, Java has 13.85 million poor people in March 2022. This number is equivalent to 52.96% of the total national poor. The increase in subsidized fuel prices will potentially increase the number of Poverty in rural and urban areas to the position in September 2021 of 27.54 million people. The people who will be affected are those who work in the agricultural, plantation, fisheries, and MSME sectors and other informal sectors.

The rising price of engine fuel (BBM) will undoubtedly impact Indonesia's people. Perhaps the increase in fuel prices will positively impact the government, such as a more efficient State Revenue and Expenditure Budget (APBN). The impacts obtained by the community from the increase in the price of Fuel Oil (BBM) are as follows:

1. Prices of goods and services also increase following the price of fuel

With the increase in the price of fuel oil, people also increase the price of goods and services, such as in the manufacture of bread or cakes; the price of material goods such as flour, sugar, oil, and so on will continue to increase following the increase in fuel prices. The price of materials or other goods will also increase following the increase in fuel prices, it will affect the rate of inflation, and the increase in fuel will also trigger the hoarding of essential goods, such as in the case of oil scarcity in the past where many of them will hoard goods to seek double profits.

2. Rising fares

Transportation is the biggest user of fuel oil. With the increase in fuel prices, transportation fares will also increase so that people will be burdened by rising fares, making transportation less and less lonely.

3. Increased prices of nine essential commodities or necessities

Sembako is a primary need for the community; without basic necessities, people's lives will be disrupted because necessities are necessary and are the immediate daily needs sold in the market.

4. Inhibiting the rate of economic growth

Prices of goods and services are increasing but the purchasing power and selling power of the people is decreasing due to the impact of rising fuel prices which will hamper the pace of economic growth. While the salary earned does not go up following the rising fuel price, it will make people very nervous because the salary earned is no longer balanced with spending because prices are creeping up.

5. The increasing number of unemployed

With the increase in the price of goods and the decrease in people's purchasing power, many MSMEs have gone out of business because of the large amount of capital issued. In contrast, the selling price cannot be increased, primarily since the sales achieved are only a little so that sellers sometimes do not return their capital, so many MSMEs are forced to go out of business. For a restaurant that was forced to go out of business because of the booming price of flour, cooking oil, and chicken, the restaurant owner spent a large amount of capital but could not increase the price for fear of not selling. Hence, they only made a small or even no profit and loss. Of course, problems like this can occur along with rising fuel prices, which causes the prices of other goods also to increase, resulting in many MSMEs going out of business and automatically causing more unemployment in the community. Those with small incomes will be significantly affected and burdened by the increase in fuel prices because apart from the need for fuel and transportation, sometimes they cannot even eat for a day, while their income is minimal. For example, their job is only to make a thousand chips daily. However, the increase in world oil prices and fuel prices will significantly affect their business, the increase in fuel will have an impact on their transportation fuel, which usually requires 50 thousand in a week to 75 thousand, but the profit they get is getting thinner because the price of cooking oil also increases, as well as flour prices which also increase following the price of fuel, they may go out of business if conditions like this continue in the future. However, the increase in fuel prices is not only felt by those with low incomes, but the increase in fuel prices will affect all sectors, both high and low-income earners are affected by the increase in fuel prices.

The Role of the Government in Anticipating the Increase in Poverty Rates due to the Increase in Fuel Prices.

In every economic system, whether capitalist or communist, the government always plays a crucial role. Adam Smith proposed (in Elazar, 2021) that the government had only three functions: 1) The government's role is to preserve national security and defense. 2) The government's role is to manage the judiciary. 3) The government's role is to supply products that the private sector does not deliver, such as roads, dams, etc. Given the advancements and developments in every country, it is clear that there is not a single capitalist nation in the world that employs a pure capitalist system. In the contemporary world, it is anticipated that the government will have a greater role in regulating the economic trajectory.

In the meantime, Barton (2000) identifies the most prominent tasks of the government as resource distribution, regulation, social welfare, and macroeconomic management. The following are explanations for the government's four roles: 1) The role of resource allocation includes defining the absolute and relative size of the government in the economy (the balance between the public and private sectors) as well as the supply of public goods and social welfare services to the community. 2) The function of regulators This includes rules and regulations that society requires, such as commercial laws that are adequate to facilitate corporate activity and protect private property rights. 3) The significance of social welfare Contains measures that promote social justice in the country in question, such as taxes, social security (transfer payments), and the provision of a variety of mixed public goods. 4) The function of managing the macro economy in a manner that promotes the general stability and economic prosperity of the nation by policies meant to promote steady economic development, full employment, low inflation, and stable balance of payments.

Of course, the increase in the price of fuel oil will greatly affect the community, from small to large communities. The government's role in responding to the fuel price increase is also very necessary so that problems do not occur in society and also in order to prevent a higher inflation rate. The government's role in responding to the impact of rising fuel prices is as follows:

1. When the price of fuel increases, the price of other goods will tend to increase, especially the price of necessities, so the role of the government is to maintain or control market prices so that people can still get stable prices. The government must be able to jump in to regulate market prices so that prices do not soar too high and naturally follow the market price mechanism. Because essential food items are the essential goods of the community, if the price soars, it will significantly impact the community's economy and make people's lives abnormal. From here, the role of the government is very much needed by the community.
2. The government needs to provide assistance to underprivileged communities so that people still have funds for survival. Receiving this assistance is highly expected by the community, especially the poor, because by getting the

assistance, they can use it for their daily needs, including buying fuel, whose price has gone up. The government must provide compensation assistance such as BLS, assistance for poor rice, and other aids.

3. In raising the fuel price, the government tends to increase it slowly rather than directly because to think about people with low incomes are less well off.
4. The government needs to impose restrictions on vehicles for each family; for example, each family can only use one car and two motorbikes to reduce the use of fuel. Let us see now that some families have five cars and five motorbikes, which obviously will need much fuel for these vehicles, resulting in faster fuel being drained because of the people's waste.

CONCLUSION

The increase in the price of fuel oil is a policy taken by the government in facing rising world crude oil prices. The policy of increasing the price of fuel and diverting subsidies to the poor is an effective way to create justice in social life. Although there are no significant obstacles in implementing the new policy regarding fuel prices, we still have to use fuel as wisely as possible. We never know how the supply of crude oil in the world will be and how it will be in the future, for that we must also play a role in saving and maintaining the supply of fuel oil for our children and grandchildren in the future. Rising fuel prices on Poverty have more of an impact on urban communities than rural communities. This is very reasonable because the mobility of urban residents is higher than that of rural communities, so urban communities consume more fuel than rural communities. The impact that people get from rising fuel prices, namely rising prices for goods and services, increasing public transport fares, raising prices for nine basic needs, hampering economic growth, and increasing the number of unemployed. For this reason, the government's role is needed in responding to the impact of rising fuel prices on the community, especially the lower middle class, namely controlling the prices of particular goods for basic needs to remain stable; providing assistance to underprivileged communities, in increasing the price of fuel, it is carried out gradually and not all at once because it can burden the community and finally limiting ownership of motorized vehicles, both cars, and motorbikes.

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