



Analysis of Macroeconomic Indicators (A Case Study in North Sumatra Province)

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ABSTRACT

This study explores the intricate relationship between unemployment, inflation, and poverty in North Sumatra Province, Indonesia. In the second quarter of 2022, inflation surged, surpassing national and regional rates. Ali Hardana's research emphasizes inflation's impact on poverty, affecting purchasing power and wealth distribution. Methodologically, a quantitative approach using secondary data from 2010 to 2022 is employed. Panel data regression reveals economic growth's substantial influence on poverty, aligned with prior research. The study underscores Islamic economics' role in alleviating poverty, stressing justice, equitable wealth distribution, and governmental interventions. The Productive Economic Endeavors (UEP) and Non-Cash Food Assistance (BPNT) programs emerge as avenues for marginalized community upliftment, guided by social equity and economic progress. The study advocates sustained robust economic growth, equitable income distribution, and fortified social assistance programs as essential strategies to combat poverty. In essence, this study enriches comprehension of the complex ties between economic factors and poverty in North Sumatra.

INTRODUCTION

Annually, the inflation pressure in North Sumatra in the second quarter of 2022 showed an increase compared to the previous quarter. Inflation in North Sumatra during the second quarter of 2022 was recorded at 5.61% (yoy), higher than the previous quarter's 3.26% (yoy). In addition, North Sumatra's inflation was also higher than the national inflation rate of 4.35% (yoy), yet it remained lower than the inflation rate of 5.82% (yoy) in Sumatra during the second quarter of 2022. This indicates that the inflation rate in North Sumatra has been consistently increasing year by year.

Ali Hardana's research asserts a correlation between inflation rates and poverty. Interviews with employees revealed concerns over inflation, as it disrupts the purchasing power of fixed-income households. Inflation leads to three effects: firstly, it reduces the real income of fixed-income individuals, resulting in a decrease in the real value of money held; secondly, it diminishes the value of wealth held in the form of money; and thirdly, it worsens wealth distribution (Sukirno, 2007). Therefore, it can be stated that inflation can lead society toward poverty (Ali Hardana, 2022).

In the study by Dudi Septiadi, it was suggested that the inflation variable significantly influences the number of people living in poverty, with a negative correlation. The research results indicate that a 10% increase in inflation leads to a 1% decrease in the number of people living in poverty (Septiadi, 2020).

However, Windra's study found that inflation does not have a significant impact but shows a positive trend toward poverty in Indonesia (Pan Budi Marwoto, 2016). Similar results were also presented by Hambarsari and Kunto, suggesting a positive but insignificant relationship between inflation and poverty due to the manageable and light nature of the inflation, along with market operations (Inggit, 2016). Additionally, Niswati's research indicated that inflation does not have a significant influence on poverty, as the inflation rate remains lower than the minimum wage in districts (Niswati, 2014).

The concept of Maqashid Shariah, as the foundational principle in Islamic economics to achieve prosperity and well-being, aims to fulfill all human needs, thereby creating positive impacts. Maslahat, in this context, represents a condition where both material and non-material aspects are met in the pursuit of life activities. The concept of poverty alleviation based on Maqashid Shariah prioritizes humanity's role as stewards of the Earth. This concept emphasizes responsible and socially beneficial management and utilization of natural resources, without abuse. Wealth can be shared with those in need through the payment of Zakat, Infak, Sedekah, and Wakaf (Ziswaf).

Poverty alleviation based on Maqashid Shariah, through the broader application of Ziswaf, includes: 1) Production activities. Ziswaf generates potential new demand, boosting aggregate demand and encouraging producers to increase production to meet the higher demand. 2) Investment. Islamic principles encourage investment, especially those in line with Shariah. 3) Job opportunities. Ziswaf increases individuals' income, which can be used for entrepreneurial endeavors, ultimately improving the livelihoods of the needy. 4) Economic growth. Utilizing Ziswaf for entrepreneurial endeavors contributes

to economic growth, as changes in individual income elevate consumption, demand, and production factors, driving the pace of the Islamic economy, which begins with Ziswaf instruments.

Allah SWT does not favor those who squander resources, hoard wealth, succumb to greed, or disregard the poor. All humans are created equal, though some possess more potential, energy, and wealth, resulting in varying degrees of economic success. Therefore, the importance of distributing wealth from earned income to those in need is paramount in achieving the true goals of Maqashid Shariah.

Based on the aforementioned background, the author attempts to conduct research on the aforementioned issue with the title "Poverty Alleviation in Indonesia: Analysis of Macroeconomic Indicators (A Case Study in North Sumatra Province)."

THEORETICAL REVIEW

To provide further clarity in the discussion and also to address the problem formulation outlined in the previous chapter, the author constructs a thinking framework using a variable framework approach. This allows for a more systematic presentation of the discussion and the logical flow of ideas in this thesis.

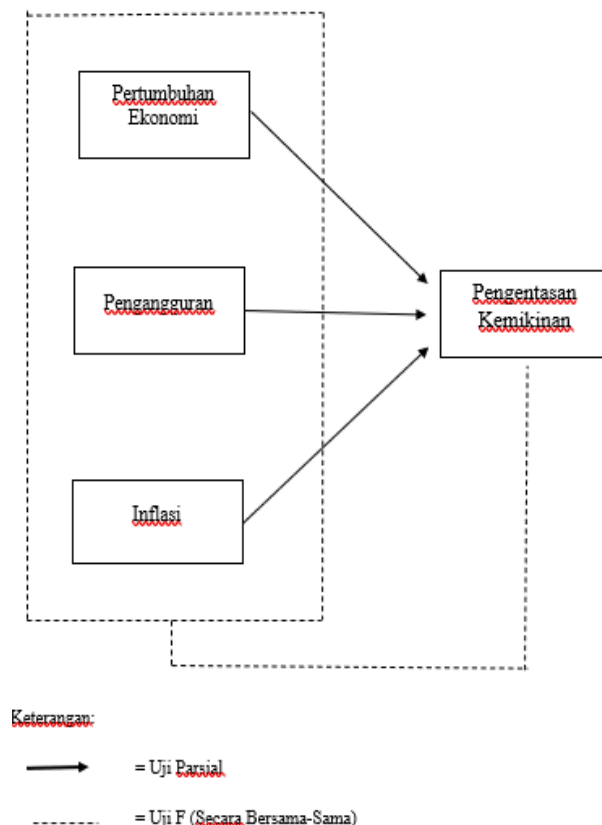


Figure 1. Conceptual Framework

The research design employed in this study is quantitative research, which utilizes theories and data relevant to the research topic. Quantitative research is a method that involves analyzing numerical data to study and explore previously researched phenomena (Kasiram, 2008). The analysis in this study is employed to examine the dynamics of economic growth, income inequality, and poverty alleviation in North Sumatra Province during the research period. The analysis is presented in the form of tables and graphs for reader-friendly comprehension.

The research objective and direction aim to investigate causal relationships between independent variables—Economic Growth, Unemployment, and Inflation—and the dependent variable, namely poverty.

The data utilized in this study is secondary data (Time Series), collected by data-collecting agencies and made available to the public. The secondary data is sourced from various relevant institutions, including publications from the Central Statistics Agency accessed through official websites, as well as government agencies that support this research data.

The data takes the form of a panel, covering the period from 2010 to 2022 and encompassing the 33 regencies/cities in North Sumatra Province. The dependent variable in this study is poverty data, analyzed for significance with the independent variables—economic growth, unemployment, and inflation in North Sumatra. Definitions and indicators used in this study are outlined.

The research approach employed is literature review, a technique to gather data and information through relevant documentation, involving collecting necessary data from books, references, theses, and internet browsing. Additionally, a field research approach is used to collect data on Economic Growth, Unemployment, Inflation, and poverty variables, obtained in processed form from the North Sumatra Province Central Statistics Agency (BPS).

In analyzing the influence of pooled panel data variables—population, unemployment, zakat, and poverty—the researcher utilizes the panel data regression method, which combines time series and cross-sectional data. Consequently, panel data possesses characteristics of multiple objects across different time periods.

To analyze panel data, an appropriate model specification test is required to depict the data accurately. Choosing the most suitable model involves various tests, such as the Chow Test, Hausman Test, or Lagrange Multiplier Test.

RESULTS AND DISCUSSION

Research Location

Geographically, North Sumatra Province is situated between 1° - 4° latitude north and 98° - 100° longitude east. It comprises 33 regencies/cities with their capital located in Medan. The province possesses considerable natural resources diversity, presenting promising investment opportunities in its various regions.

North Sumatra is situated in the western part of Indonesia. With a land area of 72,981.23 km² and a sea area of 11,000,000 km², it covers 3.72% of

Indonesia's total land area, with a population of 14,908,036 individuals. The province encompasses 162 islands, with 6 on the eastern coast and 156 on the western side. It consists of 5,626 villages/urban communities, 25 regencies, and 8 cities.

Following the implementation of regional autonomy in 2005, North Sumatra Province has 25 regencies/cities, including 18 regencies and 7 cities. In comparison to the pre-autonomy period, the province had only 13 regencies and 6 cities. Between 2004 and 2006, the number of sub-districts increased by 30, from 331 to 361, and the total number of villages/urban communities increased by 129, from 5,491 to 5,620. North Sumatra Province is the fifth oldest province in Indonesia.

Influence of Economic Growth on Poverty

The relationship between economic growth and poverty operates in two directions. High and sustained economic growth leads to increased demand for labor, higher wages, and reduced poverty rates. Additionally, rising income enhances labor productivity and further fuels economic growth. Economic growth also positively impacts public revenue, which the government can allocate towards infrastructure and social services, thereby aiding poverty reduction. Thus, robust economic growth plays a pivotal role in addressing poverty-related challenges.

The variable Economic Growth (EG) has a probability value of 0.0387, exceeding the significance level of 0.05 ($0.0387 < 0.05$), and the computed t-value is smaller than the critical t-value ($-3.401842 > 2.37$). As a result, the null hypothesis (H₀) is rejected, and the alternative hypothesis (H₁) is accepted. Consequently, it can be concluded that the Economic Growth (EG) variable significantly influences Poverty in North Sumatra.

This is in line with the findings of Rudy & Indah (2020), who revealed a significant impact of economic growth on poverty levels. Increased economic growth leads to the creation of new job opportunities, subsequently reducing unemployment and poverty rates.

Influence of Unemployment on Poverty

Unemployment has negative consequences, particularly in reducing individual income and impeding prosperity. Reduced societal welfare ensues as people lose their income, potentially trapping them in poverty. In North Sumatra, the high unemployment rate is closely linked to the poverty rate, given that a significant portion of the population relies on salaries or wages as their primary income source. A decline in employment opportunities leads to difficulties in meeting daily needs, resulting in increased poverty rates alongside rising unemployment levels.

The variable Unemployment (UN) has a probability value of 0.2365, exceeding the significance level of 0.05 ($0.2365 > 0.05$), and the computed t-value is smaller than the critical t-value ($0.028620 < 2.37$). Consequently, the null hypothesis (H₀) is accepted, while the alternative hypothesis (H₁) is rejected. It can be inferred that the Unemployment (UN) variable does not significantly affect poverty in North Sumatra.

This is consistent with the study by Bella Bektı Triwulandari et al. (2023), which indicated that unemployment has a positive but insignificant effect on poverty. This could be attributed to the fact that individuals with unemployed family members might be supported by higher family incomes, mitigating the impact on overall poverty levels.

Influence of Inflation on Poverty

According to Keynesian theory, inflation occurs when society strives to live beyond its economic means. This means there is competition among social groups to obtain a larger share than what the community can actually provide, resulting in demand for goods and services exceeding availability (known as the inflationary gap). The Central Bureau of Statistics (BPS) has stated that high inflation rates can expand the poverty line. This is because the prices of goods and services play a role in determining the poverty line. Rising inflation is likely to elevate the poverty line due to price increases. However, this is not always the case, as poverty rates are also influenced by income increases and the effectiveness of government policies. Additionally, controlled inflation can stimulate economic activity, albeit at the cost of reduced purchasing power.

The variable Inflation (INF) has a probability value of 0.8839, exceeding the significance level of 0.05 ($0.8839 > 0.05$), and the computed t-value is smaller than the critical t-value ($-0.020276 < 2.03$). As a result, the null hypothesis (H₀) is accepted, and the alternative hypothesis (H₁) is rejected. Therefore, it can be concluded that the Inflation (INF) variable does not significantly influence poverty in North Sumatra.

This aligns with the study conducted by Susanto and Pangesti (2021), which analyzed the influence of inflation and economic growth on poverty levels in Indonesia. This condition may arise because the population of the poor in North Sumatra increases annually, making them less sensitive to inflation due to their lack of purchasing power.

Alleviating Poverty according to Islamic Economics

In the capitalist view, economic problems stem from the limited natural resources, leading to insufficient availability of goods and services to meet the growing needs and desires of humans. Consequently, poverty arises when individuals are unable to secure a sufficient portion of this wealth.

However, in the Islamic perspective, the notion of limited natural resources contradicts religious teachings. Islam explains that Allah has provided abundant natural resources to meet human needs when managed properly and distributed equitably. These resources are a divine gift and should suffice for all of humanity. In reality, poverty arises due to unequal and unjust distribution of wealth. Poor management of natural resources often results from greed and disregard for equitable utilization. Consequently, wealth distribution becomes skewed, which is the main factor contributing to poverty in the Islamic view.

According to Imam Al-Ghazali, poverty is the inability of an individual to meet their basic needs. In Islam, excessiveness and lavishness are not condoned. Islam emphasizes fundamental needs and discourages living

extravagantly. The eradication of poverty in its entirety is challenging due to the natural order, but it can be minimized through various policies and programs implemented by both individuals and the government. Islam encourages its followers to attain self-sufficiency.

In Islamic teachings, Allah SWT urges believers to be charitable to others. Islam teaches the importance of giving and sharing wealth for the sake of Allah. Human beings, as believers, are obligated to strive for their sustenance. In doing so, Islam encourages diligent effort. The government also plays a crucial role in poverty alleviation by upholding justice. Islam places a high value on justice, as it is instrumental in minimizing poverty.

The government's role in upholding justice is reflected in its primary principles for poverty alleviation in Islamic teachings. This includes promoting economic growth that benefits the broader society, such as avoiding usury and promoting real sectors, developing a budget that prioritizes public interests with efficient spending, building infrastructure to enhance economic capacity, providing basic public services like healthcare and education, and policies for income redistribution through zakat, infak, wakaf, and inheritance.

One of the efforts made by the government of North Sumatra to alleviate poverty is the Productive Economic Endeavors (Usaha Ekonomi Produktif or UEP) program. UEP is a social assistance program provided by the Directorate of Poverty Alleviation. UEP consists of activities aimed at empowering the poor to access economic resources, improve entrepreneurial skills, increase work productivity, raise income, and establish mutually beneficial business partnerships. The program offers economic facilities or business capital assistance to the poor through individual, family, group, or community-based approaches.

The objectives of the UEP program include providing business capital to beneficiaries, enhancing existing entrepreneurial opportunities, increasing the income of beneficiary families, fostering self-reliance, and improving social relationships within families. One of the main goals of UEP is to empower beneficiary families economically, with a focus on whether the program has succeeded in achieving economic empowerment given its limitations.

Another program, the Non-Cash Food Assistance (Bantuan Pangan Non Tunai or BPNT), was introduced in 2017 and continues today. BPNT provides non-cash social food assistance to eligible families registered in the Integrated Social Welfare Data (DTKS) of the Ministry of Social Affairs. Both UEP and BPNT programs are implemented with transparent and accountable procedures and data collection. The Ministry of Social Affairs also uses an application to ensure the accuracy of aid distribution and targeting, ensuring that assistance reaches those in need fairly.

CONCLUSIONS AND RECOMMENDATIONS

Based on the findings of the conducted research, several conclusions can be drawn. The relationship between economic growth and poverty exhibits a two-way direction. Sustained and high economic growth can lead to increased

demand for labor, higher wages, and subsequently, a reduction in poverty levels. Increased income also strengthens workforce productivity and further propels economic growth. Moreover, positive economic growth has positive implications for public income, which can be utilized by the government to enhance infrastructure and social services, contributing to poverty reduction. Conversely, unemployment has adverse effects, particularly in reducing people's income and hindering individual prosperity. This situation arises when job opportunities diminish, causing difficulties in meeting daily needs and posing a risk of falling into poverty. On another note, the impact of inflation on poverty is more intricate. While high inflation may elevate the poverty line due to rising prices of goods and services, poverty is also influenced by income factors and the effectiveness of government policies. Therefore, these economic factors collectively play a pivotal role in addressing the issue of poverty. From an Islamic economic perspective, addressing poverty underscores the principles of social justice, equitable distribution, and active roles of both the state and society. Based on these findings, recommendations include maintaining healthy economic growth, ensuring fair income distribution, and addressing income inequality. Additionally, governments should consider developing social programs that assist impoverished communities, such as the Productive Economic Efforts program and the Non-Cash Food Assistance program.

FURTHER STUDY

Further studies in this field could delve into several unexplored areas to enhance our understanding of the complex relationship between economic factors and poverty. One potential avenue is to investigate the interplay between income inequality and poverty, examining how widening income gaps may exacerbate or mitigate poverty levels. Additionally, exploring the effectiveness of targeted social programs, like the Productive Economic Efforts and Non-Cash Food Assistance initiatives, in reducing poverty could offer valuable insights into their long-term impact on impoverished communities.

Further research could also focus on the role of education and skills development in poverty reduction. Understanding how improved access to education and skill-building opportunities can empower individuals to escape poverty could provide actionable recommendations for policy interventions. Furthermore, a comparative study across different regions or countries could shed light on the contextual factors that influence the relationship between economic growth, unemployment, inflation, and poverty.

Incorporating a qualitative dimension into future research could enhance our comprehension of the lived experiences of those affected by poverty. Qualitative studies could offer deeper insights into the challenges and opportunities faced by individuals and communities, providing a more comprehensive picture of the multifaceted nature of poverty.

Lastly, considering the evolving global economic landscape and emerging trends, future studies could explore the impact of technological advancements, digital inclusion, and sustainable development on poverty dynamics. By addressing these areas of inquiry, researchers can contribute to

more effective policies and strategies aimed at eradicating poverty and fostering inclusive economic growth.

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