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AUTHOR

Muhammad Hasan

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An Analysis of the Effect of Economic Growth, Inflation, and Open Unemployment on Poverty in South Sulawesi Province

[1]Nurdiana,[2]Muhammad Hasan,[3]Nur Arisah, [4]Andi Sawe Riesso
[5]Dillah Faradilla Hasanah

[1,2,3](Department of Economics Education, Faculty of Economics, UniversitasNegeri Makassar, Indonesia)
[4,5](Department of Management, Sekolah Tinggi Ilmu Ekonomi-Pembangunan Indonesia, Indonesia)
Corresponding Author; Nurdiana

ABSTRACT: *This study aimed to analyze and know the effectof economic growth, inflation and unemployment on poverty in South Sulawesi Province. This research used secondary data namely serial time data year 2009-2018. Data analysis and hypothesis used in thisstudy were path analysis method model. Based on the analysis, it was found out that the economic growth had no effect on poverty. Similarly, inflation had no significant effect on poverty too. Open unemployment had a significant effect on poverty. Thus, the government should expand employment and employment opportunitiesin order toreduce unemployment in South Sulawesi Province.*
KEYWORDS: *Poverty, EconomicGrowth, Inflation, and Open Unemployment*

I. INTRODUCTION

Poverty is a condition that is often associated with the inadequate of the economic power in order to meet the needs of daily life. Poverty in absolute terms is based on the inability to fulfil the minimum basic needs such as food, clothing, health, housing and education which are necessary to live and work. Minimum basic needs are considered as a financial measure in terms of money. The value of minimum basic needs is known as the poverty line. People whose income is below the poverty line are classified as poor.

There are many factors that influence poverty levels. Many studies regarding economic growth, inflation, and open unemployment have emerged. Those became important factors affecting the level of poverty in a country. Poverty, unemployment and inflation are frightening global phenomena that affect people at various levels at different times and phases of life (Siyan &Adegoryola, 2017).

Basically, economic growth is the main requirement in poverty alleviation, and the second one is economic which ispro-poor growth (Thamrin& Hasan, 2018). Economic growth is indeed not enough to alleviate poverty, but usually economic growth is something that is needed.However, good economic growth will not lead to a reduction number of the poor if it is not accompanied by equal income distribution (Misini&Pantina, 2017)

Unemployment and inflation are issues that are important to the social and economic life of every country (Ademola &Badiru, 2016). Inflation is a condition in which prices increase significantly and continuously. A high inflation rate can be caused by the high demand for an item or goods. In accordance with the law of demand, if demand rises, the price will also increase. If the demand for goods increases, then producers will compete to increase their production by increasing the number of workers. The addition of this workforce will reduce the unemployment rate. Thus, it can be inferred from such explanation that when governments intend to reduce the unemployment rate, they must bear the increase of the inflation rate in national economy.

One of the main challenges for policy makers is how to maintain a low and stable unemployment rate and relatively stable prices in order to achieve high economic growth (Anning et al., 2017). Various efforts have been made by the government to overcome the problem of poverty. One of them is controlling the inflation rate. If theinflation rate increases, the ability of the people to meet their daily needs will decrease. Consequently, the poverty rate is getting higher. The high level of poverty in an area causes people's purchasing power to be low.

The social impact of high unemployment could increase the crime rate, either in the form of robbery, theft or illegal trade. This happens because of the demands of the people's needs that must be met, at least basic needs.

II. RESEARCH METHODS

This research was a quantitative research. The data used in this study was secondary data, in the form of time series data in the period 2009-2018 in South Sulawesi Province.

To analyse the data, a path analysis was used. The independent variables in this study were economic growth and inflation. The intervening variable, namely variables that affect the independent variable and the dependent variable, was open unemployment. Meanwhile, the dependent variable in this case was poverty. Path analysis was used to examine the effect of intervening variables towards dependent and independent variables. The data used were analysed quantitatively using path analysis which was an extension of multiple regression analysis.

III. RESULTS AND DISCUSSION

In this study, the path analysis model was used to analyzethree interrelated variables namely independent variables, intervening variable, and dependent variables. The economic growth (X1) and inflation (X2) were independent variables; while open unemployment (X3) was the intervening variable; and the poverty variable (Y) was the dependent variable. The results of the analysis can be seen in the following table:

Table 1. Direct Effect Hypothesis Testing Results

Independent Variable	Dependent Variable	Direct EffectPath Coefficient (p)	t	Sig.	Result
Economic Growth	Open Unemployment	-.214	-.532	.611	Not Significant
Inflation	Open Unemployment	-.038	-.094	.928	Not Significant
Economic Growth	Poverty	.008	.041	.968	Not Significant
Inflation	Poverty	.162	.897	.404	Not Significant
Open Unemployment	Poverty	.922	5.437	.002	Significant

Tabel 2. Indirect Effect Hypothesis Testing Results

Independent Variable	Dependent Variable	Indirect EffectPath Coefficient (p)	Result
Economic Growth	Open Unemployment	-.114	Not Significant
Inflation	Open Unemployment	-.035	Not Significant
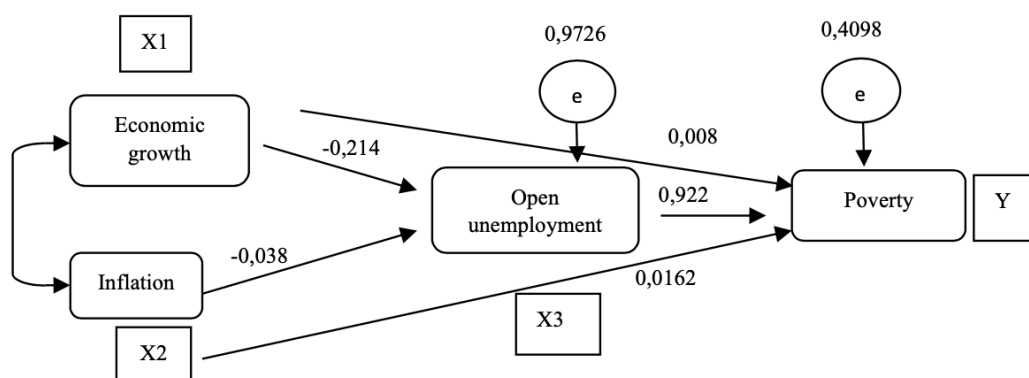
Figure 1. Hypothesis Testing Result

From the results of the data processing above, the following results were obtained. The first hypothesis was an analysis of the effect of economic growth (X1) on open unemployment (X3). From the analysis, the significance value of economic growth was 0.611> 0.05. Thus, it could be concluded that there was no direct significant effect of the economic growth variable on open unemployment. Based on the path analysis, the direct

effect path coefficient was -0.124. This means that every 1 percent of the improvement in the economic growth variable will result in a decrease of 0.214 percent in the open unemployment variable.

The results of these studies were in line with the results of previous studies. There were several explanations why although the rate of economic growth (particularly non-oil and gas) had improved, there was still no visible improvement in adequate employment opportunities. Firstly, the source of improvement in economic growth generally came from public and government consumption, not from an improvement in economic capacity. As a result, new job creation tended to be minimal and tended to only maintain existing jobs (Carre '&Drouot, 2004). Other studies also reported that the financial recession affected the labour market and Okun's elasticity during the business cycle. They found that highly influential sectors and periods were associated with higher employment elasticity of output during the banking crisis and this effect explained Okun's observations of higher elasticity during financial recessions (Carre '&Drouot, 2004). Other researchers said that their results had important policy implications; economic policies related to demand management would not have an important effect on reducing unemployment in Jordan. However, economic policies were more oriented towards structural change and labour market reforms would be more appropriate in the case of Jordan (Kreishan, 2011).

The second hypothesis was an analysis of the effect of inflation (X2) on open unemployment (X3). From the analysis, it was obtained that the inflation significance value was 0.928> 0.05. Thus, it can be concluded that there was no direct influence of the inflation variable on open unemployment. Based on the path analysis, the direct effect path coefficient was -0.038. This means that every 1 percent improvement in the inflation variable will lead to a decrease of 0.038 percent in the open unemployment variable.

Previous research results also stated that Model Functions (IRFs) showed that from 1984 to 2017, unemployment caused inflation, not vice versa. The results implied that the Phillips' model which propagated the reciprocal relationship between inflation and unemployment was not supported empirically in Indonesia (Kreishan, 2011).

The third hypothesis was an analysis of the effect of open unemployment (X3) on poverty (Y). From the analysis, the open unemployment significance value was 0.002 <0.05. Thus,it can be concluded that there was a direct significant effect of the open unemployment variable on poverty. Based on the path analysis, the direct effect path coefficient was 0.922. This means that every 1 percent improvement in the open unemployment variable will lead to an improvement of 0.922 percent in the poverty variable.

The results of this study were in line with previous research which stated that unemployment increased the risk of poverty and contributed to inequality, and also created a series of debilitating social effects on the unemployment of people themselves, their families, and the communities which they live in (Thamrin& Hasan, 2018Ha).

The fourth hypothesis was an analysis of the effect of economic growth (X1) on poverty (Y). From the analysis, it was obtained the significance value of economic growth of 0.968> 0.05. So it can be concluded that there was no direct significant influence of the economic growth variable on poverty. Based on the path analysis, the direct effect path coefficient was 0.008. This means that every 1 percent improvement in the economic growth variable will lead to an improvement of 0.008 percent in the poverty variable.

The results of this study were in line with previous research which stated that the effect of economic growth on poverty alleviation was indirect. Employment opportunities perfectly mediated the effect of economic growth on poverty in Java. This means that economic growth can only reduce poverty when it increases employment opportunities. Therefore it is necessary to create human resources both in quantity and quality that can support economic growth (Hasan & Azis, 2018).

The fifth hypothesis was an analysis of the effect of economic growth (X1) through open unemployment (X3) on poverty (Y). It was known that the direct effect of economic growth on poverty was 0.008. Meanwhile, the indirect effect of economic growth through open unemployment on poverty was the multiplication of the beta value X1 against X3 with the beta value X3 against Y, namely: -0.124 x 0.922 = -0.114. Then the total effect given by economic growth on poverty was the direct effect plus the indirect effect, namely: 0.008 + (-0,114) = -0,106. Based on the calculations, it wasfound out that the value of the direct effect was 0.008 and the indirect effect was -0.114, which means that the value of the indirect effect was smaller than the value of the direct effect. This result showed that indirectly economic growth through open unemployment has no significant effect on poverty.

The sixth hypothesis was an analysis of the effect of inflation (X2) on poverty (Y). From the analysis, it was obtained that the inflation significance value was 0.404> 0.05. So it can be concluded that there was no direct influence of the inflation variable on poverty. Based on the path analysis, the direct effect path coefficient was 0.162. This means that every 1 percent improvement in the inflation variable will lead to an improvement of 0.162 percent in the poverty variable.

The results of this study were in line with previous research which stated that inflation was a macroeconomic determinant for changes in poverty conditions in a country. The poor would not be affected by

the inflation rate because basically the poor did not have purchasing power. Thus, even though inflation occurs, they still have no purchasing power (Shahidur, 2012).

The seventh hypothesis was an analysis of the effect of inflation (X2) through open unemployment (X3) on poverty (Y). It was found out that the direct effect of inflation on poverty was 0.162. While the indirect effect of inflation through open unemployment on poverty was the multiplication of the beta value X2 against X3 with the beta value X3 against Y, namely: -0.038 x 0.922 = -0.035. Then the total effect given by economic growth on poverty was the direct effect plus the indirect effect, namely: 0.162 + (-0.035) = 0.127. Based on the results of the calculation, it was found out that the value of the direct effect was 0.162 and that of the indirect effect was -0.035. It meant that the value of the indirect effect was smaller than the value of the direct effect. This result showed that economic growth through open unemployment indirectly did not have a significant effect on poverty.

IV. CONCLUSION

Based on the analysis and discussion in the previous section, several conclusions were drawn as follows:
1. Directly there is no significant influence of the economic growth variable on open unemployment in South Sulawesi Province.
2. Directly there is no significant influence of the inflation variable on open unemployment in South Sulawesi Province.
3. Directly there is a significant effect of the open unemployment variable on poverty in South Sulawesi Province. Based on the path analysis, the direct effect path coefficient was 0.922. This means that every 1 percent improvement in the open unemployment variable will result in an increase of 0.922 percent in the poverty variable.
4. Directly there is no significant influence of the economic growth variable on poverty in South Sulawesi Province. Also indirectly there is no significant influence between the variables of economic growth through open unemployment on poverty.
5. Directly there is no significant influence of the inflation variable on poverty in South Sulawesi Province. In addition, indirectly there is no significant influence between the inflation variable through open unemployment on poverty.

Because open unemployment was significant for increasing poverty in the province of South Sulawesi, it was necessary to spur economic growth, especially in sectors that absorb a lot of labours, namely the tertiary sector and the primary sector so that job opportunities are more open. It will ultimately reduce poverty in South Sulawesi Province. For this reason, the provision of employment must continue. The role of the business world can be further enhanced in providing employment opportunities and reducing poverty through community empowerment programs.

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