Economic Growth on Islamic Economic Perspective: The Effect of Local Income Standard (PAD) and Unemployment Rate in Lampung Province-Indonesia

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Abstract

The purpose of this study was to find out local original income (PAD) and open unemployment rate (TPT) on the economic growth of districts and cities in Lampung province. To find out regional original income (PAD) and open unemployment rate (TPT) on the economic growth of districts and cities in Lampung province from an Islamic economic perspective. The method used in this study is a quantitative method using secondary data from the Official website of the Central Bureau of Statistics for Lampung Province, namely Regional Income Data, Open Unemployment Rate, and GRDP Per Capita at Constant Prices for 2017-2021. The results of the study show that Regional Original Income (PAD) and Open Unemployment Rate jointly affect the Economic Growth of Regencies and Cities in Lampung Province in 2017-2021.

Keywords: Regional Original Income, Open Unemployment Rate, Economic Growth, Islamic Economics

1. Introduction

Economic growth is the growth of the level of national income that occurs in a country from year to year.ⁱ Economic growth is an important part of economic policy in any country or economic system. Overall, it can be assumed that economic growth will lead to greater economic opportunity and equity.ⁱⁱ Economic growth can be defined as the development of activities in the economy that cause goods and services produced in society to increase. Economic growth is a long-term economic problem. From one period to another the ability of a country to produce goods and services will increase.ⁱⁱⁱ The main goal of economic development is to create the highest possible rate of economic growth, followed by eradicating poverty, overcoming income inequality, providing employment opportunities, better education, improving health and nutrition standards, improving environmental conditions, and equal opportunity. as well as refreshing cultural life.

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opportunities, better education, improving health and nutrition standards, improving environmental conditions, and equal opportunity. as well as refreshing cultural life.

- 1. The high level of income per capita
- 2. High labour productivity
- 3. The high transformation factor of the economic structure
- 4. The high transformation factor of the economic structure
- 5. The high factor of social ideological transformation
- 6. The ability of the economy to expand the market
- 7. There is an awareness that economic growth is limited

Of the six characteristics, the per capita income level is one of the references for measuring economic growth in Lampung province, the per capita income level can be reflected in the Per Capita Gross Regional Domestic Product (GRDP) at constant prices.

Following the unitary principle that regional government is inseparable from the central government, on this basis regional independence in its household is not interpreted that each regional government must be able to finance all expenditures from its regional revenue, as a follow-up to granting autonomy to the regions so that they can regulate and manage their households in increasing efficiency and effectiveness in the implementation of government in the regions, efforts to increase Local Own Revenue are necessary to anticipate the implementation of real and responsible autonomy.^{vii}

The government realizes that Regional Original Revenue is a part that also determines the success of the development carried out, so the government tries to prevent a decline or at least maintain the value achieved previously by increasing intensive supervision of the officers/apparatus concerned and providing counselling to the community of the importance of the Regional Original Revenue in supporting regional development.

Unemployment is a situation where someone who belongs to the labour force wants to get a job but has not been able to get it. A person who is not working, but not actively looking for a job is not classified as unemployed. Unemployment can occur due to an imbalance in the labour market. This shows that the amount of labour offered exceeds the amount of labour demanded.

According to the Central Bureau of Statistics (BPS) in the employment indicator, unemployment is a resident who is not working but is looking for work or is preparing for a new business or residents who are not looking for work because they have been accepted to work but have not started working.^{viii}

According to Sukirno, the causes of unemployment can be classified into three types, namely:ix

- 1. Frictional unemployment is unemployment that exists when the economy has achieved full employment.
- 2. Structural unemployment occurs due to changes in the structure or composition of the economy.
- 3. Technological unemployment is caused by the replacement of human labour by machines and chemicals caused by technological developments.

Open unemployment has always been a problem in the regions and in the country, a large population has implications for a large workforce. The number of unemployed is large if the country or region does not provide jobs for them. Reporting from Lampost. co the Central Statistics Agency (BPS) for Lampung Province submitted employment information in Lampung Province for the period August 2021. The Open Unemployment Rate (TPT) was recorded at 4.69%. In August 2021, the total workforce in Lampung was 4.49 million people, an increase of 5.3 thousand people from August 2020. The open unemployment rate for August 2021 was 4.69 per cent, up 0.02 percentage points compared to August 2020.

Islam defines economic growth as the continuous development of factors of production that are capable of contributing to human welfare.^x The fundamental difference between conventional economic growth and Islamic economic growth lies in the ultimate goal of economic growth itself. Conventional economics is only oriented towards high growth of activity of economic life, without accompanying it with an equitable contribution of the resulting output which in the end ends in material welfare whose distribution is unequal for human welfare.

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Meanwhile, Islamic economics views growth as a means to improve human material welfare regardless of race, religion, and nation. More than that, economics has dual orientation terms of economics, namely material welfare (worldly) and inner satisfaction (*ukhrawi*).^{xi}

Islam has warned its people not to let anyone become unemployed and slip into poverty because they are afraid that with poverty someone will do anything including harming others to fulfil their personal needs, there is a hadith that says "poverty will bring disbelief.

However, in reality, the unemployment rate in countries with predominantly Muslim populations is relatively high. Increased public understanding of bad unemployment, both individuals, society, and the state, will increase motivation to work more seriously. Even though Allah has promised to bear all of our sustenance, that does not mean that there are no conditions that need to be fulfilled. The most important condition is that we must try to find the promised fortune because Allah SWT has created a "system", that is, whoever works will get the fortune and whoever does nothing will lose the fortune. That is, there is a process. that must be passed to get the *rizki*.

2. Literature Review

2.1 Regional Original Income (ROI)

Regional Own Revenue is revenue obtained from the regional tax sector, regional levies, results of regionally owned companies, results of separated regional wealth management, and other legitimate regional original income.^{xii}

2.2 Open Unemployment Rate (OUR)

The Open Unemployment Rate is the Open Unemployment is the creation of unemployment as a result of the lower addition of employment compared to the growth of the workforce.^{xiii}

2.3 Economic Growth

Economic growth is a quantitative measure used to describe the development of an economy in a certain year compared to the previous year.^{xiv} Growth is a long-term change that is slow and steady seen from the increase in savings and population.^{xv}

2.4 Islamic Economics

Islamic economics is a science that studies human effort to allocate and manage resources to achieve *falah* based on the principles and values of the Qur'an and Sunnah.^{xvi}

3. Research Methods

3.1 Research Approach

The approach used in this research is quantitative. Quantitative research is a quantitative method that can be interpreted as a research method based on the philosophy of positivism. Used to examine certain populations or samples, data collection uses research instruments, data analysis is quantitative to test the hypotheses that have been set.

3.2 Type of Research

The type of research used in this research is analytical descriptive research, namely research to describe more precisely the characteristics of efforts to determine the frequency of occurrence of something or the relationship of something else and provide symptoms, facts, or events systematically and accurately regarding the characteristics of a population or area.

3.3 Population

The population is a generalization area consisting of objects and subjects that have certain qualities and characteristics determined by the researcher to be studied and then drawn conclusions.^{xvii} The population taken in this study is the amount of data collected from the regional original income sector data report and the open unemployment rate and the GRDP growth rate of the economic sectors at constant prices according to business fields in Lampung Province, the Central Statistics Agency (BPS) Province Lampung, namely Regional Income Realization data, the Central Bureau of Statistics (BPS) Lampung Province, namely Open Unemployment Rate data, which have been published by BPS Lampung Province and BPS Lampung Province.

3.4 Sample

The sample is part of the number and characteristics possessed by the population which serves to describe the actual state of the population or represent it. The sampling technique in this study is to use non-probability sampling. The type of non-probability sampling used in this study is a saturated sample, namely a sampling technique with all members of the population being sampled.^{xviii}

3.5 Data collection techniques

a. Documentation

Documentation is intended to obtain data directly from the research site, including in the form of letters, diaries, souvenirs, reports, artefacts, and photographs.

b. Literature review

Literature Study Literature study can be understood as a conceptual framework for carrying out an analysis of research and classifying the facts collected in the research being carried out. A literature study is a description that contains theories, findings, and other research materials obtained from reference materials to become the basis for a research activity to be carried out.

3.6 Regression Model Selection

a. Chow Test

The Chow test is used to determine the best panel data regression estimation model between the Common Effect Model and the Fixed Effect Model. If the p-value or probability is less than 5% then H0 is rejected and H1 is accepted so that the estimation model used is the Fixed Effect. Vice versa, if the probability value is more than 5% then H0 is accepted and H1 is rejected so that the estimation model used is a Common Effect.

Table 1: Chow Test Results

Redundant Fixed Effects Tests Equation: FE Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	76.533941	(14,58)	0.0000
Cross-section Chi-square	222.679901	14	0.0000

Source: E-views 10, processed 2022

Based on the table above, it can be seen that the results of the Chow test on the effect of regional original income (PAD) and the open unemployment rate (TPT) on economic growth produce a probability value of 0.0000 wherein the Chow test if the p-value or probability value < 0.05 significance level then reject H0 and accept H1. Therefore, the estimation model based on the Chow test results is the Fixed Effect Model.

b. Hausman Test

The Hausman test aims to determine whether the Random Effect model is better used than the Fixed Effect model. When the Chi-Square probability value is smaller than 5% then H0 is rejected and H1 is accepted so a good estimation model used is Fixed Effect. The same goes for the opposite.

Table 2: Hausman Test Results

Correlated Random Effects - Hausman Test Equation: RE Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.062050	2	0.9695

Source: E-views 10, processed 2022

Table 2 shows the results of the Hausman test with a probability value of 0.9695. The conclusion can be drawn because the probability value > 0.05 significance level is accepting H0 and rejecting H1, which means establishing the Random Effect Model as a good model to use.

c. Lagrange Multiplier (LM) Test

The LM test was conducted to select the best model between the Common Effect model and the Random Effect Model. The LM test is based on the Chi-Square distribution with degrees of freedom (df) equal to the number of independent variables. If the Breush-Pagan probability value is less than a significance value of 0.05 then reject H0 and accept H1 which means REM is the best model. Vice versa.

Table 3: LM Test Results

Lagrange Multiplier Tests for Random Effects Null hypotheses: No effects Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Cross-section	Test Hypothesis Time	Both
Breusch-Pagan	131.1962	0.772626	131.9688
	(0.0000)	(0.3794)	(0.0000)

Source: E-views 10, processed 2022

From the LM test results above, the Breusch-Pagan probability value is 0.0000. The probability value < 0.05 significance level, which means that the best estimation of the regression model is the Random Effect Model.

d. Hypothesis Test

i) T Test (Partial Test)

This t-test aims to determine the effect of the independent variables, namely local original income and the open unemployment rate on the dependent variable, namely the economic growth of districts and cities in Lampung Province. The decision to accept the hypothesis or reject it is as follows:

- 1) If the significance value is > 0.05 then Ho is accepted and Ha is rejected (the regression coefficient is not significant). This proves that partially the independent variable has no significant effect on the dependent variable.
- 2) If the significance value is <0.05 then Ho is rejected and Ha is accepted (significant regression coefficient). This means that partially the independent variables have a significant influence on the dependent variable. The results of the partial test on the research data are presented in the table below

Table 3: T Test

Dependent Variable: *PERTUMBUHAN_EKONOMI* Method: Panel EGLS (Cross-section random effects) Date: 12/13/22 Time: 12:22 Sample: 2017 2021 Periods included: 5 Cross-sections included: 15 Total panel (balanced) observations: 75 Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.	
С	32463710	2978224.	10.90036	0.000	
PAD	0.030627	0.009192	3.332107	0.0014	
TPT	218288.0	374356.9	0.583101	0.5616	
	Effects Spe	ecification			
			S.D.	Rho	
Cross-section random			9101306.	0.9464	
Idiosyncratic random			2166676.	0.0536	
Weighted Statistics					
Root MSE	2094135.	R-squared		0.149683	
Mean dependent var	3965941.	Adjusted R-squ	uared	0.126063	
S.D. dependent var	2286278.	S.E. of regress		2137318.	
Sum squared resid	3.29E+14	F-statistic		6.337135	
Durbin-Watson stat	1.390950	Prob(F-statistic	2)	0.002917	

Unweighted Statistics				
R-squared	0.248912	Mean dependent var	37461785	
Sum squared resid	5.32E+15	Durbin-Watson stat	0.086005	

Source: E-views 10, processed 2022

Based on the results of the partial t-test in the table above, it can be concluded that the results are as follows:

- 1) The probability value of local original income is 0.0014<0.05, and the t-count value is 3.332107 <t-table 1.66629 which means it influences economic growth.
- 2) The probability value of the t level is 0.5616> 0.05, and the calculated t value is 0.583101 <t table 1.66629 meaning that it has no significant effect on economic growth.
- ii) F Test (Simultaneous Test)

The F test aims to determine whether there is an influence between the variables of economic growth, the open unemployment rate, and the minimum wage simultaneously on the poverty rate variable. The criteria used for concluding the F test are carried out in the following way:

- 1) If the significance is <0.05 or F Count > F Table, then the hypothesis is accepted
- 2) If the significance > 0.05 or F Count < F Table, then the hypothesis is rejected

Table 4: F Test

Dependent Variable: *PERTUMBUHAN_EKONOMI* Method: Panel EGLS (Cross-section random effects) Date: 12/13/22 Time: 12:22 Sample: 2017 2021 Periods included: 5 Cross-sections included: 15 Total panel (balanced) observations: 75 Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C PAD	32463710 0.030627	2978224. 0.009192	10.90036 3.332107	0.0000 0.0014
TPT	218288.0	374356.9	0.583101	0.5616
	Effects Spe	cification	S.D.	Rho
Cross-section random Idiosyncratic random			9101306. 2166676.	0.9464 0.0536

Weighted Statistics

Root MSE	2094135.	R-squared	0.149683
Mean dependent var	3965941.	Adjusted R-squared	0.126063
S.D. dependent var	2286278.	S.E. of regression	2137318.
Sum squared resid	3.29E+14	F-statistic	6.337135
Durbin-Watson stat	1.390950	Prob(F-statistic)	0.002917
	Unweighte	d Statistics	
R-squared	0.248912	Mean dependent var	37461785
Sum squared resid	5.32E+15	Durbin-Watson stat	0.086005

Source: E-views 10, processed 2022

Based on the results of the F test in the table above, shows that the significance value is 0.002917 < 0.05. then the hypothesis (H3) is supported which states that regional original income and the open unemployment rate simultaneously affect economic growth.

iii) Coefficient of Determination (R²)

The coefficient of determination (R2) serves to see how far all the independent variables can explain the dependent variable. If the determination number is getting stronger, it means that the independent variables provide almost all the information needed to predict the dependent variables. While the value of the coefficient of determination (R Square) is smaller, it means that the ability of the independent variables to explain the variation of the dependent variable is limited. The results of the coefficient of determination test in this study can be seen in the table below:

Table 5: Coefficient of Determination (R²) Test

Dependent Variable: *PERTUMBUHAN_EKONOMI* Method: Panel EGLS (Cross-section random effects) Date: 12/13/22 Time: 12:22 Sample: 2017 2021 Periods included: 5 Cross-sections included: 15 Total panel (balanced) observations: 75 Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C PAD TPT	32463710 0.030627 218288.0	2978224. 0.009192 374356.9	10.90036 3.332107 0.583101	0.0000 0.0014 0.5616
	Effects Spe	cification	S.D.	Rho
Cross-section random Idiosyncratic random			9101306. 2166676.	0.9464 0.0536

Weighted Statistics

Root MSE	2094135.	R-squared	0.149683	
Mean dependent var	3965941.	Adjusted R-squared	0.126063	
S.D. dependent var	2286278.	S.E. of regression	2137318.	
Sum squared resid	3.29E+14	F-statistic	6.337135	
Durbin-Watson stat	1.390950	Prob(F-statistic)	0.002917	
Unweighted Statistics				
R-squared	0.248912	Mean dependent var	37461785	
Sum squared resid	5.32E+15	Durbin-Watson stat	0.086005	

Source: E-views 10, processed 2022

Table 5 above, it can be analyzed the effect of the independent variables, namely regional original income and the open unemployment rate on the dependent variable, namely economic growth. From the value of the coefficient of determination (R Square) of 0.149683 = 14.96%, it can be interpreted that the magnitude of the influence caused by the information and communication sector is 14.96% while the remaining 85.04% is influenced by other variables not referred to in this research.

4. Conclusion

The panel data regression model that is suitable for estimating Local Own Revenue and Open Unemployment Rate on Economic Growth in the Regencies and Cities of Lampung Province is the Random Effect Model. Regional Original Income (PAD) and Open Unemployment Rate jointly affect the Economic Growth of Regencies and Cities in Lampung Province in 2017-2021. In Islam, Islamic economics views economic growth as part of economic development. Economic growth according to Islam is an increase experienced by factors of production that are not considered as growth if the production, for example, includes goods that are proven to have bad effects and are harmful to humans.

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