Modelling The Human Development Index in Islamic Economic Perspective: Empirical Evidence from Jambi Province

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Abstract

Islam doesn't teach us to leave us in a weak state in terms of economics, religion, and defence. By carrying out development, a country can improve the welfare of its people, one of which is in the economic fields where economic growth will be an indicator. The purpose of this research is to analyse the influence of poverty, economic growth, unemployment rates, and government expenditure on the human development index in Jambi province. This study uses a quantitative approach using Panel Regression statistical analysis to see the effect of poverty on economic growth, unemployment rates, and government spending on the human development index.
Keywords*: Human Development Index,Poverty, Government Expenditure, Economic Growth*

Abstrak

Islam mengajarkan untuk tidak meninggalkan anak cucu kita dalam keadaan yang lemah dalam hal perekonomian, agama dan pertahanan. Dengan melakukan pembangunan, suatu negara bisa meningkatkan kesejahteraan rakyatnya, salah satunya di bidang ekonomi yang dimana pertumbuhan ekonomi akan menjadi indikatornya. Tujuan dalam penelitian ini adalah untuk menganalisa adanya pengaruh kemiskinan, pertumbuhan ekonomi, tingkat pengangguran, dan pengeluaran pemerintah terhadap Indeks Pembangunan Manusia di Provinsi Jambi. Penelitian ini ini menggunakan pendekatan kuantitatif menggunakan metode uji asumsi klasik dan analisis statistik regresi berganda untuk melihat pengaruh kemiskinan, pertumbuhan ekonomi, tingkat pengangguran, dan pengeluaran pemerintah terhadap Indeks Pembangunan Manusia.
Kata kunci: *IPM, Kemiskinan, Pengeluaran Pemerintah, Pertumbuhan Ekonomi*

INTRODUCTION

In economic development, human resources get an important role, because development can make a country's economic prosperity. The Human Development Index is one of the indicators to measure the level of physical and non-physical quality of the population and to measure the success rate of human quality development. Human development in Indonesia is synonymous with poverty reduction (Ningrum et al., 2020). Poverty in education and health will mean a lot to the poor. The existence of adequate and cheap education and health facilities will help their productivity to earn income, so that human development has not run optimally because it only focuses on reducing poverty (Umiyati et al., 2017).

In Islam, the human figure consists of two potentials that must be built, namely physical and spiritual. Human development in Islam must of course pay attention to these two potentials. When viewed from the goal of Indonesian human development, namely, to make a complete human being, then this goal must pay attention to the two potentials that exist in humans. Islam views highly the issue of human resources, especially those related to morals (attitude, personal, ethical, and moral) (Bukhari, 2018).

Furthermore, government spending is a very important part of fiscal policy in increasing economic growth in general (https://www.statista.com/aboutus/our-research-commitment). Government spending in Figure 1 carried out through capital expenditures are used for the provision of basic needs and public services, especially in the provision of the health, education, economic and infrastructure sectors, which are expected to improve welfare (Chalid & Yusuf, 2014). Government spending in Jambi Province according to 2017-2019 is still volatile based on data obtained at the Central Statistics Agency of Jambi Province.
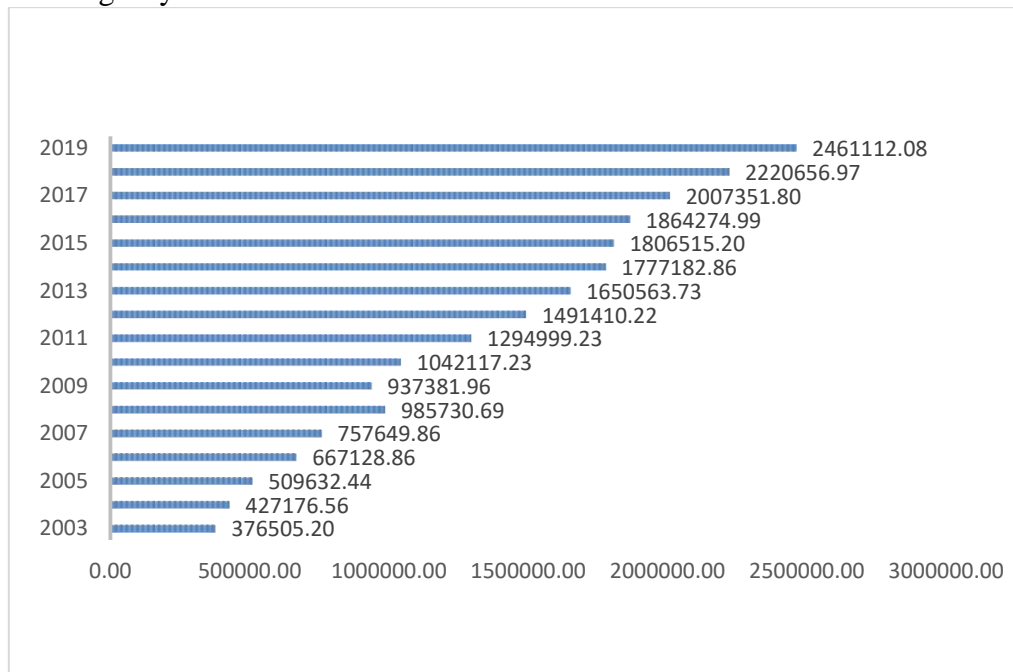

Figure 1. Government Spending in Indonesia

Indeed, the increase in the welfare of the community in general can be seen through the achievement of the quality of life of the community which is proxied into the Human Development Index (Mirza, 2012). Increased development that prioritizes human development, especially in the provision of the health sector is expected to have an influence on the level of achievement of a longer life expectancy to reduce the mortality rate (Komariah et al., 2019).

The development of the poor population in Jambi Province fluctuates from year to year so that several programs are needed to minimize the level of fluctuation, thus human development can be more stable. Poverty in Jambi province based on data from the Central Statistics Agency in 2017 was 8.19% in 2018, 7.92% and in 2019 7.60%. The Human Development Index in Jambi Province has increased from 2017-2019 by 1.27%. Capital expenditures in Jambi province from 2017-2019 were the largest in 2019 which amounted to 3,583,278,000 (Rangkuti, 2021).

Infrastructure spending that increases from year to year shows (see Figure 2) that the need for the development of facilities and infrastructure is evenly distributed in almost all regions Indonesia (Gov. Budget: Infrastructure (I); https://www.ceicdata.com/en/indonesia/government-budget-by-sector/gov-budget-infrastructure-i). This indicates that the large role of infrastructure expenditure is as an important component in the implementation of the development process. However, the implementation of the need for the development of supporting infrastructure facilities is not accompanied by the provision of budget funds (Nugroho, 2016). The effect of poverty on economic growth is that high poverty will cause higher costs for economic development and economic growth affects the Human Development Index. If economic growth increases, the Human Development Index will increase and vice versa if economic growth decreases, the Human Development Index also decreases (Rangkuti, 2021).
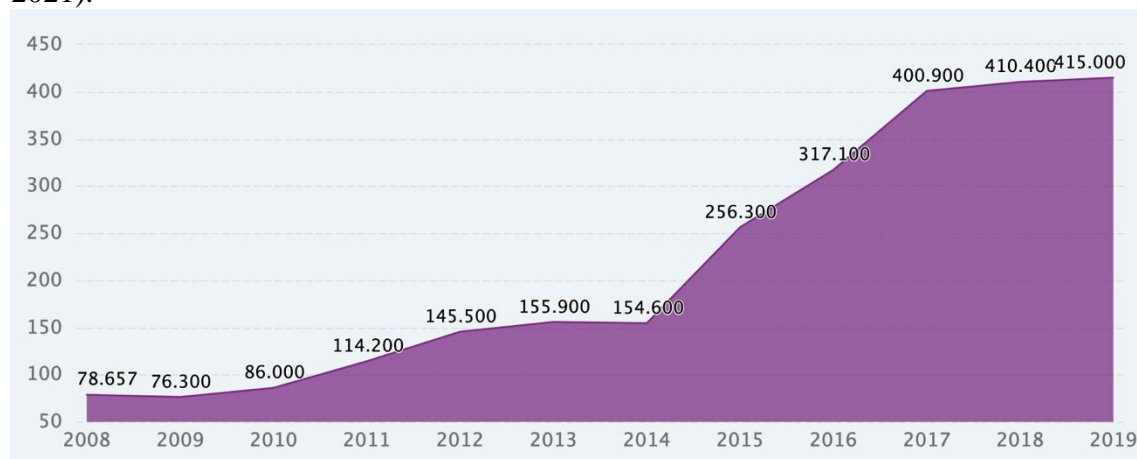

Figure 2. Government Budget : Infrastructure

The paper is organized as follows. Section 2 describes the methods, presenting a brief description of Human Development Index, poverty, economic growth, government expenditure, unemployment, methodology and results of this study. We conclude with a general discussion in Section 3.

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LITERATURE REVIEW

Human Development Index

The Human Development Index is an expansion of choices for the population. This index measures the achievement of development outcomes of an area or region in three dimensions of the development market, namely length of life, level of education and decent standard of living. The benefits of the Human Development Index are to classify whether a country is a developed country, a developing country, or an underdeveloped country and to measure the influence of economic policies on the quality of life (Lumbantoruan & Hidayat, 2014). Human welfare lies in the protection of faith, soul, reason, lineage, and wealth. Islam teaches not to leave offspring in a weak state (bps.go.id, 2012).

Poverty

Poverty is defined as the inability to meet the minimum standard of living, where the measurement of poverty is based on consumption. Based on this consumption, the poverty line consists of two elements, namely the expenditure needed to purchase minimum nutritional standards and other basic needs, and the number of other needs which varies greatly, which reflects the cost of participation in people's daily lives (Machmud, 2016). Meanwhile, poor are people who have nothing or people who really need help and it can be said that the poor are humiliated by poverty or otherwise (Hikmat, 2006).

H1: It is suspected that poverty has a significant effect on the Human Development Index

Economic Growth

Economic growth is a process of increasing real income per capita of the population in a country for a certain period, which is usually expressed in one year (Halim, 2018). Economic growth is a long-term increase in a country's ability to provide more types of economic goods to its population. This ability grows with technological progress, and the institutional and ideological adjustments it requires. This definition has 3 (three) components: first, the economic growth of a nation can be seen from the continuous increase in the supply of goods; second, advanced technology is a factor in economic growth that determines the degree of growth in the ability to provide various kinds of goods to the population; third, the widespread and efficient use of technology requires adjustments in the institutional and ideological fields so that the innovations produced by human science can be utilized appropriately (Lumbantoruan & Hidayat, 2014).

The Islamic perspective is not the same as that adopted by capitalists, where what is meant by economic problems is the problem of wealth and lack of sources of wealth. The Islamic perspective states that it is in accordance with the capacity that has been provided by Allah to fulfill the problems of human life. Islam does not see the growth of wealth as separate from its distribution and demands for the realization of social justice. This is because Islam relates to the way of its distribution, the demand to realize wealth growth for members of society in an atmosphere of ease and compassion (Huda, 2017b).

H2: It is suspected that economic growth has a significant effect on the Human Development Index

Unemployment

Unemployed or unemployed people are those who do not have a job and are actively looking for work. The category of unemployed people is usually those who do not have a job at their working age and working period. Working age is usually the age that is not in school but above the age of children (relatively above 6-18 years, namely the education period from elementary school to high school graduation) (Putong, 2013). By not working a person has wasted his hands which are both a resource and a treasure that needs to be utilized.

H3: It is suspected that the unemployment rate has a significant effect on the Human Development Index

Government Expenditure

Government expenditure is defined as the total amount of government spending issued to finance its activities, which consists of the purchase of goods and services including social assistance (intermediate costs), payment of employee remuneration (employee expenditure), and depreciation of capital goods, minus the proceeds from the sale of goods and services. (Market output) government that cannot be separated from government activities (which are not consumed by the government). Government consumption is also known as government non-market output (Badan Pusat Statistik, 2009). The purpose of government spending in Islam is as an expenditure to meet the needs of the people, a means of redistribution of wealth, increasing effective demand, related to investment and production, and suppressing the inflation rate with market intervention policies. The main expenditures that the government must manage are for the poor and needy, the maintenance of the army for jihad and defense, the maintenance of internal law and order, pensions and salaries of employees, education, infrastructure, and general welfare (Huda, 2017).
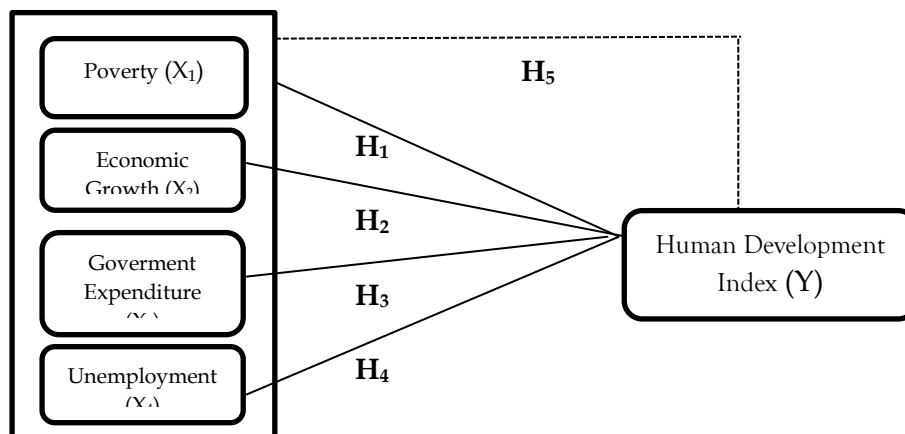
H4: It is suspected that government expenditure has a significant effect on the Human Development Index.

Of the four independent variables, it can be determined the simultaneous hypothesis to the dependent variable:

H5: It is suspected that poverty, economic growth, government expenditure, and unemployment have a significant effect on the human development index.

Based on the explanation previously explained, the framework of the five variables used is shown in Figure 1.

Figure 1. Research framework

METHODE

The approach research in this article is a descriptive quantitative approach. In this study, the population and samples were all districts and cities in Jambi Province. The analysis in this research is Panel Regression which is used to explain the effect of the dependent variable on the independent variable (Nengsih & Martaliah, 2022). Panel Data Regression model with t units of time and p independent variables. The Panel Data Regression Model is formulated as follows:

$$Y_t = \alpha_t + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + \beta_4 X_{4t} + e_t$$

Y	= Human Development Index
α	= Constant
β_i	= Coefficients regression, i = 1,2,3 dan 4
X_1	= poverty
X_2	= economic growth
X_3	= unemployment
X_4	= government expenditure
e_t	= Erorr Term

There are three estimation models that can be formed in panel data modelling (Nengsih et al., 2021), namely:

1. Common Effect Model (CEM)
   This model does not consider individual or time dimensions, and behaviour between individuals is the same in all time frames. The CEM estimation technique uses Ordinary Least Squares (OLS).
2. Fixed Effect Model (FEM)
   FEM assumes that time units have different effects on the model. Different effects are shown in the constant coefficient values which have different values for each company.
3. Random Effect Model (REM)
   This model will estimate panel data that are interconnected between time and between individuals with different constants accommodated by the error terms of each company. The advantage of using REM is that it eliminates heteroscedasticity. This model uses the Generalized Least Square (GLS) technique.

The panel data model selection from the three models used three tests, namely the Chow test, the Lagrange Multiplier (LM) test, and the Hausman test. Chow test is used to determine whether the FEM model is better than the CEM model. The LM test is used to choose which is better between the CEM and REM models. Hausman test is used to determine which model is better between FEM and REM models (Nengsih & Martaliah, 2022).

The model selection stage is the process of determining the best model, namely between CEM, FEM, or REM. After this stage, the normality test of the model is carried out. After the normality testing phase is accepted, hypothesis testing both F-test and t-test can be carried out which can then be continued to find the value of the coefficient of determination.

Results and Discussions

The best model analysis is shown in Table 1. This table describe that the best model for this research is FEM. After obtaining the best model from this study, the classical assumption test can be carried out. Based on the classical assumption test, namely normality test, autocorrelation test, multicollinearity test and heteroscedasticity test. The results of these four assumptions test indicate that the data are normally distributed and there are no problems with autocorrelation, multicollinearity, and heteroscedasticity.

Tabel 1
Best Model

Test	P-Values	Model	Best Model
Chow	0.0731758	FEM VS CEM	FEM
Housman	0.065214	FEM VS REM	FEM
LM	-	CEM VS REM	-

The results of the t-test are used to determine the partial effect of the independent variables. The results show the unemployment variable has an influence on the Human Development Index, but the variables of poverty, economic growth, and government expenditure have no effect on the Human Development Index (Table II).

Tabel 2
t-test

Variabel	Coeficient	Std. Error	t-Values	P-Values
Constant	60.02603	4.785298	12.54384	0.0000
Poverty	-0.202351	0.224444	-0.901565	0.3750
Economic Growth	1.200623	0.716110	1.676589	0.1048
Unemployment	1.008429	0.301636	3.343196	0.0024*
Government Expenditure	9.98E-10	2.15E-09	0.464484	0.6459

* = significant in < 5%

The F-test is used to determine the joint effect of the variables of poverty, economic growth, unemployment rate and government spending on the Human Development Index. Based on the results of the F-test in Table III, the P-value is 0.000 (<0.05). It can be concluded that there is a joint influence of the four variables on the Human Development Index.

Furthermore, the result of the coefficient of determination (R^2) is 0.994287 or 99.4287% (Table III). This explains that the model created can explain the effect of poverty, economic growth, unemployment, and government expenditure on the Human Development Index in Jambi Province which is 99.4287% and the remaining 0.5713% can be explained by other variables outside of this study.

Tabel 3
F-test and R^2

	Sig
Prob (F-statistik)	0.00000
Adjusted R-squared	.994287

The results of the t-test explained that the poverty variable has a negative effect on the Human Development Index in Jambi Province. The results of this research are also in accordance with Neo-Liberal and Social-Democratic theories where the concept and indicators of poverty refer to absolute poverty and relative poverty. In his argument, poverty is an individual problem caused by the weaknesses and/or choices of the individual concerned. Poverty will disappear by itself if market forces are expanded as much as possible and economic growth is accelerated as high as possible. The superiority of market mechanisms and natural economic growth can overcome poverty and social injustice. This research is in line with Denni Sulistio Mirza's research which states that poverty has a negative effect on the Human Development Index in Central Java (Mirza, 00000). This result is in line with research by Nursiah Chalid and Yusbar Yusuf which states that poverty has a negative effect on the Human Development Index in Riau Province (Chalid & Yusuf, 2014).

The partial economic growth variable hasn't a significant influence on the Human Development Index. The results of this research are the same as the results of Jahtu Widya Ningrum's research which concluded that economic growth in Indonesia influenced the human development index in Indonesia (Dalimunthe & Imsar, 2023). Furthermore, government spending has a negative effect on the Human Development Index in Jambi Province. Government spending on sectors that are not directly related to Human Development Index has a negative impact on the Human Development Index level of Jambi Province.The results of this research are in line with the results of Abu Bakar's research which concluded that government spending as a proxy for spending on education and health did not have a significant effect on the Human Development Index (Bakar, 2020).

CONCLUSION

This study aims to determine the effect of poverty, economic growth, unemployment, and government expenditure on the Human Development Index in Jambi Province by using panel data regression analysis. The results of the t-test show that only the unemployment rate affects the Human Development Index in Jambi Province. Based on the F-test, it shows that there is a joint effect of the four variables of poverty, economic growth, unemployment rate and government spending on the Human Development Index in Jambi Province.

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