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The Effect of Private Inflation and Investment on Unemployment and Poverty in North Maluku Province

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ABSTRACT

Poverty refers to a person's inability to get a stable livelihood and provide a decent income to support his/her life in a sustainable manner. Poverty is a problem deserving undivided attention in any country. Poverty is triggered by various factors, including low investment levels, high unemployment rates, and slow economic growth. This study aims to: 1) determine the effect of inflation rate and private investment on the unemployment rate; 2) determine the effect of inflation rate and private investment on poverty level; and 3) determine the effect of unemployment rate on poverty level. This study uses time series data from 2012 to 2018 and path analysis. The findings indicate that inflation has a positive effect on unemployment and poverty, and the level of private investment has a negative effect on unemployment and poverty.

Keywords: Inflation Rate, Poverty, Private Investment, Unemployment

INTRODUCTION

Poverty and economic growth are valuable indicators in achieving the success of the country’s development. They will strive to optimize economic growth and reduce poverty levels. The increasing number of poor people occurs in developing countries, such as Indonesia, following the achievement of economic growth in these countries (Jonaidi, 2012). It is a condition suffered by either developing or developed countries with abundant natural resources and adequate human resources (Astrini, 2013). Poverty is the main problem posed by developing countries (Vincent, 2009).

Poverty has a major effect on the unemployment rate. One way to get out of the cycle of poverty is by entering the labor market. This could allow someone’s welfare to increase, set him/her free from poverty. The decline of prosperity and welfare level is caused by high levels of unemployment. Poverty and unemployment rates are commonly used to determine the level of community welfare. Creating prosperity for all people is our nation goal. Striving to overcome poverty and unemployment are common commitment for all government and society components.

High level of unemployment country may bring negative impacts on the country's economy. It carries high burden for the government, family and environment and others (Amalia, 2012). Unremarkably, those categorized as poor (the poor) jobless (unemployed) due to limited jobs. Thus, unemployment is closely related to poverty. Since there are many people who are unemployed, the problem of poverty continues to increase. The poverty rate remains to exist as some people are still unemployed hindering them to meet their daily needs (Yudha, 2013).

In addition to unemployment, inflation is another serious problem affecting the economy in Indonesia. Increasing prices have an impact on layoffs leading to unemployment. This is a frightening and unavoidable specter unless the government affords to reduce inflation and suppress prices. It has an impact on the Indonesian economy, thus the government needs to make policies to overcome, and minimize inflation, as well as to avoid its further impacts.

Based on the background stated above, the problems of this research are: 1) Does the inflation rate and private investment affect the unemployment rate in North Maluku Province? 2) Does the inflation rate and private investment affect the poverty rate in North Maluku Province? 3) Does the unemployment rate affect the poverty level in North Maluku Province?

Poverty Conception

The concept of poverty is very diverse, as simply defines as the inability to meet basic consumption needs and improve conditions, to a broader understanding that includes social and moral aspects. For example, there are opinions that say that poverty is related to attitudes, culture of life, and the environment in a society, or those argue that poverty is the powerlessness of a group of people against the system implemented by a government positing them in a weak and exploited position (structural poverty).

In general, when people discuss poverty, they mean material poverty. This implies a person is categorized as poor if he/she is unable to meet the minimum standard of basic needs to live properly. This is what is called consumption poverty. This definition is useful to make it easier to define poor people, due to; (1) It is not sufficient to understand the reality of poverty; (2) It leads to wrong conclusion that alleviating poverty is sufficient only by providing adequate food; (3) It is not useful for decision makers when it comes to formulating cross-sectoral policies, even it can be counterproductive (Sahdan, 2007).

The high or low level of poverty in a country depends on two main factors, including average national income, and gap in income distribution. It is clear, however, that no matter how high the level of national income per capita is achieved by a country, as long as the income distribution is unequal, its poverty rate is surely remaining severe. Likewise, on the other hand, no matter how even the distribution of income in a country, if the average level of national income does not improve, then poverty will also widen.

Poverty are classified into structural poverty, cultural poverty, and natural poverty. Structural poverty is caused by the unequal condition of the economic structure in society, due to both government economic policies, control of production factors by a handful of people, monopoly, collusion among businessmen, officials and others. The point is that structural poverty occurs due to man-made factors. Cultural poverty arises because of cultural or community mental factors that encourage people to live in poverty, such as laziness, low creativity, and no desire to live in a more advanced way. Meanwhile, natural poverty occurs naturally, caused by low quality of human resources, and limited natural resources (Muttaqin, 2006).

Definition of Unemployment

Unemployment is an indicator that a person is jobless and actively doing his / her business in the last four weeks to find work (Kaufman, & Hotchkiss, 1999).

Unemployment is a situation in which someone tries to get a career, but he / she has not been able to get the job (Sukirno, 2000). There could be unemployment due to labour market imbalances. This illustrates that the number of jobs proposed exceeds the number of required staff.

Arsyad (2004) argues that there is a very close relationship between high levels of unemployment and poverty. For most people, those without permanent or part-time jobs are among the poorest groups of people. People working for fixed wages in the government and the private sector are usually among the upper middle class. Everyone jobless is poor, while those who work are rich. Sometimes there are workers in urban areas who do not work voluntarily because they are looking for a better job, and that is more in line with their education level. They reject jobs they feel are inferior because they have other resources to assist their financial problems. Such people could be categorized as unemployed yet not necessarily poor. The same is the number of individuals who may work full hours per day, yet still earn a small income. Unemployment is a the most serious macroeconomic problem indirectly affecting humans. For most people, losing a job means a lower standard of living and psychological stress (Mankiw, 2000).

According to Kuncoro (2000) by labor force approach, unemployment is divided into three types. The first is frictional unemployment. It arises as workers are looking for suitable job making them remain unemployed. This does not bring any problems and could be solved with economic growth. The second is structural unemployment, occuring due to changes in the structure and conditions of economy. It could be arduous to overcome due to its relation to a country's development strategy. However, it could be vanquished by conducting training to create a skilled workforce. The third is seasonal unemployment occuring due to seasonal factors. This does not create problems, although there is no supporting empirical evidence.

The detrimental effect of unemployment is reducing people's income which in turn reduces their level of prosperity. The decline in people's welfare will certainly increase their chances of being trapped in poverty (Sukirno, 2004).

According to Sugiyanto (2006), the leading cause of unemployment is the imbalance occurring among low levels of education, low skills and experience, no comparison between work and land of work, and other factors (such as job pickiness).

Samuelson (1992) assign unemployment to those who do not work yet actively looking for work or are being called back to work at their company. In other words, someone is said to be unemployed if he or she is not working and (a) has been trying to find work for the past four weeks, (b) has just been laid off from work and is waiting to be recalled or, (c) is preparing a job application for the next month or so.

Apart from that, there are two kinds of unemployment; forced unemployment and voluntary unemployment. Voluntary unemployment is those who do not want to work at the wage level prevailing in the labor market. They refuse to work due to low wages or other factors. Forced unemployment are those non-absorbable workers due to limited employment opportunities.

Definition of Inflation

The rate of inflation varies from one country to another. According to Nopirin (2000: 27), on the basis of the magnitude of the inflation rate, inflation is divided into three categories. They are:

1. Creeping inflation is usually characterized by a low (less than 10% per year) inflation rate. Slowly running, with a small amount, and in a relatively long time, price rises.
2. Medium inflation (Galloping Inflation) is characterized by a fairly large price increase (usually in double digits or even triple digits). It frequently runs in a relatively short time, and is accelerative. Prices for this week or month are higher than that for last week or month. It brings heavier effects than creeping inflation.
3. High inflation (Hyperinflation), creates the worst consequence Since prices go up 5 or 6 times. People no longer desire to save money. The value of money has fallen so sharply that it wants to be exchanged for goods. The velocity of money is accelerating, prices are increasing at an accelerated rate. This situation arises when the government experiences a budget structure (for example arising from war) which is financed or closed by printing money.

According to Samuelson (2004: 387), there are several effects of inflation on the economy as the following.

1. Inflation affects the distribution of income and wealth due to differences and obligations. When someone was in debt, a sharp increase in price was a fortune for him/her. Suppose you borrow $ 100,000 to buy a house and the fixed rate mortgage payable annually is $ 10,000 per year; however, the actual cost is halved. You need to work half the time to pay off your mortgage. You cut through half the value of the actual mortgage debt (Samuelson, 2004). The effect on income is not evenly distributed, some are disadvantaged yet some are benefited. Those earn a fixed income will be disadvantaged. Likewise, people who accumulate wealth in the form of cash will suffer high losses. Conversely, the parties who benefit from inflation are those who get an increase in income by a percentage greater than the inflation rate, or those who have non-money wealth in which the value increases by a percentage greater than the rate of inflation. Thus, inflation can lead to changes in the distribution pattern of income and wealth in society.
2. Economic productivity may be decreased by inflation. Prices and interest forecasts are skewed by it. When the selling price of commodities increases in a low-inflation environment, consumers and sellers understand that there has been a shift in the terms of supply and / or demand for that commodity. They could act accordingly. As an example, if all supermarkets increase the price of beef by 50%, the consumer forecast will immediately switch to chicken. Likewise, if the price of a new computer drops by 90% you may decide to replace your old-fashioned computer (Samuelson, 2004). Inflation could change the allocation pattern of production factors. This could occur through an increase in demand for various kinds of goods which then lead to changes in the production of certain goods. Inflation leads the demand for certain goods increase more than for other goods, which then encourages an increase in the production of certain goods.
3. Until 1970s, high inflation was always in line with high output and employment. In America, inflation tends to increase when investment is high and jobs are abundant. The periods of deflation in the 1980s, 1930s, 1954, 1958, 1982 and 1991 showed high unemployment in labor and capital. However, a deeper historical study has revealed interesting facts. Positive relationship between output and inflation is temporary. In the long run, they look more like an inverted U-shaped relationship (Samuelson, 2004). Inflation may lead to an increase in production. The reason is

that in a state of inflation, an increase in the price of goods precedes the increase in wages thus increasing the profits of entrepreneurs. This profit increase will encourage an increase in production.

However, if the inflation rate is extremely high (hyperinflation), it creates the opposite effect, decreasing output. The value of real money drastically falls, people tend to have no cash, transactions change to bartering, which is usually followed by a decrease in the production of goods. Thus, there is no direct relationship between inflation and output. Inflation can be followed by either an increase or decrease in output. Basically, inflation (CPI) is divided into permanent and temporary (Wijoyo, & Resa, 1998). The permanent CPI rate (core inflation) is caused by increasing demand pressure for goods and services (aggregate demand) in the economy, even though the permanent CPI inflators could increase economic growth.

Definition of Investment

According to Pratiwi (2005), investment with a multiplier effect has an impact on increasing welfare, which is measured by an increase in income. This means that if income increases, the number of goods and services to be consumed will also increase. If the demand for goods and services increases, it will increase employment opportunities, thus reducing the unemployment rate due to the absorption of the workforce. Investment is as expenses to buy goods and production equipment to replace and, in particular, add to capital goods to produce goods and services. In the national balance sheet or the structure of Gross Domestic Product (GDP) according to its use, investment is defined as the domestic fixed capital formation.

Economic growth is a process in which in real gross national product or real national income increase. Economy is considered to grow or develop when real output grows (Wijaya, 2000). Ricardo stated that the process of economic growth is influenced by factors such as land resources, human resources, capital accumulation, and technological progress. In the end, growth will stop (as Adam Smith concludes) and reach a stationary point, even though it is slowed down by capital accumulation and technological progress (Hakim, 2004). In this case, David Ricardo focuses on the distribution of income that occurs among economic actors in explaining the growth mechanism.

This Harrod-Domar theory complements the Keynesian theory. Keynesian theory sees it in the short period (static conditions) whereas the Harrod-Domar theory sees it in the long term (dynamic conditions). Harrod-Domar theory focused on the requirements to maintain a balance among saving, investment and income in the dynamics of economic growth (Hakim, 2004). The Harrod-Domar hypothesis is based on the assumptions that the market is closed, Willingness to Save (MPS = S) is constant, the development process has a constant coefficient (constant return to scale), and the labor force (n) growth rate is constant and matches the rate of population growth, according to Tarigan (2005).

Thus, Harrod Domar analyzes and predicts that, if conditions of equilibrium are satisfied, stable long-term growth may be accomplished. There should be a compromise between saving (S) and expenditure (I) in order to create a surplus, while v (capital output = capital output ratio) (Tarigan, 2005) decides the function of k to produce additional production. Harrod-Domar claims that both supply and demand are driven by spending. A rise in capital stocks, such as bridges, warehouses and others, would be triggered by investment in the long run. Investment plays an significant role in the economy because any new investment would allow the amount of production generated to rise.

Relationship between Inflation Rate and Unemployment

The inflation rate has a positive or negative relationship to the number of unemployed. If the inflation rate measured is inflation that usually happens at markets, the high rate of inflation that exists would result in an interest rate (loan) rise. In order to grow profitable markets, high interest rates would also limit spending. This would result in a greater number of unemployed because of poor job prospects. (Sukirno, 2000).

The tendency for the inflation rate and unemployment to rise (no trade off) shows that there is a difference with the Philips curve where there is a tradeoff between low inflation or low unemployment (Nopirin, 2000). Initially, Phillips curve provides a rough idea of the causality of the inflation process. Low unemployment rate is considered to be related to a tight labor market and high levels of income and demand from consumers.

Furthermore, Phillips curve provides an idea of tradeoff between unemployment and inflation. If the desired inflation rate is low, there will be extremely high unemployment rate. Conversely, if the desired inflation rate is high, there will be relatively low unemployment rate (Dernburg, & Muchtar, 1992).

Centered on the premise that inflation is a result of an increase in labor demand, the curve shows the relationship between inflation and the unemployment rate. According to the principle of production, rates can increase as demand increases. With high prices (inflation), producers raise their production potential by increasing labor (work is the only input that can boost output) in order to fulfill this demand. As a consequence of increased labour demand, unemployment decreases with increasing rates (inflation).

Decreases Investment Relationship with Unemployment

Investment is the keyword that determines the rate of economic growth, as it will drive a significant increase in output, it will increase input demand, thus increasing employment opportunities and community welfare (Makmun, & Yasin, 2003). Investment is the mobility of resources to create or increase production capacity or income in the future. The objectives are to replace the part of the provision of damaged capital and additional provision of existing capital.

The picture of regional development cannot be separated from the development of distribution and investment allocation among regions. In this regard, it is necessary to separate the types of investment carried out by the private sector and the government, considering that the factors that determine the location of the two types of investment are not always the same.

Generally, the government still has to pay attention to several factors, such as the development of a certain area for political and strategic reasons, for example border areas and areas with historical and special characteristics, including in investment policy. However, both types of investment, public and private, will ultimately be able to increase job opportunities and contribute to overcoming economic and social problems such as poverty, unemployment, and so on. The size of the investment in the community will greatly affect the size of the job opportunities created.

The investment will increase production activities, and open up new job opportunities. New job opportunities will reduce the number of unemployed. This means that if the level of investment rises, the unemployment rate will decrease. If investment falls, the unemployment rate will increase. If the investment is capital intensive, the increase in investment will not affect the labor market. The narrowing of employment opportunities is due to the scarcity of capital to invest. This is the result of the financial crisis which devastated the national economy, many businessmen could go bankrupt because they are in bank debt or owe to business partners. Thus, factory workers have to be laid off to reduce the amount of fees. This is one of the triggers for the unemployment explosion, namely the increase in the unemployment rate in a relatively short time.

According to Harrod-Domar (Mulyadi, 2000), investment not only creates demand, but also increases production capacity. The users of labor, which is one of the production factors, will automatically be increased. The dynamics of investment affect the level of economic growth, reflecting the sluggishness of development. Each country tries to create a condition to stimulate investment, especially private investment.

Relationship between Wages, Inflation and Poverty

Minimum wage is a minimum standard used by entrepreneurs or industry players to pay wages to workers in a business or work environment (Kaufman, 2000) The main objective of determining the minimum wage is to meet the minimum standard of living such as for the health, efficiency and welfare of workers.

The effect of the Minimum Wage on poverty is influenced by the social cost of inflation where the social cost of inflation makes a person poorer. Complaints about inflation are common, since the increase in the purchasing power of labor comes from the accumulation of capital and advances in technology. Wages do not depend on how much money the government prints. If the government reduces inflation by slowing the growth rate of money. The workers will not see their wages rise any faster. Whereas when inflation slows companies or slightly increases the price of their products each year and consequently will give workers a smaller increase in minimum Wage. (Waluyo, 2007).

Usually wages do not depend on how much money the government prints. If the government reduces inflation by slowing the growth rate of money. The workers will not see their wages rise any faster. When inflation slows companies or slightly increases the price of their products each year, consequently they will give workers a smaller increase in wages. According to classical money theory, changes in the overall price level are like changes in units of measure.

RESEARCH METHOD

This study was conducted in North Maluku Province. As an archipelagic province, this region has the characteristics and potential of natural resources, in both sea and land. However, the fact is that this potential has not been maximally managed and utilized by local governments and the private sector so as to create jobs and at the same time reduce unemployment and poverty rates. Based on these considerations, the selection of North Maluku Province as a research area is considered quite representative.

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Types and Sources of Data

The data used in the analysis include quantitative data, with secondary data sources comprising Inflation Rate, Unemployment Rate, and Poverty. Secondary data sources were related agencies, including Bappeda, BKPM, Manpower or the Central Bureau of Statistics (BPS), as well as reports related to this research. This study used time series data from 2010-2015, and path analysis. Path analysis is to explain the pattern of relationships between variables with intermediate variables (intervening variables), as well as to determine the direct or indirect effect of a set of independent (exogenous) variables on the dependent variable (endogenous) (Riduwan, & Sunarto, 2015). The equation is:

$$Y1 = \beta 0 + \beta 1X1 + \beta 2X2 + \varepsilon 1Y2 = \beta 0 + \beta 3X1 + \beta 4X2 + \beta 5Y1 + \varepsilon 2$$

Note:
X1 = Inflation Rate
X2 = Private Investment
Y1 = Unemployment
Y2 = Poverty
β1 ... β5 = Independent Variable Regression Coefficient (Xi)
β0 = Intercept / Constant
e1 = Error of The First Equation
e2 = Error of The Second Equation

Operational Definition of Variables

Research variables are research subjects or what is the point of attention of a study (Arikunto; 2006). The variables used in this study include:

1. Inflation (X1) is the tendency to increase the price of goods and services continuously. This shows that too much money is chasing after a limited number of goods, and is expressed as a percentage;
2. Private Investment (X2) is investment made by private parties or entrepreneurs with the aim of earning a profit in one year in rupiah;
3. The Unemployment Rate (Y1) is the number of unemployed people, which includes the jobless labor force. The variable is the number of open unemployment in Indonesia, derived from BPS, namely data on people aged 15 years and over, who are looking for work, preparing a business, not looking for work, not starting to work. The data taken is annually, in 2010 to 2015 and the units used are person;
4. Poverty (Y2) is an absolute or relative condition a person or group of people in an area due to natural, cultural, or structural reasons causing a person or group not to have the ability to fulfill their basic needs, which are expressed in person.

RESULTS AND DISCUSSION

Path Analysis Results

Data calculation or data processing is carried out using the SPSS program. The summary of the results from the path analysis is as follows.

Table 1. Summary of Path Analysis Results

Influence between Variables	Path Coefficient (Beta)	t Value	F Value	Determination Coefficient (R^2)	Sig.

X1 to Y1	0.001	6.976	78.89	0.939	Significant
X2 to Y1	-2.895	-2.924	-5.024	0.928	Significant
X1 to Y2	0.008	2.294	78.89	0.939	Significant
X2 to Y2	-8.565	-3.727	10.873	0.509	Significant
Y1 to Y2	0.001	7.184	29.89	0.928	Significant

Note
X1 = Inflation Rate
Y1 = Unemployment
X2 = Private Investment
Y2 = poverty

Table 1 describes that in the regression model, the first equation is individually tested (partially), the inflation rate against unemployment. It indicates coefficients t value is 6,976 with significant value of 0.032. Since the value of sig <0.005 is the probability value, H0 is rejected and Ha is accepted, implying that the inflation rate has a significant and positive effect on unemployment.

The second regression model with individual (partial) testing, the inflation rate against poverty, shows t value of 2.294 with a value (sig) of 0.001. Since the sig value <0.05 is the probability value, then H0 is rejected and Ha is accepted, implying that the inflation rate is significant and has a positive correlation to poverty.

Furthermore, the effect of unemployment on poverty is indicated by coefficients (attachments) of t value is 7.184 with a value (sig) of 0.002. Since sig value <0.05 is the probability value, H0 is rejected and Ha is accepted, implying that unemployment has a significant and positive effect on poverty.

Second equation regression model with testing as a whole (simultaneously) exhibits the rate of inflation and unemployment on poverty as seen in table 4.1. Anova (attachment) shows F value of 78.89 with a value (sig) of 0.001. Since the sig value <0.05 is the probability value, H0 is rejected and Ha is accepted, implying that the level of inflation and unemployment on poverty simultaneously have a significant and correlated positive effect.

The Effect of Inflation on Unemployment

Inflation is one of the most important monetary events and can be found in almost all countries in the world. In Omar (2004), Phillips explains how the distribution of the inflation-unemployment equation is based on the premise that inflation represents a rise in aggregate demand. According to the demand theory, if demand increases, the price will increase. High prices (inflation) to meet this demand, producers increase their production capacity by increasing labor (labor is the only input that can increase output).

The result is an increase in demand for labor thus decreasing unemployment rate. The research results argue that the inflation rate has a significant and positive correlation with unemployment. This implies that, if there is an increase in the inflation rate, there will be an increase in the number of unemployed. This is due to the increase in the inflation rate, price of fuel (BBM). The government will also adjust the regional minimum wage (UMR) so that the private sector tends not to demand labor. In addition, the increase in inflation causes an increase in interest rates, which will hamper investment.

The results of this study are not in line with previous research. Alghofari (2010) contended that there is no effect of inflation on unemployment in Indonesia. The rise and fall of inflation will not cause the rise and fall of unemployment. However, it is in line with the research conducted by Dinarno, & Moore (1999), showed a positive relationship between the inflation rate through the GDP deflator and the unemployment rate. The higher the inflation rate, the higher the unemployment rate. The results of this study are not in accordance with Philips' theory (Nanga, 2005) which states that there is a negative relationship between inflation and unemployment. However, the author's research found that there was a significant and positive correlation between inflation and the unemployment rate.

The Effect of Private Investment on the Unemployment Rate

Investment is a determinant of economic development, since it raises input demand in addition to generating a substantial rise in production, thereby growing job opportunities and consumer wellbeing as a result of increased taxes generated by the consumer. (Makmun, & Yaksin, 2003). Investment causes an increase in the production of goods which also affects the demand for labor. This resulted in increased employment, thereby reducing unemployment. The existence of investments encourages the creation of new capital goods thereby absorbing new production factors, namely creating new jobs or employment opportunities (Prasojo, 2009).

This study finds that private investment has a significant and negative correlation with unemployment in North Maluku Province. This means that if there is an increase in private investment it reduces the open unemployment rate. This is in line with the Harrod - Domar theory which sees the effect of investment in a longer time perspective. According to these two economists, investment spending (I) not only has an effect (through the multiplier process) on aggregate demand (Z), but also on aggregate supply (S) through its effect on production capacity so as to reduce the unemployment rate (Boediono, 1999). The amount of investment invested in an area will certainly have an impact on the number of unemployed in that area. This is because with the investment there will be an expansion of the business, both the use of capital and the labor used will increase in number. Thus, investment is believed to reduce the number of existing unemployed.

According to Pratiwi (2005), investments with a multiplier effect have an impact on increasing welfare, which is measured through an increase in income. This means that if income increases, the number of goods and services will increase. If the demand for goods and services increases, it increases employment opportunities, thus reducing the unemployment rate. The reduction in unemployment is due to the absorption of the workforce in investment projects.

The Effect of Inflation on Poverty

The increased inflation rate will be followed by an increase in the poverty, if it is not followed by an increase in purchasing power or an increase in people's income, especially those with low income groups. The relationship between inflation and poverty can be explained in two ways. First, inflation causes the real value of money held to decrease. When the price increases, there is less money to buy (purchasing power decreases). Second, inflation causes the real interest earned from saving money in the bank to fall. As purchasing power decreases people are poorer than before.

This study findings indicate that the inflation rate has a significant and positive correlation with poverty in North Maluku Province. This means that, if there is an increase in the inflation rate, there will be an increase in the number of poor people. This is not in line with Amir (2010). Examining the effect of economic growth and inflation on unemployment in Indonesia, using data for the period 1980-2005, he concluded that economic growth increases by 1%, unemployment decreases by around 0.46%, while inflation proved to be absent. It is a significant effect on the reduction in the number of poor people. Fahirah (2012) concluded that GDP per capita, unemployment, inflation, and expenditure per capita simultaneously had a significant effect on the number of poor people by 98.11 percent. Sembiring (2011) concluded that the health budget had a negative effect on the number of poor people, while inflation, unemployment, and local taxes had a positive effect on the number of poor people in Karo Regency.

The Effect of Unemployment on Poverty

The Indonesian government's policies in overcoming poverty and unemployment seem ineffective and have not really reach the poor who really need them. In this regard, it is necessary to carry out economic reforms. Several policy makers (bureaucrats) with the support of information from economic experts argue that the problems of poverty and unemployment will be solved when the economy grows at a high rate. If this opinion is considered to be "correct", it will take a long time. Meanwhile, poverty and especially unemployment moves like a series of times.

This study contends that unemployment has a significant and positive effect on poverty in North Maluku Province. This means that, an increase in the unemployment rate increases the number of poor. This is in line with Cutler and Katz (1991), found a strong relationship between poverty and various macroeconomic variables. These studies prove that both the unemployment rate and inflation rate are positively related to the number of people living below the poverty line; the higher the rate of inflation and unemployment, the greater the poverty rate. Unemployment has a strong influence on the poverty rate while inflation has only a relatively small effect. Hoover and Wallace (2003), found that the poverty rate is highly sensitive to economic conditions, in which an increase in unemployment leads to an increase in poverty. This is in accordance with Alit and Sudiana (2013), and Sukmaraga (2011), arguing that if unemployment increases, the poverty rate will also increase.

CONCLUSIONS

The results from this study and published data support these conclusions. Firstly, the inflation rate has a significant and positive correlation to unemployment in North Maluku Province. The increase in the inflation rate causes an increase in interest rates, thus inhibiting investment (Crowding out Investment) which results in an increase in the number of unemployed. In addition, the increase in inflation causes the government to adjust / increase the regional minimum wage (UMR) which results in no demand for labor.

Secondly, the inflation rate has a significant effect and a positive correlation to poverty in North Maluku Province. The higher the inflation rate, the lower the people's purchasing power, thus making them poor. It causes the real value of money held to fall. When the price increases, there is less money to buy (purchasing power decreases).

Thirdly, the results show that private investment has a negative and significant effect on the unemployment rate in North Maluku Province in the long and short term. This means that, if there is an increase in private investment, it will reduce the unemployment rate for a long period of time in North Maluku Province.

Fourthly, the unemployment rate has a significant and positive effect on poverty in North Maluku Province. The higher the rate of inflation and unemployment, the greater the poverty rate. Unemployment has a strong influence on the poverty rate while inflation has only a relatively small effect.

Considering the conclusion above, the writer would like to propose some suggestions. Government policy is needed to maintain price stability so as not to disrupt private sector activities which in turn can absorb labor. The policy that the government can take is to raise interest rates so as to reduce the circulation of money and encourage production in the private sector.

In addition, the government needs to implement policies in poverty alleviation through job creation and maintaining price stability, especially prices for basic people's needs. Expansive fiscal policy is expected to encourage private activity and investment as well as encourage community production in the regions so as to maintain increased income and maintain price balance.

Further research needs to include other economic sectors as well as add other variables such as wage levels, investment and economic growth, to obtain more comprehensive information related to unemployment and poverty.

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