

# CHAPTER I

## INTRODUCTION

### 1.1. Identification Problem

The essence of national development is the development of the Indonesian people as a whole. This means that in the implementation of national development there must be complete harmony and balance in all development activities. The community is the main actor of development and the government is obliged to direct, guide and create a supportive atmosphere, so that the community is able to be creative in carrying out development according to their respective expertise and abilities. One of the factors for the success of this development is seen from the economic growth of the community, development is considered successful if the community's economy continues to increase towards a prosperous Indonesian society.

In terms of the development of the economic sector, what needs special attention from the government is the community belonging to the middle to lower economic community. The limited human resources and control over assets that they face make it difficult for them to develop, groups of people like this are vulnerable to fluctuations in the price of goods in the market, especially if inflation occurs it can cause their economy to decline and they still become poor people.

In an official market situation, known as a perfectly competitive market, there are many sellers and buyers, such as the central market and the main market, the supply of goods in the market and people's purchasing power are also stable. People who are engaged in the informal sector, but in abnormal conditions often face disruptions in the distribution of goods in the market which causes price fluctuations in the market and in turn can cause inflation. High and uncontrolled inflation had a negative impact on the people's economy and caused the development of the economic sector to fail.

An economic issue that has always been an important concern for the governments of countries in the world, especially developing countries like Indonesia, is the problem of inflation. Inflation is one indicator of economic stability. If the inflation rate is low and stable it will be a stimulator of economic

growth. Whenever there is social, political and economic turmoil inside or outside the country, people always associate it with the problem of inflation (Mankiw, 2006:16). Community prosperity will be achieved if it is supported by balanced community economic progress between the producer and consumer sectors so that it will be able to maintain market balance in order to create a stable perfect competitive market.

The magnitude of the national inflation rate is formed from the average inflation rate in regions throughout Indonesia, so that fluctuations in the inflation rate in the regions will also cause fluctuations in the national inflation rate. According to the BI West Sumatra Branch (2021) Research on inflation at the regional level is needed to support research at the national level. The inflation calculation for West Sumatra Province is carried out in two CPI (Consumer Price Index) monitoring cities, namely Padang City and Bukittinggi City.

In order to achieve low and stable inflation, especially in a market with inflation characteristics that are heavily influenced by shock factors on the supply side, monetary policy is not sufficient only, but need a collaboration between monetary policy, fiscal policy, and sectoral and regional policy. Bank Indonesia only has the ability to influence inflationary pressures from the demand side, while inflationary pressures from the supply side are beyond Bank Indonesia's control. Therefore efforts to deal with the problem of inflation are very important to do, because solving the problem of inflation in Indonesia has a meaning that is directly proportional to solving the problem of poverty which is a big and long-standing problem for this nation.

Inflation is an economic phenomenon that is feared by all countries in the world, including Indonesia, because the impact of inflation is so broad on the economy. Therefore, Bank Indonesia as the monetary authority cannot play a role alone in keeping the inflation rate stable and requires the role and cooperation of other parties, such as the private sector, citizens and other related parties, either directly or indirectly. Inflation control should no longer be viewed from a monetary perspective only but must analyze various sources of causes of inflation to determine appropriate control policy instruments.

It is generally known that inflation has a negative effect on economic growth, so inflation is an indicator that can show economic instability for a country. Economic research predicts that a demand-supply imbalance would raise product prices and result in high inflation rates, which will affect people's real incomes and lower wellbeing. Ironically, a high inflation rate can actually make poverty rates rise.

According to Prasetyo (2012) Inflation actually has negative and positive impacts, but more often has negative impacts. In general, the impact of inflation can affect income distribution, allocation of production factors and national products. The positive impact of inflation is that it can increase production enthusiasm and new job opportunities. While the negative impact of inflation in general are:

1. Inflation reduces purchasing power, especially for the poor or people with fixed or low incomes.
2. It causes disruption to the function of money, including that people don't like to save, so that investment remains low and in turn hinders economic growth both in the short and long term.
3. Increasingly widening the income gap between the poor and rich.
4. High inflation inhibits productive investment due to high uncertainty.
5. For the government, inflation is often difficult because government policies become ineffective and can lead to greater social costs of inflation.

According to Treisman (1998:3) inflation is strongly influenced by commitment, coordination, and policy formulation. The government has intervened in reducing the inflation rate by using monetary policy, fiscal policy and real sector policy. Inflation will be reduced successfully if these policies are able to coordinate and produce a mix policy. However, these policies are very difficult to coordinate because the authorities are different in each policy. In the monetary sector, Bank Indonesia has its own independence to determine its policies, while fiscal and real sector policies are highly dependent on the government's political commitment as the budgetary authority.

The government as a state institution has an obligation to provide services to the community, including in carrying out economic development. Keban quoted

by Pemuka, (2014: 13) explains that in public administration the government as the sole agent in power, is active and always takes the initiative in organizing or taking steps and initiatives, which according to them is right and good for society. This also includes the role in implementing the country's economic development which aims to improve the welfare and quality of life of its citizens.

To anticipate inflation both nationally and at the regional level, the government and Bank Indonesia have cooperated by playing their respective roles. Actually, the government has started to make efforts to control inflation in Indonesia since the reform era, the government has started to improve by making improvements to the structure and political-economic system in Indonesia. In monetary policy, through Law No. 23 of 1999, since 2000 the government has begun implementing policies that only have a single long-term target, namely inflation, which is commonly called the Inflation Targeting Framework (ITF) (Setiawan and Zainunnury, 2015: 30) .

As a follow-up to the cooperation between the government and Bank Indonesia in terms of inflation control, a Coordinating Team for Setting Targets, Monitoring and Control of Inflation (TPI) was formed at the central level in 2005. In an effort to overcome inflation originating from shocks on the supply side, an inflation control team (TPI) was formed at the central level in 2005 and a regional inflation control team (TPID) was formed in 2008 to help achieve inflation rates in the regions (Surya Dharma, 2015). Regional inflation control has an important role in achieving low inflation and stable considering that national inflation is formed by almost 81% of regional inflation, and is the result of aggregation of inflation in a number of 82 cities in Indonesia (Bank Indonesia, 2014). It is hoped that coordination developed through policy harmonization from/to the regional level will be more effective not only in suppressing the inflation rate in the regions, but will also continue to achieve the low and stable national inflation target as the Government and Bank Indonesia jointly wish to achieve. Likewise at the regional level, each regional government has also formed regional inflation control cooperation by coordinating between regional governments and Bank Indonesia branches in each region through the formation of Regional Inflation Control Team (TPID).



In particular for the Padang City Regional Government, to anticipate inflation and efforts to control it, the Padang City Government in collaboration with Bank Indonesia (BI) West Sumatra Branch has formed a Regional Inflation Control Team (TPID). The latest guideline for implementing inflation control in the city of Padang is Keputusan Wali Kota Padang No 522 Tahun 2020 concerning the 2020-2023 Regional Inflation Control Roadmap. The inflation control roadmap serves as a guide in taking steps to support the achievement of inflation control targets in each regional apparatus organization. The task and function of the TPID is to act as a preventive, regulator and motivator so that inflation does not occur in the city of Padang. Achmad's research (2021) on the role of local government in controlling inflation in Takalar states that the government acts as a regulator (efforts to strengthen logistics), facilitator (in the form of low basic food prices), and motivator (training and guidance). Gulo (2018) conducted research on the coordination pattern of the Padang City TPID, whose research results found that inflation control in the City of Padang had followed the principles of effective coordination. This is coupled with the political will (Political will) of local governments in focusing the success of controlling inflation. Meanwhile, according to Dharma and Pratomo's research (2017) concluded that the formation of the Regional Inflation Control Team (TPID) has a role in reducing inflation and the persistence of North Sumatra.

In addition, Padang City as the capital city of West Sumatra Province has various problems in providing food for its people. According to the central statistics agency, the population of the city of Padang in 2021 will reach 913,450 people, which is the largest population compared to cities/regencies in West Sumatra. The growth of the economic sector and rapid population growth in the city of Padang have led to the conversion of agricultural land into industrial land, housing and offices. Conditions like this cause agricultural land that produces food to be increasingly narrow while the population that needs food is increasing. According to the central statistics agency, the area of agricultural land in the city of Padang has decreased from year to year. in 2016 the agricultural land in the city of Padang was 6,173 hectares, while in 2021 it decreased to 5,216 hectares. This caused most of the food for the people of Padang City to be brought in from outside the area

such as Solok (vegetables), Payakumbuh and Bukittinggi (rice) and some were even imported from outside West Sumatra Province (chillies, soybeans and shallots).

To maintain the continuity of the supply of food in Padang City markets, each trader has a special supplier, each trader has his own customers in the supply of goods to be marketed. In normal situations, the supply of goods, especially food from outside the city, can run smoothly, however, under certain conditions, for example, a production failure occurs in a food supply area (interland) causing the supply of food goods to the city of Padang to be disrupted. Often the supply of goods during a famine for the City of Padang is not sufficient for the needs of the community, this triggers a struggle for goods in the market by consumers which can ultimately cause the price of goods in the market to increase. To overcome commodity price fluctuations in the market, local governments must play a role in controlling both the volume of goods and market prices.

In an effort to control inflation in the City of Padang, the TPID of the City of Padang has made many breakthroughs both within the TPID internally and with external parties that have something to do with controlling inflation in the City of Padang. The breakthroughs that have been made have been proven where in 2015 the Padang City TPID received an award. This award was given in the context of the success of the Pemko Padang as the best Regional Inflation Control Team in Sumatra in 2015 (Gulo, 2018). Therefore, with the existence of a TPID in controlling inflation in Padang City, is the TPID effective in reducing the inflation rate in Padang City or with the TPID increasing inflation or even TPID not influencing inflation control in other words with the presence and absence of TPID the inflation rate in Padang City will be the same. Of course the efforts made by the Padang City TPID have good planning so that inflation control can be created as expected.

Based on the background and problems above, the writer wants to submit a thesis with the title: ***''The Effectiveness of Regional Inflation Control Team (TPID) in Controlling Inflation in Padang City''***.

## **1.2. Problem Statements**

From the background and problems above, there is a formulation of the problem as follows:

1. Is the Padang City Regional Inflation Control Team (TPID) effective in controlling inflation in Padang City?
2. What strategies have been implemented by the Padang City TPID to control inflation in order to create low and stable inflation?

## **1.3. General Research Objective**

Based on the identification problem and problem statements which has been described above, it can be determined that the purpose of this study is to determine and analyze the effectiveness of the work of the Padang City Regional Inflation Control Team (TPID) in controlling inflation in Padang City and Strategy of the Regional Inflation Control Team (TPID) in controlling inflation in Padang City.

## **1.4. Benefits of Research**

The benefits of this research are as follows:

1. Theoretical benefits; The results of this research are expected to add insight and knowledge to writers and readers in the field of economics, especially about inflation and knowledge about TPID both regionally and nationally.
2. Practical benefits; The results of this study are expected to contribute ideas and information to competent Agencies/Organizations and policy makers in order to improve the work performance of the TPID in efforts to control inflation in the regions.
3. Methodologically; It is hoped that the results of this study will also become a study in terms of developing research and research in line with the future.