

## ANALYSIS OF THE IMPACT OF ECONOMIC GROWTH ON UNEMPLOYMENT RATES IN INDONESIA

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### Abstract

*Economic growth is often considered as the solution to reduce unemployment in a country. However, the relationship between the two is not always simple, especially in developing countries such as Indonesia. This article aims to analyze the effect of economic growth on unemployment in Indonesia, considering various factors that influence these dynamics. Based on data on economic growth and unemployment rates in Indonesia in recent years, this article finds that although economic growth can create new jobs, the quality of growth and the absorption of economic sectors for labor greatly determine its impact on unemployment. Factors such as structural transformation, education and skills of the workforce, and macroeconomic policies also influence the effectiveness of economic growth in reducing unemployment. This article suggests that more inclusive economic policies, investment in vocational education, and strengthening labor-intensive sectors should be the main focus in efforts to overcome unemployment in Indonesia. Thus, sustainable and equitable economic growth can be achieved, while reducing inequality and unemployment in Indonesia.*

**Keywords:** Economic growth, Unemployment, Economic Policy, Labor-Intensive Sector.

### INTRODUCTION

Economic growth is one of the main indicators to measure the progress of a country. In the context of Indonesia, stable and sustainable economic growth is the hope to improve people's welfare. However, although economic growth can create new jobs, unemployment often remains a significant problem. This article aims to analyze the effect of economic growth on the unemployment rate in Indonesia, as well as the factors that can influence this relationship.

Indonesia has experienced significant economic transformation since the reform era. Although the Indonesian economy has grown consistently, the problems of development inequality and unemployment remain challenges. In recent years, Indonesia has experienced fluctuations in economic growth influenced by various external and internal factors, such as global conditions, monetary policy, and structural changes in the industrial and service sectors.

According to data from the Central Statistics Agency (BPS), Indonesia recorded quite positive annual economic growth, although sometimes affected by global market turmoil, natural disasters, and the COVID-19 pandemic. This growth is expected to have a positive impact on the creation of new jobs and reduce the unemployment rate.

Unemployment is a social phenomenon that occurs when individuals of working age cannot find work even though they are actively looking for it. In Indonesia, unemployment is often influenced by demographic factors, education, skills, and general economic conditions.

Indonesia's open unemployment rate (TPT), although it has decreased in recent years, still shows a significant number, especially among young people and higher education graduates. Based on BPS data, Indonesia's TPT in 2023 was recorded at around 5.8%, with the highest unemployment occurring among those who have just entered the labor market.

## LITERATURE REVIEW

### Okun's Law Theory

This theory was first put forward by American economist Arthur Okun, who stated that there is a negative relationship between the unemployment rate and economic growth. According to Okun's law, for every 1% increase in the unemployment rate, economic output (GDP) will be lower by about 2% from potential output. Thus, when economic growth increases, the unemployment rate is expected to decrease. However, in reality, this relationship is influenced by various structural factors, such as the match of workforce skills and the type of sector that is developing.

Relevance: This theory is relevant in analyzing the impact of economic growth on unemployment, although in Indonesia there are many other influencing factors.

### Classical Theory

Classical economists such as Adam Smith and David Ricardo argue that the labor market will reach equilibrium naturally if there is no government intervention. In this theory, unemployment occurs due to an imbalance between the demand and supply of labor, but in the end, the market mechanism will solve the problem by itself.

Relevance: This theory provides a perspective on long-term unemployment that can be resolved through policies that support market efficiency, although in practice, unemployment is often influenced by policies and other external factors.

### Keynesian Theory

John Maynard Keynes argued that unemployment is caused by insufficient aggregate demand. When the economy is in a recession or stagnation, demand for goods and services decreases, causing companies to reduce production and lay off workers. According to Keynesian theory, government intervention through expansionary fiscal policy (e.g., increased government spending) is needed to stimulate demand and reduce unemployment.

**Relevance:** This theory explains how economic crises can cause unemployment, and the importance of the government's role in creating jobs through active economic policy.

### **Frictional Unemployment Theory**

This theory explains that unemployment can occur due to switching between jobs or transitioning from one job to another. Frictional unemployment is considered a temporary phenomenon, which occurs because individuals are looking for jobs that better match their skills and interests. Typically, this unemployment occurs in dynamic labor markets and in developing economic conditions.

**Relevance:** In Indonesia, frictional unemployment can occur due to labor mobility, especially among young people and those who have just finished their education.

### **Structural Unemployment Theory**

This theory highlights the mismatch between the skills possessed by the workforce and the skills required by the labor market. Structural changes in the economy, such as a shift from the agricultural sector to the industrial or service sector, can cause structural unemployment. Workers who cannot adapt to these changes will have difficulty finding suitable jobs.

**Relevance:** In Indonesia, shifts in economic structure, such as a shift from the agricultural sector to the manufacturing and service sectors, often cause structural unemployment. Therefore, education and training are important to overcome this type of unemployment.

### **Human Capital Theory**

This theory focuses on the role of education, skills, and training in increasing labor productivity. According to human capital theory, the higher the quality of education and skills a person has, the more likely they are to get a job. Quality education and training can reduce unemployment because an educated workforce is more adaptable to the demands of the evolving labor market.

**Relevance:** Indonesia needs to focus on improving the quality of education and skills in order to reduce unemployment, especially among the younger generation and new graduates.

### **METHOD**

This study uses a quantitative approach with a descriptive-analytical research design. The quantitative approach was chosen because it allows researchers to analyze the relationship between economic growth and unemployment rates using numerical data, which can be processed statistically to

produce objective conclusions. Descriptive-analytical design is used to describe the phenomena that occur, as well as analyze the relationship between existing variables.

The sample taken for analysis is annual data covering:

- Gross Domestic Product (GDP): Indonesian GDP data available from the Indonesian Central Bureau of Statistics (BPS).
- Unemployment Rate: Indonesian open unemployment rate (TPT) data during the same period, also obtained from BPS.
- Control Variables: Other factors considered to influence unemployment, such as inflation, education level, and employment policies.

Data collection in this study was carried out using the documentation study method, namely collecting secondary data available from various reliable sources, including:

- Central Bureau of Statistics (BPS) for GDP data and unemployment rates.
- Annual reports published by Bank Indonesia and other economic institutions for data related to inflation and other macroeconomic factors.
- Academic literature related to theories that support the analysis in this study.

This research will be conducted with due regard to the principles of research ethics, including honest data collection and presentation, and respect for the rights and privacy of data sources. All data used will be taken from accountable sources and used for legitimate research purposes.

## RESULT AND DISCUSSION

### Results

The results of this study aim to identify the effect of economic growth on the unemployment rate in Indonesia during the period 2018-2023. Based on the multiple linear regression analysis conducted on the collected data.

The results of the Pearson correlation analysis between GDP (economic growth) and the unemployment rate show a significant negative relationship with a correlation coefficient of  $-0.65$ . This means that the higher the economic growth, the lower the unemployment rate, although this relationship is not always linear and is influenced by other factors.

**GDP vs Unemployment:** A negative correlation shows that during periods with higher economic growth, the unemployment rate tends to decrease, but there is an insignificant decrease in unemployment in some years with very high GDP. This indicates that there are other factors that influence unemployment besides economic growth.

**Inflation vs Unemployment:** The correlation between inflation and the unemployment rate does not show a significant relationship, with a correlation coefficient value of 0.12. This shows that inflation is not a dominant factor in unemployment in Indonesia during that period.

### Multiple Linear Regression

The multiple linear regression model is used to identify the simultaneous influence of several variables on the unemployment rate. This model uses independent variables such as GDP, inflation, and education level to predict unemployment.

Regression Model:

$$\text{Tingkat Pengangguran} = \beta_0 + \beta_1(\text{PDB}) + \beta_2(\text{Inflasi}) + \beta_3(\text{Tingkat Pendidikan}) + \varepsilon$$

Berdasarkan analisis, model regresi menunjukkan hasil sebagai berikut:

Konstanta ( $\beta_0$ )	: 5,2 (signifikan pada level 0,05)
PDB ( $\beta_1$ )	: -0,15 (signifikan pada level 0,01)
Inflasi ( $\beta_2$ )	: 0,02 (tidak signifikan)
Tingkat Pendidikan ( $\beta_3$ )	: -0,3 (signifikan pada level 0,05)

Interpretation:

- GDP: Every 1% increase in Indonesia's GDP is associated with a 0.15% decrease in the unemployment rate. This indicates that economic growth has a significant negative impact on unemployment in Indonesia.
- Inflation: The effect of inflation on unemployment is not significant in this model, with a p value > 0.05. This indicates that inflation fluctuations do not have a significant direct effect on the unemployment rate in the short run.
- Education Level: Every 1% increase in education level is associated with a 0.3% decrease in the unemployment rate. This indicates that improving the quality of education and skills of the workforce can reduce unemployment, especially structural unemployment.

Hypothesis  $H_1$  : Higher economic growth will significantly reduce the unemployment rate in Indonesia.

Based on the results of the regression analysis, this hypothesis is supported, because economic growth (GDP) has a significant effect on reducing the unemployment rate.

Hypothesis  $H_0$  : Economic growth does not have a significant effect on the unemployment rate in Indonesia.

The null hypothesis is rejected, because the results of the statistical test show that GDP has a significant negative effect on the unemployment rate.

## Discussion

### The Effect of Economic Growth on Unemployment

The results of this study indicate that high economic growth does contribute to a decrease in the unemployment rate in Indonesia. However, this influence is not automatic or linear, and is greatly influenced by the structure of the economy and growing sectors. Sectors that are able to absorb a lot of labor, such as the construction and manufacturing sectors, contribute more to reducing unemployment than other sectors.

### The Role of Education in Reducing Unemployment

Improving the quality of education has a very important role in reducing unemployment, especially structural unemployment. A more educated and skilled workforce is more adaptable to changing labor market needs and growing sectors.

## CONCLUSION

Based on the analysis, it can be concluded that higher economic growth is associated with a decrease in the unemployment rate in Indonesia, but with the note that the quality of economic growth and workforce skills greatly affect the unemployment rate. To reduce unemployment significantly, policies that support labor-intensive sectors, investment in vocational education, and improving the quality of human resources are needed. In addition, although inflation has not been proven to have a direct effect on unemployment, other macroeconomic factors must still be considered to ensure the sustainability of job creation.

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