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Increasing number of young unemployment due to inflation, education, and economic growth

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Abstract

This study aimed to determine the effect of economic growth, inflation rates, education and minimum salaries on youth unemployment level in the region of in-industry in Indonesia simultaneously and partially from 2007 to 2015. This study used a quantitative approach in estimating econometric models. As a result, economic growth, minimum salary value, education, and inflation rate simultaneously had a significant effect on the youth unemployment level in industrial areas in Indonesia. This study concludes that there is a correlation between factors of economic growth, inflation, and education in increasing youth unemployment.

Keywords: Youth unemployment, Economics, Minimum salary.

Número creciente de jóvenes desempleados debido a la inflación, la educación, y el crecimiento económico

Resumen

Este estudio tuvo como objetivo determinar el efecto del crecimiento económico, las tasas de inflación, la educación y los salarios mínimos en el nivel de desempleo juvenil en la región de la

industria en Indonesia de manera simultánea y parcial de 2007 a 2015. Método: este estudio utilizó un enfoque cuantitativo en la estimación econométrica modelos. Como resultado, el crecimiento económico, el valor del salario mínimo, la educación y la tasa de inflación tuvieron simultáneamente un efecto significativo en el nivel de desempleo juvenil en las zonas industriales de Indonesia. Este estudio concluye que existe una correlación entre los factores de crecimiento económico, inflación y educación en el aumento del desempleo juvenil.

Palabras clave: Desempleo juvenil, Economía, Salario mínimo.

1. INTRODUCTION

The unemployment rate is one of the labor problems that quite crucial for developing countries. Unemployment is a macroeconomic problem that could affect humans in a short and long term manner (PRAWOTO, 2017). An area's unemployment rate depends on several factors, such as migration tax, inflation, income tax economic growth, education level, minimum work salary, gender, and other factors (OROZCO-ALEMAN & GONZALEZ-LOZANO, 2018). An imbalance between labor force growth and job creation will lead to high unemployment. Increasing unemployment will result in the waste of resources and the potential of the existing workforce.

The number of unemployed young people in Indonesia aged 15-19 years amounted to 1,885,820 and at the age of 20-24 years there were 2,710,132 in 2015, the biggest unemployment rate compared to other age groups. Unemployment in developing countries is generally dominated by young age unemployed and educated unemployed. The

high number of residents is not proportional compared to the number of jobs in the East Java industrial area. This resulted in the region contributing a high number of unemployed people reaching 906,904. Even though it is included in the area of industrial estates, unemployment in the area is relatively high compared to other provinces.

The determination of the minimum employment salary in Indonesia has been placed by the Indonesian government and became a labor market policy. Minimum work salary becomes an economic variable imposed by the government to observe the level of interest and welfare of the community towards the youth unemployment phenomenon. The minimum salary policy could have a large impact on unemployment because relating to workers the opportunity to gain work experience (HARRISON & LEAMER, 1997).

In addition to minimum work salary, the inflation rate and economic growth of a region also affect the number of workers. Inflation increasing is very high, but it is not offset by community abilities and becomes companies reason for reducing the amount of labor. It was impacted by the number of unemployed increasing (KNIGHT, TAIT & YORKE, 2006). Termination of employment by companies had an impact on the increasing number of unemployed people and also worsen economic conditions in Indonesia (BALDI, BRÜGGEMANN-BORCK & SCHLAAK, 2014).

Based on previous research, it could be seen which factors influence the growth of the unemployment rate in Indonesia. However, research recently on factors and levels of unemployment in East Java, as the center of the industrial estate region has never been done. Therefore, this study will analyze several sectors that are indicative of the causes of an increase in the number of unemployed people in East Java as the center of industrial estates. Based on the explanation of existing problems, this research hypothesis can be proposed, as a significant influence between the variables of economic growth, inflation rate, education level and simultaneous minimum salary on the unemployment rate of young people in regency/city in East Java in 2007-2015. Besides, there is also a significant influence between variables of economic growth, the inflation rate, the education level and the partial minimum salary on the youth unemployment rate in the districts/cities in East Java in 2007-2015.

The existence of this research could be beneficial for the government in taking policies that could reduce the number of unemployed people in East Java. Referring to the results of this study, hopefully, it could finding what factors must be improved to alleviate poverty and reduce unemployment. This study aims to determine an increase in youth unemployment and also factors that cause young unemployment in the industrial area, East Java.

2. METHODOLOGY

This study used a quantitative approach method with multiple regression data and analyzed using regression partially and

simultaneously (YUNUS, ZAIN, YUNUS & MUBARAK, 2017). This study was using variable youth unemployment rate on variables of economic growth, the value of minimum wages, inflation rates, and education in several cities/districts of East Java Province as an industrial region.

By using research data sources from the East Java Central Bureau of Statistics in the form of a survey of the state of the national labor force (BPS East Java) for the period 2007 to 2015 which included data on economic growth, inflation and education levels. Besides that, it also used data on minimum wage employment obtained from the East Java Manpower and Trans-Migration Service.

3. RESULTS

The unemployment rate was still considered to be the most seen indicator of the challenges of youth employment. Figure 1 showed the number of unemployed young people and the number of open unemployment in East Java Province 2007-2015. In 2007 number of open unemployment reached 1,366,503 people, where number dropped in each year until 2011, after 2011 to 2015 number of open unemployment in East Java tended to be low and only experienced a slight decline in 2013 and 2015. While the number of young unemployed people in East Java in 2007 reached 761,684 people which continued to decline until 2011 at 427,475 people but then increased again after 2011 to 2015. The data shows in Figure 1.

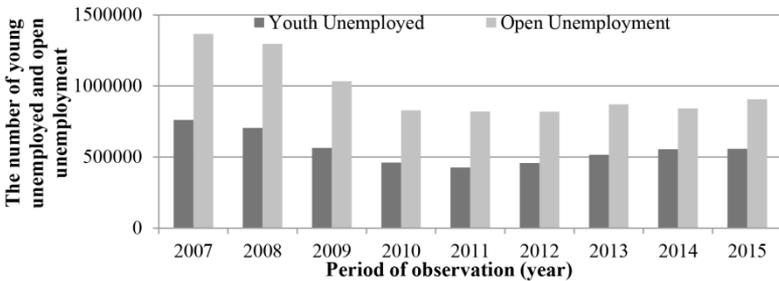


Figure 1: Number of unemployed young people (15 years to 24 years) with the number of open unemployment in the industrial area in 2007 – 2015

In addition to the relationship between the development of young unemployed and open unemployment numbers, based on the results of the analysis using the FEM method. Results of influence all factors on the number of young unemployed were also obtained. Based on the results of F test escalation, it was explained that economic growth variables, minimum work wages, education, and inflation rates had an effect on simultaneously on level of youth unemployment in the region of the industry from 2007 to 2015 period. Based on test results showing that the probability value of all independent variables was less than the level of significance ($\alpha = 0.05$).

From data obtained, the condition of Gross Regional Domestic Product (GRDP) based on Constant Prices (ADHK) 2010 and young East Java unemployment in 2007 - 2015 (Table 1) there was an increase in ADHK GRDP 2010 from year to year. Based on the results of the partial analysis using the FEM method on economic growth (GDP) showed probability value was less than the significance level.

Based on analysis data results that economic growth in the area of the industrial area had a partial effect on the youth unemployment level in the area.

Table 1: The Relationship between GRDP and the Number of Young Unemployed In 2007 To 2015

| Year | ADHK of GRDP 2010 (Billion) | Unemployment 15-24 Years (people) |
|-------------|------------------------------------|--|
| 2007 | 833.011 | 761.684 |
| 2008 | 884.308 | 705.111 |
| 2009 | 928.655 | 563.844 |
| 2010 | 990.649 | 461.460 |
| 2011 | 1.054.402 | 427.475 |
| 2012 | 1.124.465 | 458.301 |
| 2013 | 1.192.790 | 516.615 |
| 2014 | 1.262.697 | 554.811 |
| 2015 | 1.331.418 | 558.128 |

The development of inflation was affected by the condition welfare community in the area. Based on data obtained from the East Java Central Bureau Statistics from 2007 to 2015, it was shown that the inflation development in the area was quite volatile (Figure 2).

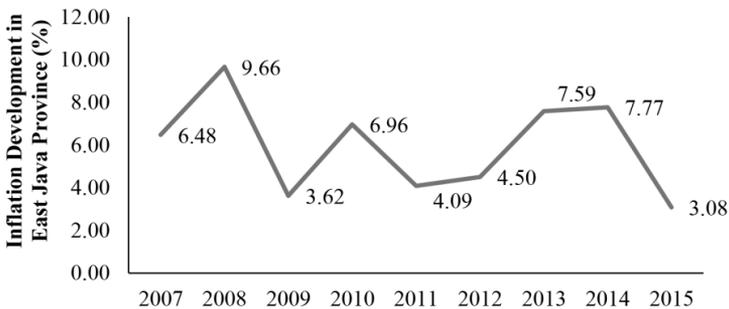


Figure 2: Inflation development (%) in East Java Province from 2007 to 2015

Based on the results of the partial analysis with the FEM method, the percentage of inflation in the industrial area showed the probability value was less than the significance level ($\alpha = 0.05$). The inflation rate had a partial effect on the youth unemployment level in the regency/city of East Java from 2007 to 2015.

From the results of data obtained, the value of minimum work wage for the number of young unemployed people in East Java in 2007-2015 (Table 2) showed that the value of minimum wages for employment was increasing from year to year. However, the number of young unemployed had a trend that opposite to the young unemployed number in the period 2007 to 2011. Based on statistical analysis results of partial tests with the FEM method for minimum work wages value and young unemployed numbers showed the opposite result. Showed that increasing the minimum wage of one unit could reduce the young unemployed number by 0.053 units assuming other variables were considered constant.

Table 2: Relationship between Minimum Wages of Work and Young Unemployed Number In 2007 To 2015

| Year | Minimum Salary (Rupiah) | Unemployment 15-24 Years (people) |
|-------------|------------------------------------|--|
| 2007 | 578.892 | 761.687 |
| 2008 | 632.954 | 705.111 |
| 2009 | 741.018 | 563.558 |
| 2010 | 796.903 | 477.760 |
| 2011 | 863.334 | 427.475 |
| 2012 | 933.019 | 458.301 |
| 2013 | 1.139.722 | 516.615 |
| 2014 | 1.314.942 | 554.811 |
| 2015 | 1.547.333 | 558.123 |

From the results, influence education level on young people in East Java in 2007-2015 (Table 3) showed that young workforce from 2011-2015 who had no education / only no school was unemployed. While the biggest contributor to unemployment was dozens of high schools, where the number of 371,066 unemployed people in 2015.

Table 3: Relationship between Education Level and Youth Unemployment Number in 2011 To 2015

| Year | No / Not School | No / Not graduated from elementary school | Elementary | Junior High School | Senior High School | College |
|-------------|------------------------|--|-------------------|---------------------------|---------------------------|----------------|
| 2011 | | | | | | |
| Workforce | 15.052 | 109.354 | 638.962 | 841.109 | 1.094.064 | 107.377 |
| Working | 13.722 | 93.400 | 591.570 | 704.151 | 881.153 | 94.446 |
| Unemployed | 1.330 | 15.954 | 47.392 | 136.958 | 212.911 | 12.931 |
| 2012 | | | | | | |
| Workforce | 12.126 | 113.437 | 659.795 | 839.109 | 1.101.285 | 112.216 |
| Working | 12.126 | 100.400 | 593.034 | 740.201 | 847.370 | 86.537 |
| Unemployed | 0 | 13.037 | 66.761 | 98.908 | 253.915 | 25.679 |
| 2013 | | | | | | |
| Workforce | 21.354 | 112.991 | 557.332 | 918.418 | 1.195.681 | 116.796 |
| Working | 19.113 | 107.423 | 484.495 | 789.965 | 912.297 | 92.664 |
| Unemployed | 2.241 | 5.568 | 72.837 | 128.453 | 283.384 | 24.132 |
| 2014 | | | | | | |
| Workforce | 11.049 | 81.613 | 513.298 | 765.963 | 1.245.397 | 153.974 |
| Working | 11.049 | 75.304 | 436.134 | 638.894 | 930.580 | 124.522 |
| Unemployed | 0 | 6.309 | 77.164 | 127.069 | 314.817 | 29.452 |
| 2015 | | | | | | |
| Workforce | 4.605 | 75.894 | 423.149 | 750.151 | 1.378.679 | 201.565 |
| Working | 2.083 | 68.729 | 387.932 | 655.048 | 1.007.613 | 154.515 |
| Unemployed | 2.522 | 7.165 | 35.217 | 95.103 | 371.066 | 47.050 |

Meanwhile, statistical analysis results in the relationship between the average length of school or education to young unemployed numbers showed a significance level of 0.733. Education level did not have a significant effect on young unemployment number occurred in the industrial area in the period 2007 to 2015.

4. DISCUSSION

Model estimation results showed that independent variables (economic growth, minimum wage, education, and inflation rate) simultaneously had a significant effect on the youth unemployment level in the industrial area between 2007 to 2011. Condition showed all independent variables in this research could be used as material for policy consideration and strategies to reduce young age disturbances.

In this study, economic growth had a significant negative relationship with young unemployed numbers. This was in accordance with Okun's law which states that there is a linear negative relationship between unemployment and economic growth: 1% increase in the unemployment rate will cause a decline in economic growth as much as 2% or more (PRACHOWNY, 1993). Conversely, a 1% increase in output will cause a decrease in the unemployment rate of 1% or less (CASE & FAIR, 2002). In this study, the condition of the East Java GRDP had an increasing trend but the young unemployment rate in East Java had a declining trend. Although young people in East Java between 2012 and 2015 experienced an increase but did not show a high increase. Government seek to improve economic growth by maximizing domestic goods production in various sectors that could increase state revenues, and GDP level would increase and unemployment rate decreases.

The inflation level factor in this study showed a negative and significant influence on the youth unemployment rate. National

inflation bias tends to cause more labor market reform outside than in the Economic and Monetary Union in Europe (EMU). The existence of this relationship indicated the condition of a mild inflation rate (below 10 percent) and stable will be very helpful in absorbing young workers. Stable prices would make the demand for domestic goods, services and company production increase. Then it would have a positive impact on employment, especially young workers, so the youth unemployment rate could be reduced. The government is expected to be careful in regulating government taxes and expenditures.

Working world demand is increasingly high, not only capable of academics, but people who have soft skills are more needed in the working world (DADUSH, 2014). The skill of framing and groupthink simultaneously have a positive and significant impact on the career selection decision (ERINA, 2018). The problem is not all graduates have the capacity and skills needed by the workforce (HOUGH & WIRANTA, 1994). Based on the description above, it is hoped that the government will facilitate job training for preparation either in the formal sector and informal sector. Besides, the government must prioritize improvement and development of other economic activities, as Micro, Small and Medium Enterprises (MSMEs) by cooperating with related development parties. This condition happening because MSMEs are flexible democratic economic institutions that can absorb large numbers of workers, especially young workers. MSMEs are not too influenced by existence of minimum wage policy. Existence of this research can be useful for governments, entrepreneurs, economists,

economic policy makers, and scientists. However, variables test factors in this study needed further observations that did not have a significant effect on youth unemployed numbers in the industrial area.

5. CONCLUSION

Variables of economic growth as minimum wage, education, and inflation rate together influence the youth unemployment level in the industrial area of East Java Province in 2007 – 2015. However, according to the results of the partial analysis, only educational factors did not have a significant effect on young people's unemployed numbers in the region. Meanwhile, the inflation factor, economic growth, and value of the minimum work wage had a significant effect on the youth unemployment number in the region in 2007 – 2015.

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