

Analysis of Factors Affecting Unemployment Rate in Sumatera Utara Province

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ABSTRACT

Unemployment is a problem that becomes an obstacle to economic development. The decline in the unemployment rate in Sumatera Utara Province is still far from the target set by the government. This study aims to analyze investment, minimum wages, human development index, and inflation affecting the unemployment rate in Sumatera Utara Province. The research method used is multiple linear regression analysis and uses secondary data for the period 2011-2018 in the form of a quarter. The simultaneous test results from this study are investment; minimum wages, human development index, and inflation have a simultaneous and significant effect on unemployment rate in Sumatera Utara Province. The result of the partial test states that investment has a positive and insignificant effect of 0.006, minimum wages has a negative and significant effect of 1.384, human development index has a negative and significant effect of 8,273, inflation has a negative and significant effect of 0.088. This means that the increase in minimum wages, human development index and inflation will reduce unemployment rate in Sumatera Utara Province. It is recommended that the government pay more attention to policies related to minimum wages, the human development index and the inflation rate in order to increase employment in the economy.

Keywords: Investment, Minimum Wages, Human Development Index, Inflation, Unemployment Rate

INTRODUCTION

Unemployment is a problem that becomes an obstacle to economic

development. The decline in the unemployment rate in Sumatera Utara Province is still far from the target set by the government.

One form of successful development of an area can be seen from better management of human resources than before. Development followed by structural changes and better social welfare reflects a good economy. Economic development is formulated in an effort to reduce or eliminate poverty, inequality in the distribution of income and unemployment in the context outside of overall economic growth (Todaro, 1995). This causes the need for optimal utilization of human resources to describe a balanced labor and employment condition. If the available labor force cannot be utilized or does not carry out economic activities, it will be a problem for the government that must be resolved immediately. In developing countries with a high population growth rate such as in Indonesia, unemployment is a problem that is always faced by every regional government, including in Sumatera Utara.

Currently, unemployment is considered as an obstacle and a threat to economic development. This is because the result of unemployment indicates that the inability of economic growth to provide sufficient job opportunities while on the other hand population growth is getting faster and faster. The existence of unemployment in the economy defines someone who has no income and automatically will not be able to meet their needs. The economy will be disrupted due

to the absence of people's purchasing power for goods and services, resulting in an imbalance in the market that affects the prices of goods and services for daily needs, production, and so on. As a result of unemployment, people will be trapped in poverty and the economic development of a region will be further away from progress.

The longer the workforce is available, ready to be used in economic activities, be it an educated or uneducated workforce. Sumatera Utara Province itself has an absorbed workforce which is dominated by an uneducated workforce or whose education is below high school. The impact of unemployment causes the government's burden on the poor to increase. The government has to spend more in order to balance the price on the market with subsidies due to the lack of purchasing power of the people, while at the same time government revenue will decrease due to a not developed economy. Unemployment and job opportunities that are totally imbalanced lead to economic inequality. The increase in population is much faster than the availability of jobs in the economy while the costs for daily living are increasing.

From 2014-2018 the open unemployment rate slowly began to decline. The decline in the number of unemployed does not show real economic progress in Sumatera Utara, given the labor force participation rate (TPAK) which is increasing and higher than the reduction in the open unemployment rate (TPT). According to Mulyadi (2003), the trigger for the high TPAK is the increasing number of people looking for work. This means that even though the unemployment rate is decreasing, the number of people who need work continues to grow. Even the 2018 Regional Economic and Financial Study (KEKR) of Sumatera Utara Province stated that the TPT of Sumatera Utara was fourth highest when compared to other provinces in Sumatera.

TPT numbers in 10 Provinces on the island of Sumatera are sourced from official

publications published by the Central Bureau of Statistics for each province in Sumatera. Sumatera Utara Province has the fourth largest TPT on the island of Sumatera after the provinces of Kepulauan Riau, Aceh and Riau. In 2017, the Provincial Government of Sumatera Utara is targeting the unemployment rate to drop to 2.31%. In fact, in 2018 alone the unemployment rate was still 5.56%. This shows that the government's target of reducing the unemployment rate in Sumatera Utara is still not fully successful. This means that although the unemployment rate has decreased in Sumatera Utara since 2016, the decline rate is still far from the estimate or target of reducing unemployment by the local government.

Research related to unemployment prior to this study was conducted by Mahroji and Iin (2019) which stated that human development index, investment, and inflation had a significant negative effect on unemployment in Banten City. Prayuda and Made (2015) state that inflation and investment have a significant effect on unemployment in Bali province where inflation has a positive effect while investment has a negative effect. Research results by Johan *et al.* (2016) stated that inflation has a positive but insignificant effect on the unemployment rate in Indonesia and investment has a negative and significant effect on the unemployment rate in Indonesia. The results of research by Mahihody *et al.* (2018) stated that minimum wages and human development index have a negative and significant effect on unemployment in Manado City. Nurcholis (2018) states that GRDP and minimum wages have a significant negative effect, while human development index has a significant positive effect on unemployment in East Java province. Putri (2015) states that inflation, GRDP, and wages have a negative and insignificant effect on educated unemployment in Central Java. Prasaja (2013) states that foreign investment and population have a significant effect on educated unemployment where foreign

investment has a negative effect while population has a positive effect on educated unemployment in Central Java. Kuntiarti (2018) states that inflation has no significant effect on open unemployment in Banten Province, while an increase in population and minimum wages has a negative and significant effect on the open unemployment rate in Banten Province.

Investment has a share in the economy in terms of expanding employment opportunities. In the macroeconomic context, investment is the expenditure or expenditure of capital goods and production equipment to increase goods and services available in the economy (Hasanah and Danang, 2011). The formation of capital either from the government or the private sector will absorb labor and generate profits. As one of the indicators of economic growth, the government always strives so that investment can be realized and provide benefits by creating jobs and better income from the investment results. In fact, it is not uncommon for the government to try to attract foreign investors to invest domestically in order to increase investment growth.

According to Sumarsono (2003) the minimum wages is a wage that is set at a regional, regional and sub-sectoral level. This means that workers have the right to wages and benefits from the results of their hard work which must be provided by the owner of the business they work for. If the minimum wages is too small or not even set, then there will be unfair competition in the market and social welfare will not be achieved. But on the other hand, if the government increases the minimum wages level, it will be a problem for the producers. The increased cost product will encourage entrepreneurs to reduce the labor used to save their companies from losses.

Nelson and Leibenstein in Sukirno (2006) argue that population growth in developing countries causes the level of population welfare to not significantly improve and in the long run it may decrease.

In fact, population growth has advantages in the economy, because available labor is abundant, wages are low and it can even trigger technological development. The negative impact is, if the population increase that occurs only increases the number of people without expertise, so that it cannot be used for work or creating technology. This means that an increase in population can worsen the human development index value. Basically, the increased human development index value and the densely populated population in a region indicate that people have a better standard of living so that the highly educated workforce is also increasing. Based on the level of education, unemployment in Sumatera Utara is the highest in the workforce with middle and upper graduates, where unemployment for university graduates has even reached 8.75%. The lack of employment opportunities that are in accordance with the competence of university graduates and a growing population causes the unemployment rate to be higher.

Inflation is known as an economic indicator that can affect economic stability. According to Irving Fisher, quoted by Sukirno (2006), inflation is the process of increasing the price of general goods prevailing in the economy. That is, inflation is related to the price of goods for general public needs so that price changes in the market affect the prices of other goods.

Arthur Okun in Bakti *et al.* (2012) states that the relationship between inflation and the unemployment rate is a positive relationship, which means that if the inflation rate is high, it will also be followed by an increase in the level of unemployment or vice versa. Okun's theory is a theory that contradicts Arthur Phillip's theory. Inflation that occurs in an ongoing economy with a high unemployment rate will make it more difficult for the public and the government. This situation raises the question of how a person without income can meet their needs while the prices of goods and services in the market in general are getting higher every

day? Especially for the population that continues to grow, causing the workforce to also continue to grow. This will further encourage high poverty and hinder economic development.

This study aims to analyze investment, minimum wages, human development index, and inflation affecting the unemployment rate in Sumatera Utara Province.

RESEARCH METHODS

This research is a study that emphasizes the relationship between investment, minimum wages, human

development index, and inflation on the unemployment rate in Sumatera Utara Province.

This study is a descriptive study using secondary data sourced from the official publication of the Central Statistics Agency (BPS) of Sumatera Utara Province. The data processing tool used is SPSS 15 and the observation period of this study is from 2011 to 2018 where data interpolation will be carried out, so that many data periods used in this study are 32 observation periods.

The research method used is multiple linear regression analysis.

RESULTS AND DISCUSSION

F Test Results

Table 1. F Test Results

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.261	4	.065	21.307	.000 ^b
	Residual	.083	27	.003		
	Total	.343	31			

a. Dependent Variable: Unemployment Rate
 b. Predictors: (Constant), Inflation, logMinimum Wages, logInvestment, logHuman Development Index

Source: Research Results

In Table 1, the significant value obtained is 0.000, which is less than 0.05. The simultaneous test results from this study are investment; minimum wages, human development index, and inflation have a simultaneous and significant effect on unemployment rate in Sumatera Utara Province.

t Test Results

Table 2. t Test Results

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	19.664	2.957		6.650	.000
	logInvestment	.006	.105	.012	.053	.958
	logMinimum Wages	-1.384	.198	-1.360	-6.980	.000
	logHuman Development Index	-8.273	1.598	-1.193	-5.177	.000
	Inflation	-.088	.030	-.628	-2.967	.006

a. Dependent Variable: Unemployment Rate

Source: Research Results

The result of the partial test states that investment has a positive and insignificant effect of 0.006, minimum wages has a negative and significant effect of 1.384, human development index has a negative and significant effect of 8,273, inflation has a negative and significant effect of 0.088. This means that the increase in minimum wages, human development

index and inflation will reduce unemployment rate in Sumatera Utara Province.

The results of this study are not in accordance with the initial hypothesis which states that investment has a negative effect on unemployment. This research is also not in line with previous research conducted by Prayudan and Made (2015) which stated

that investment has a significant negative effect on unemployment. Prasaja (2013) also states that the effect of foreign investment on unemployment is negative and significant. Johan *et al.* (2016) stated that investment has a significant negative effect on disturbance in Indonesia, as well as the research results of Mahroji and Iin (2019) which state that investment has a significant negative effect on unemployment.

The results of this study are in accordance with the initial hypothesis of the study which states that the minimum wages has a negative effect on the unemployment rate. This result is also in line with research conducted by Mahroji and Iin (2019) which states that the minimum wages has a significant negative effect on unemployment. Mahidody *et al.* (2018) stated that the minimum wages has a negative and significant effect on unemployment and the results of the research by Nurcholis (2014) also state that the minimum wages has a significant negative effect on the unemployment rate.

The results of this study are in accordance with the initial research hypothesis which states that human development index has a negative effect on the unemployment rate and is in line with previous research. Mahihody *et al.* (2018) stated that human development index has a negative and significant effect on unemployment, as well as the research results of Mahroji and Iin (2019) who also state that human development index has a significant negative effect on unemployment.

The results of this study are in accordance with the initial hypothesis of the study which states that inflation has a negative effect on the unemployment rate. These results are also in line with research conducted by Putri (2015) which states that inflation has a negative effect on unemployment, but Putri's research results are not significant for unemployment. Arief and Diena (2017) also state that inflation has a negative but insignificant effect on

unemployment. Both results of these studies contradict the results of research conducted by Johan *et al.* (2016) which states that inflation has a positive and insignificant effect on unemployment.

CONCLUSION AND SUGGESTION

The simultaneous test results from this study are investment; minimum wages, human development index, and inflation have a simultaneous and significant effect on unemployment rate in Sumatera Utara Province. The result of the partial test states that investment has a positive and insignificant effect of 0.006, minimum wages has a negative and significant effect of 1.384, human development index has a negative and significant effect of 8,273, inflation has a negative and significant effect of 0.088. This means that the increase in minimum wages, human development index and inflation will reduce unemployment rate in Sumatera Utara Province.

It is hoped that the Provincial Government of Sumatera Utara can regulate the availability and prices of manufactured goods and a decent wage for workers in densely populated areas such as Medan City and its surroundings, given the high population density in big cities. The Provincial Government of Sumatera Utara should issue policies that regulate price stability in a better market to prevent high inflation rates for goods and services of basic people's needs. For the government of Sumatera Utara Province as the regional policy holder, it should pay attention to the availability of employment for workers with middle and upper education, so that the educated workforce can be utilized optimally in the economy.

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