

CHAPTER I

INTRODUCTION

A. Research Background

Economic development is defined as a process aimed at increasing the total per capita income by calculating the population of a country, accompanied by fundamental changes in the economic structure of the country with an even distribution of income among its population. Meanwhile, economic growth is one of the processes leading to economic development, which is manifested in the eradication of poverty and unemployment, as well as other social and economic development indicators. The macroeconomic conditions of a country are one indicator of successful development, Hariyanti & Soeharjoto (2020). Therefore, every country strives to increase economic growth by implementing sustainable development.

Essentially, development is a process or effort aimed at achieving a better future. However, economic development in Indonesia remains a classic issue due to the relatively high unemployment rate. Unemployment is one of the problems faced by every developing country, including Indonesia. Developing countries have not yet been able to effectively address the unemployment rate because development efforts have not been able to provide sufficient job opportunities for the workforce. Unemployment occurs when the

rate of labor absorption exceeds the growth rate of the labor force. Open unemployment, on the other hand, arises from a lack of job opportunities compared to the growth of the labor force by Padang, (2019).

One of the most important indicators in the field of employment is unemployment, as the unemployment rate measures how well the workforce of a country is utilized. High unemployment can be a major cause of poverty and a barrier to long-term development. Economic development aims to achieve high economic growth, reduce poverty, maintain stable prices with attention to inflation rates, ensure balanced payments, distribute income fairly and equitably, and address unemployment issues. Indonesia, with a population of approximately 278 million people, is the fourth most populous country in the world. Open unemployment is a frequent economic issue in Indonesia. According to BPS data, the open unemployment rate in West Java in 2023 reached 7.44%, making it the second-highest unemployment rate on the island of Java.

This research focuses on seven selected cities in West Java, namely Bandung, Bekasi, Bogor, Depok, Sukabumi, Cirebon and Tasikmalaya. The selection of these cities is based on several deep and strategic considerations. These seven cities have relatively high levels of open unemployment compared to other cities in West Java. A high unemployment rate reflects a significant economic problem that needs further research to find appropriate solutions. The

statistical data needed for this research analysis is available completely and accurately in these seven cities. Data including inflation, GRDP, and labor force can be obtained easily, allowing for more in depth and valid analysis.

The open unemployment rate in West Java experienced significant fluctuations between 2018 and 2023. This was caused by several factors, including inflation, GDP, and the labor force participation rate. High inflation can lead to a decrease in people's purchasing power, causing companies to reduce production and cut employees. Unequal income distribution can be problematic if GDP growth is not accompanied by an increase in fair income distribution, leading to increased social inequality. The rapid increase in the labor force without corresponding growth in job creation is one of the triggers for the rising unemployment rate. Unemployment occurs due to a high labor force participation rate coupled with low growth in job creation Putro & Setiawan, (2013).

Generally, many individuals wish to work according to their education and skill levels. Currently, most employers prefer candidates with at least a diploma or bachelor's degree as a minimum education requirement. Meanwhile, the available labor force often lacks the necessary skills or education levels. As a result, many people feel unable to compete and miss out on job opportunities.

High unemployment rates can lead to various social and economic problems, such as poverty, crime, and economic instability. According to

(Mankiw, 2006), unemployment occurs for several reasons. The economic development of a country can be assessed based on the success of its economic indicators, one of which is the unemployment rate. The unemployment rate can reflect whether a country's economy is developing or not.

Unemployment is a very serious problem because it both affects and is affected by several interrelated factors that follow patterns not always easily understood. If unemployment is not addressed promptly, it can lead to social instability and potentially result in poverty (BPS 2007). Islamic history also emphasizes the importance of working to avoid poverty. This is mentioned in the Qur'an, Surah At-Taubah, verse 105, which reminds us to work hard to earn sustenance:

وَقُلْ اَعْمَلُوا فَسَيَرَى اللهُ عَمَلَكُمْ وَرَسُولُهُ وَالْمُؤْمِنُونَ وَسَتُرَدُّونَ اِلَىٰ عِلْمِ الْغَيْبِ وَالشَّهَادَةِ فَيُنبِّئُكُمْ
بِمَا كُنْتُمْ تَعْمَلُونَ

Meaning: "And say, 'Do (as you will), for Allah will see your deeds, and [so will] His Messenger and the believers. And you will be returned to the Knower of the unseen and the witnessed, and He will inform you of what you used to do.'" (QS. At-Taubah:105).

Therefore, the government needs to undertake various efforts to address unemployment issues, such as providing job training, creating new job opportunities, and offering incentives to companies that generate employment.

West Java Province in Indonesia has the largest population in the country. According to BPS, the population of West Java was 48.6 million in

2018 and increased to 49.9 million in 2023. The majority of the workforce in West Java consists of its residents. Unemployment is not only a national issue but also a regional one, as seen in West Java. Unemployment exists in every country, especially normal unemployment, which occurs during the transition period when someone leaves an old job and has not yet found a new one or when fresh graduates are searching for jobs (Mankiw, 2018). The annually increasing unemployment rate in West Java Province is a serious issue that needs to be addressed by both the government and relevant stakeholders.

Below is data on the unemployment rates in West Java Province and its districts/cities from 2018-2023, as shown in the table below:

Table 1.1
Open Unemployment Rate in West Java (%)
Years 2018-2023

Jawa Barat Region	Years					
	2018	2019	2020	2021	2022	2023
Province of Jawa Barat	8.23	8.04	10.46	9.82	8.31	7.44
Bogor	9.74	9.16	12.68	11.79	10.78	9.39
Sukabumi	8.57	8.49	12.17	10.78	8.83	8.53
Bandung	8.05	8.18	11.19	11.46	9.55	8.83
Cirebon	9.07	9.04	10.97	10.53	8.42	7.66
Bekasi	9.14	8.3	10.68	10.88	8.81	7.9
Depok	6.66	6.12	9.87	9.76	7.82	6.97
Tasikmalaya	6.89	6.78	7.99	7.66	6.62	6.55

Source: Badan Pusat Statistik

Based on Table 1.1, it can be observed that the open unemployment rate in West Java Province decreased from 2018 to 2019. However, in 2020, there was a significant increase, reaching 10.46%, and in the most recent year, 2023, it decreased to 7.44%. The highest unemployment rate occurred in 2020 in Bogor City, with a rate of 12.68%. Conversely, the lowest unemployment rate was in 2019 in Depok City, at 6.12%.

The data in the table shows that the overall open unemployment rate in the seven districts/cities of West Java Province decreased from 2018 to 2019. However, there was a significant increase from 2020 to 2021 due to the Covid-19 pandemic, followed by a decrease from 2021 to 2023. Despite the decrease in 2023, the open unemployment rate in West Java remains very high, making it the second-highest in Indonesia. This indicates that the efforts to reduce the unemployment rate have not been entirely effective.

The open unemployment rate in West Java reached 7.44% in the most recent year, 2023. Although various efforts have been made to address unemployment, they have not yet reached all societal layers. The rate of job creation has not kept pace with the increase in job seekers (Nusantara, 2009). The issue of unemployment is very complex and important to discuss, as it is linked to several economic factors. Therefore, this paper will focus on the three main factors affecting open unemployment in seven cities of West Java Province: inflation, GDP, and the labor force participation rate.

The number of unemployed can change significantly due to inflation. A widespread increase in prices is referred to as inflation. Demand-pull inflation can indirectly reduce the unemployment rate. According to the law of demand, when the supply of a good is limited, the price of the good will rise as long as there is an increase in demand for that good. In such conditions, producers will strive to increase their production capacity to meet market demand. Employment is impacted by this increase in production capacity. According to (Tisna and Wijayanto, 2010), various economic theories discuss how economic development should be managed to overcome backwardness.

Table 1.2
Inflation Rate of Cities in West Java Province (%)
Years 2018-2023

Jawa Barat	Years					
	2018	2019	2020	2021	2022	2023
Bogor	3.91	3.4	3.76	1.58	2.28	5.9
Sukabumi	4.08	2.47	2.68	1.68	2.05	5.24
Bandung	3.8	3	2.79	1.48	2	7.37
Cirebon	4.53	1.97	1.39	1.14	2.29	5.5
Bekasi	3.15	3.95	3.6	2.62	1.81	5.4
Depok	3.75	2.36	3.99	1.31	2.17	6.11
Tasikmalaya	4.19	1.7	1.35	1.69	1.37	6.61

Source: Badan Pusat Statistik

From Table 1.2, it can be seen that the inflation rate in the seven cities of West Java Province is still relatively low, as it remains below 10%. The

highest inflation was in Bandung City in 2023, at 7.37%, where the rise in prices was significantly felt by the community.

Unemployment can also be affected by inflation, as inflation is one of the macroeconomic indicators that can influence economic activity. Another factor that can influence unemployment is GDP. The GDP figure has a close relationship with unemployment rates. Unemployment is a problem that cannot be hidden, whether in developing or developed countries. High unemployment can lead to high poverty rates and other social issues.

Table 1.3

Gross Regional Domestic Product of West Java Province at Current Prices by Regency/City (Billion Rupiah) Years 2018-2023

Jawa Barat City	Years					
	2018	2019	2020	2021	2022	2023
Bogor	42261	46197.8	45911.9	48325.6	52914.6	57003.8
Sukabumi	11472.9	12387.7	12401.5	13053	14192.3	15349.7
Bandung	264393	288461	283627	297116	328318	351284
Cirebon	21639.3	23491.8	23428.8	24506.6	26617.8	28772.6
Bekasi	90980.6	98107.7	96492.3	101383	109881	118963
Depok	64363.2	70964	70386.3	74382.3	81166.8	87568.6
Tasikmalaya	19977.6	21750.9	21589.4	22844	24974.7	27411.4

Source: Badan Pusat Statistik

From Table 1.3, it can be observed that the GDP in the seven cities of West Java Province consistently increased from 2018 to 2023. This indicates that economic growth in West Java is relatively strong.

Unemployment is closely related to economic development, which is reflected in GDP. A high GDP value has the potential to equalize development across various sectors, thereby reducing poverty levels through job creation (Himawan, 2016). Bank Indonesia explains that GDP encompasses the total added value produced by all economic units within a region. GDP is categorized into two types: nominal GDP and real GDP. Nominal GDP is used to analyze the economic structure of a region, while real GDP is useful for assessing economic growth from year to year.

Table 1.4
Labor Force Participation Rate by Regency/City in West Java
Province(%)
Years 2018-2023

Jawa Barat City	Years					
	2018	2019	2020	2021	2022	2023
Bogor	63.11	63.68	60.81	61.77	64.21	64.81
Sukabumi	59.62	62.48	55.74	56.86	62.48	62.57
Bandung	61.86	65.9	64.71	65.31	69.42	66.97
Cirebon	67.89	62.71	63.76	62.87	65.42	68.71
Bekasi	65.23	65.66	64.74	64.76	65.33	64.65
Depok	62.51	64.96	63.96	62.62	63.35	62.76
Tasikmalaya	62.63	65.26	66.54	65.75	65.99	65.44

Source: Badan Pusat Statistik

From Table 1.4, it can be seen that the labor force rate in the seven cities of West Java Province is still not proportional to the large population. The high population actually increases unemployment and poverty due to the limited availability of jobs.

Regional economic growth can be a strategy to reduce unemployment rates. Rapid economic development will affect job availability, meaning fewer people will be unemployed. However, if economic development and growth slow down, the unemployment rate will increase. Changes in the GRDP are used to determine economic growth or GDP.

The above conditions explain that unemployment cannot be reduced according to Phillips' theory. Therefore, a re-examination based on theory and the conditions in West Java is necessary. Based on the above description, the author is interested in conducting research on "**The Influence of Inflation, GRDP, and Labor Force Participation Rate on Open Unemployment Rate in West Java from 2018-2023 (Case Study of 7 Selected Cities in West Java Province)**".

B. Problem Statement

Based on the above background, the research problem statements are as follows:

1. How does inflation affect the open unemployment rate in the seven selected cities of West Java Province from 2018-2023?
2. How does GRDP affect the open unemployment rate in the seven selected cities of West Java Province from 2018-2023?
3. How does the labor force participation rate affect the open unemployment rate in the seven selected cities of West Java Province from 2018-2023?

4. How do inflation, GRDP, and labor force participation rate collectively affect the open unemployment rate in the seven selected cities of West Java Province?

C. Research Objectives

Based on the research problem statements above, the objectives of this study are:

1. To analyze the influence of inflation on the open unemployment rate in the seven selected cities of West Java Province from 2018-2023.
2. To analyze the influence of GRDP on the open unemployment rate in the seven selected cities of West Java Province from 2018-2023.
3. To analyze the influence of the labor force participation rate on the open unemployment rate in the seven selected cities of West Java Province from 2018-2023.
4. To analyze the collective influence of inflation, GRDP, and the labor force participation rate on the open unemployment rate in the seven selected cities of West Java Province from 2018-2023.

D. Research Benefits

This research is expected to provide the following benefits:

1. Provide information on the factors influencing the open unemployment rate in the seven selected cities of West Java Province from 2018-2023.

2. Offer explanations on the effects of inflation, GRDP, and labor force participation rate on the open unemployment rate in the seven selected cities of West Java Province from 2018-2023.
3. Enhance understanding and knowledge of regional economics, particularly regarding unemployment.
4. Serve as a reference and a basis for consideration on the topic of factors causing unemployment.