



# Analysis of economic growth and unemployment in South Sulawesi

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Article Info	ABSTRACT
<p><b>Article history:</b></p> <p>Received April 27, 2022 Revised May 29, 2022 Accepted June 30, 2022</p> <hr/> <p><b>Keywords:</b></p> <p>Inflation; Unemployment; Economic growth; Interest rate.</p>	<p>The purpose of this research is to find out whether the interest rate and inflation rate affect unemployment and economic growth in South Sulawesi province. The analytical method used is multiple regression analysis. The results of this study indicate that the interest rate variable has a negative and significant effect on economic growth, and the inflation variable has a negative and insignificant effect on economic growth, while unemployment has a negative and significant effect on economic growth, while the inflation rate has a negative and insignificant effect on unemployment, and economic growth has a negative and significant effect on unemployment.</p>

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## 1. INTRODUCTION

Development is basically a multidimensional process which includes changes in social structure, changes in people's attitudes to life and changes in national institutions. Development also includes changes in the rate of economic growth, reduction of income inequality and eradication of poverty. To achieve the desired goals, the development of a country can be directed at three main things, namely: increasing the availability and distribution of basic needs for the community, increasing people's living standards and increasing people's ability to access both economic and social activities in their lives

South Sulawesi's economic growth, which is supported by Gross Regional Domestic Product data, has increased over the last five years. This is due to the main business fields such as the agricultural sector, the trade sector, hotels and restaurants, as well as the transport and communication sector which continue to play a role as the main driver as reflected in the Weighted Net Balance (WNB) figures of 18.75% respectively; 4.94%; and 2.64%. This was also strengthened by increasing domestic demand and improving quality of goods and services.

Unemployment in South Sulawesi is in the second highest position for the island of Sulawesi. In August 2008, South Sulawesi's unemployment was the second highest for the island of Sulawesi, where the highest score was 10.65 for the North Sulawesi region respectively below South Sulawesi 9.04, Southeast Sulawesi 5.73, Gorontalo 5.65, Central Sulawesi 5.45 and the province with the lowest unemployment, namely 4.57 for West Sulawesi Province. In August 2011, South Sulawesi's unemployment position for Sulawesi island remained the second highest with a value of 6.69 while North Sulawesi Province was still the highest for unemployment, namely 9.19. In the third highest

position were Gorontalo 4.61, Southeast Sulawesi 4.34, Central Sulawesi 4.27 and the province with the lowest unemployment, namely 2.70 for the province of South Sulawesi.

Every country, especially developing countries experience the same problem, namely the difficulty to control the increase in unemployment. The situation in developing countries in recent decades has shown that the development that has been carried out has not been able to provide job opportunities to the existing workforce. This happened because the rate of growth in the labor force was higher than the growth in existing employment opportunities. Unemployment is also a choice for every individual. On the one hand, there are people who really like and don't want to work because they are lazy, on the other hand there are people who want to work and are looking for work but they haven't gotten it because it doesn't match their choice.

From a macroeconomic point of view, high unemployment is a problem. One illustration of the impact of high unemployment is that many resources will be wasted and people's income will decrease. In times like these, economic pressure spreads everywhere, affecting people's emotions and household life, thereby reducing people's welfare. Indonesia's economic condition was depressed after the economic crisis that occurred in Indonesia in 1997. This monetary crisis hit economic, political, security, government, law, belief, socio-cultural, moral and ideological life.

Interest rates are one of the variables in the economy that are always monitored closely because of their broad impact. It directly influences people's daily lives and has an important impact on the health of the economy. Usually interest rates are expressed as a percentage per annum charged on money borrowed. The interest rate is essentially the price. Like prices, interest rates are the central point of the market, in this case the money market and capital market. Like prices, interest rates can be viewed as a mechanism for allocating resources in the economy.

Increasing inflation accompanied by a decrease in the rate of economic growth causes the proportion of the population that is not yet an adult to be higher with a larger number of family members causing an unbalanced population growth (Suparmoko, 1996). Conversely, the rate of economic growth increases, the production of goods and services will also increase thereby increasing the standard of living. A high rate of economic growth will usually expand employment opportunities and reduce unemployment. This development further led to reduced demand for labor, as reflected in the layoffs and the increasing number of unemployed.

The condition of the workforce in Indonesia was affected by rising prices of basic goods, especially the food group as a result of soaring world food and world oil prices which caused some companies, especially those that depended on imported products, to reduce or even stop their production. Based on data from the BPS, in general, South Sulawesi's unemployment has indeed decreased, but South Sulawesi has not succeeded in outperforming the other 4 provinces on the island of Sulawesi.

## 2. RESEARCH METHOD

The type of data used in this study is secondary data, namely data that can be counted or data in the form of numbers, in this case the data which is the Statistical Data of South Sulawesi Province in Figures. The data sources used are data from the Makassar branch of Bank Indonesia, the Central Bureau of Statistics, journals, and other sources related to this research. The research variable is something in whatever form is determined by the researcher to be studied so that information about it is obtained, then conclusions are drawn. In this study, the variables used are the dependent variable and the independent variable. Where the dependent variable in this study is Unemployment and Economic Growth, while the independent variables are Interest Rates and Inflation Rates. Sampling was based on the variables used, Interest Rates and Inflation Rates (independent variables), as well as Unemployment and economic growth (dependent variables) for the last fifteen years, namely the period 2000-2014. The data used in this study is secondary data collected directly from the Central Bureau of Statistics. In addition, there is also data collected from online media (websites) of related agencies.

### 3. RESULTS AND DISCUSSIONS

#### Research result

##### 1. South Sulawesi Province

South Sulawesi Province is located between  $0^{\circ} 12' - 8^{\circ}$  South latitude and  $116^{\circ} 48' - 122^{\circ} 36'$  East Longitude, which is bordered by West Sulawesi Province to the north and Bone Bay, and Southeast Sulawesi Province to the east. The western and eastern boundaries are the Makassar Strait and the Flores Sea, respectively. The number of rivers that flow through the South Sulawesi region is recorded at around 67 rivers, with the largest number of rivers flowing in Luwu Regency, namely 25 rivers. The longest river recorded is one river, namely the Saddang River which flows across Tator, Enrekang and Pinrang Regencies. The length of these rivers is 150 km each.

##### 2. Economic conditions

South Sulawesi's economic condition can be seen from the average value of Gross Regional Domestic Product, unemployment, interest rates, and inflation rates. In studying the concept of income, it must be seen where the income is formed and how the process of its formation. An economic policy issued by the government always leads to the attainment of prosperity. One of the indicators used to see the level of community prosperity is through income.

Open unemployment (TPT) in South Sulawesi Province in 2006-2013 decreased by 6.49%. With the rate of economic growth, regional unemployment tends to decrease. Unemployment in South Sulawesi in the 2006-2012 period was high when compared to national open unemployment, but since 2013 unemployment in South Sulawesi has been almost the same as national unemployment. However, the high unemployment amid per capita income indicates that the unemployed are most likely uneducated workers because it does not have a direct impact on the low productivity of workers at the regional level.

In general, the number of open unemployment in South Sulawesi Province has increased. A sharp increase was seen in 2003. However, in certain years the number of unemployed in South Sulawesi Province has also decreased. For example, in 2014, even though in 2003 the number of unemployed increased sharply, this number decreased from 17.32 percent in 2003 to 5.08 percent in 2014. And based on data from the BPS, in general, unemployment in Sulawesi Province South has indeed experienced a decline, but South Sulawesi has not succeeded in outperforming the other 4 provinces in the island region of Sulawesi (Gorontalo, Central Sulawesi, Southeast Sulawesi and West Sulawesi).

The economic indicators that affect unemployment include the prevailing wage rate, government spending, private investment and population. If the wage rate rises, it will affect the decrease in the number of unemployed. Where, currently the government still believes that the minimum wage is also an effective way to improve the lot of low-income workers. Interest for banks can also be interpreted as a price that must be paid to customers who have deposits. Interest rates are one of the most important economic variables because they have a very broad impact on people's lives and the government. Interest rates can also affect the health of a country's economy. Interest rates affect a person's/household's decisions in terms of consuming, buying a house, buying bonds, or put it in a savings account. Interest rates also affect the economic decisions of entrepreneurs or company leaders whether to invest in new projects or capacity expansion.

On the other hand, interest rates in South Sulawesi have fluctuated, but when viewed as a whole in 2012 interest rates have decreased quite drastically, even though this tax increase will reduce the real interest set by BI which will ultimately reduce the effectiveness of monetary policy. the external environment is pushing towards a reduction in interest rates. The highest interest rate occurred in

2001, namely 17.63 percent (appendix 1). Bank Indonesia as the monetary authority sets the interest rate to control the money supply. Increases and decreases in interest rates will have an impact on the Indonesian economy where every increase or decrease will be used by the public to make savings which are then also used by entrepreneurs so that it will increase national production which will increase national income. The BI rate is a signal for banks to set interest rates for savings, time deposits and loans.

While inflation is a monetary phenomenon that is always troubling and undermining the economic stability of a country. In general, inflation can be interpreted as an increase in the price level of goods and services in general and continuously for a certain time. If there is inflation, then there is uncertainty in the macroeconomic conditions of a country. The uncertainty of a country's economic condition will result in people using more of their funds for consumption.

High prices and income that is fixed or income increases in accordance with the rate of inflation means that people do not have excess funds to save or invest. The inflation rate in South Sulawesi Province has fluctuated over the last 15 years. In 2000 the inflation rate was 9.73 percent, while in 2014 the inflation rate was 5.88 percent. The highest inflation rate occurred in 2005, which was 17.11 percent due to an increase in fuel prices, causing inflation to rise sharply from 6.47 percent to 17.11 percent.

## Discussion result

Table 1. The Effect of Interest Rates, Inflation Rates, Unemployment on South Sulawesi's Economic Growth.

Independent			t <sub>count</sub>		
Inflation	-	0.021 <sup>ns</sup>	0.436	0.672	2,252
Unemployment	-	-0.138 <sup>***</sup>	-4,229	0.001	1,060
Tribe Level					
Flower	-	-0.142 <sup>**</sup>	-2,737	0.019	2,214
intercept					13,607
Adjusted R <sup>2</sup>					0.712
F count					12,564
DW					1,298
RunTest					1,000
N					15

### 1. The Effect of Interest Rates on South Sulawesi's Economic Growth in the 2000-2014 period

The interest rate variable has a significant effect on economic growth as indicated by a significance value of  $0.019 < \alpha = 0.05$ . The coefficient value of the interest rate variable is -0.142, which means that for every 1 percent increase, it will reduce economic growth by 0.142%. Empirically, every increase in interest rates by 9.37% will reduce economic growth by 0.00013%.

If interest rates decrease, many people invest by taking credit so that they can move Micro, Small and Medium Enterprises (MSMEs) and the real sector which causes the Gross Regional Domestic Product to increase. This research is in line with research conducted by Akhmad Muzakky Suhadak Topowijono (2014) whose research results also show that the interest rate variable has a significant negative effect on economic growth.

### 2. The Influence of the Inflation Rate on South Sulawesi's Economic Growth in the 2000-2014 period

From the results of testing the Inflation Rate Variable is not significant to Economic Growth as indicated by a significance value of  $0.436 > \alpha = 0.05$ . The coefficient value of the inflation rate variable

is 0.021, which means that every time there is an increase in the inflation rate by 1 percent, it will increase economic growth by 0.021%. Empirically, every increase in the inflation rate of 7.615% will increase economic growth by 0.0016%.

The results of this study indicate that the inflation rate variable has a negative and insignificant effect on economic growth. The results of this study are in line with research conducted by Ditha Rima Kurniasari (2011) that inflation has no significant effect on economic growth.

### **3. The Effect of Unemployment on South Sulawesi's Economic Growth in the 2000-2014 period**

From the results of testing the unemployment variable has a significant effect on economic growth which is indicated by a significance value of  $0.001 < \alpha = 0.05$ . The coefficient value of the unemployment variable is -0.138, which means that when there is an increase in unemployment by 1 percent, it will reduce economic growth by 0.138%. Empirically, every increase in unemployment by 9.934% will reduce economic growth by 0.0137%.

This research is in line with Okun's Law which states that when the unemployment rate increases, productivity will decrease and the output obtained by the state will also decrease so that economic growth will decrease. However, research conducted by Rovia Nugrahani Pramesthi (2012) concluded that unemployment has a significant effect on economic growth.

### **4. Effect of Inflation Rate on Unemployment in South Sulawesi 2000-2014 period**

From the results of testing the inflation variable is not significant to unemployment as indicated by a significance value of  $0.484 > \alpha = 0.05$ . The coefficient value of the inflation variable is -0.108, which means that every time there is an increase of 1 percent, unemployment will decrease by 0.108%. Empirically, every increase in inflation by 7.615% will reduce unemployment by 0.822%.

This research is also in line with research conducted by Isti Qomariyah (2012) which concluded that the inflation rate variable has a negative and insignificant effect on unemployment. The Phillips curve also explains that when the desired inflation rate is low, the unemployment rate will be very high. Vice versa, if the desired unemployment is low, high inflation will occur

### **5. The Effect of Economic Growth on Unemployment in South Sulawesi 2000-2014**

From the results of testing the variable economic growth is significant for unemployment as indicated by a significance value of  $0.027 < \alpha = 0.05$ . The coefficient value of the variable economic growth is -0.0000243, which means that every time there is an increase in economic growth of 1 billion, unemployment will decrease by 0.0000243%. Empirically, every increase in economic growth of 91,716% will reduce unemployment by 2.228%.

If economic growth increases then unemployment decreases, because if unemployment increases it will cause people's purchasing power to decrease so that the demand for goods produced will decrease. In contrast to the research conducted by Ni Luh Karmini, who stated that the variable economic growth has no effect on unemployment.

## **4. CONCLUSION**

Based on the discussion and analysis of research data on the Effects of Inflation and Interest Rates on Unemployment and Economic Growth. So it can be concluded that the interest rate variable has a negative and significant effect on economic growth, and the inflation variable has a negative and insignificant effect on economic growth, while unemployment has a negative and significant effect on economic growth. The inflation rate has a negative and insignificant effect on unemployment, and economic growth has a negative and significant effect on unemployment. The test results show that interest rates have a positive effect on economic growth in South Sulawesi. The interest rate coefficient value is -0.142 and the significance value is  $0.019 < \alpha = 0.05$ ; the inflation variable has a negative effect

on economic growth in south sukawesi. The inflation coefficient value is 0.021 and the significance value is  $0.436 > \alpha = 0.05$ ; unemployment variable has a positive effect on economic growth. The unemployment coefficient is -0.138 and the significance value is  $0.001 < \alpha = 0.05$ ; the inflation variable has a positive effect on unemployment, the inflation coefficient is -0.108 and its significance value is  $0.484 > \alpha = 0.05$  and the economic growth variable has a negative effect on unemployment. The coefficient of economic growth is -0.0000243 and the significance value is  $0.027 < \alpha = 0.05$ . unemployment variable has a positive effect on economic growth. The unemployment coefficient is -0.138 and the significance value is  $0.001 < \alpha = 0.05$ ; the inflation variable has a positive effect on unemployment, the inflation coefficient is -0.108 and its significance value is  $0.484 > \alpha = 0.05$  and the economic growth variable has a negative effect on unemployment. The coefficient of economic growth is -0.0000243 and the significance value is  $0.027 < \alpha = 0.05$ . unemployment variable has a positive effect on economic growth. The unemployment coefficient is -0.138 and the significance value is  $0.001 < \alpha = 0.05$ ; the inflation variable has a positive effect on unemployment, the inflation coefficient is -0.108 and its significance value is  $0.484 > \alpha = 0.05$  and the economic growth variable has a negative effect on unemployment. The coefficient of economic growth is -0.0000243 and the significance value is  $0.027 < \alpha = 0.05$ .

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