

Analysis Of The Impact Of Economic Growth On Indonesian Labor, Both Formal And Non-Formal Sectors And Efforts To Overcome It

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Abstrak

Penelitian ini membahas tentang analisis dampak pertumbuhan ekonomi Indonesia terhadap tenaga kerja di sektor formal dan non-formal. Pertumbuhan ekonomi diperkirakan akan berdampak positif terhadap lapangan kerja, seperti penciptaan lapangan kerja baru, kenaikan upah, dan penciptaan lapangan kerja yang lebih baik. Namun terdapat beberapa tantangan yang perlu dihadapi, seperti kesenjangan keterampilan antara kebutuhan industri dan kemampuan tenaga kerja. Untuk mengatasi tantangan tersebut, pemerintah perlu melakukan beberapa upaya, seperti peningkatan kualitas pendidikan dan pelatihan, pengembangan sektor informal, dan penciptaan lapangan kerja baru. Pertumbuhan ekonomi yang tinggi juga diharapkan dapat membuka lapangan kerja yang lebih luas, mengurangi tingkat pengangguran, dan meningkatkan distribusi pendapatan yang lebih merata.

Kata Kunci: Pertumbuhan Ekonomi, Tenaga Kerja, Sektor Formal, Sektor Non Formal

Abstract

This study discusses the analysis of the impact of Indonesia's economic growth on labor in the formal and non-formal sectors. Economic growth is predicted to have a positive impact on employment, such as the creation of new jobs, wage increases, and the creation of better jobs. However, there are some challenges that need to be faced, such as the skills gap between industry needs and labor capabilities. To overcome these challenges, the government needs to make several efforts, such as improving the quality of education and training, developing the informal sector, and creating new jobs. High economic growth is also expected to open up wider employment opportunities, reduce the unemployment rate, and improve a more equitable income distribution.

Keywords: Economic Growth, Labor, Formal Sector, Non-Formal Sector

INTRODUCTION

Economic growth is one of the main indicators of a country's progress. Based on the predictions of several trusted institutions such as the World Bank, IMF, and OECD, Indonesia's economy is predicted to continue to increase in the next few years.

High economic growth is predicted to have a positive impact on employment in Indonesia. These positive impacts include economic growth will encourage the creation of new jobs in various sectors, increased labor demand will encourage wage increases, economic growth will encourage the creation of better jobs with higher skills.

The impact of economic growth on labor will vary across the formal and non-formal sectors. In the formal sector, economic growth is expected to increase the demand for high-skilled labor, such as engineers, technicians, and health workers. This will open up opportunities for workers with appropriate qualifications to get better jobs with higher salaries.

Although economic growth has a positive impact on employment, there are several challenges that need to be faced. One of the main challenges is the skills gap between industry needs and labor capabilities. Many Indonesian workers do not have the skills required by industry.

To overcome these challenges, the government needs to make several efforts, including the government needs to improve the quality of education and training so that the Indonesian workforce has the skills needed by industry, the government needs to provide support to SMEs so that they can develop and create new jobs, the government needs to create new jobs through programs such as infrastructure development and creative industry development.

In addition to addressing the skills gap, the government also needs to improve labor productivity. This can be done by improving the quality of public health and nutrition, as well as providing incentives to workers to improve their performance.

High economic growth is expected to open up wider employment opportunities for the community and increase a more equitable distribution of income. This can help reduce the unemployment rate in Indonesia, reduce poverty and improve people's welfare.

Concept/Definition

Economic Growth

Sukirno (2011) defines economic growth as the development of economic activity that results in an increase in the number of goods and services produced by the community and an increase in the level of public welfare. Therefore, economic growth is an indicator of the achievement of the development of an economy in a period. The ability of a country to produce goods and services will increase. This increase is due to the increase in factors of production both in quantity and quality. Investment will increase the quantity of capital goods and encourage the development of the technology used. In addition, growth in the number of workers also occurs along with population development and an increase in their level of education and skills. (Mumu et al., 2020)

This theory of economic growth is divided into several groups, namely:

1. Classical theory: This theory has developed since the 17th century

- 1) Adam Smith's Theory of Economic Growth

As one of the classic figures who explored all aspects of economics, including economic growth, Adam Smith expressed his views in his 1776 masterpiece "An Inquiry into the Nature and Causes of the Wealth of Nations." Smith discussed methods of analyzing economic growth by considering two main factors, namely total output and population growth. In calculating total output, Smith considered three key variables, namely natural resources, human resources, and capital. While the second factor, population growth, is considered as a determinant of market size and the rate of economic growth.

- 2) David Ricardo's Theory of Economic Growth

David Ricardo is best known for his contribution to the theory of economic growth, specifically through the concept of "the law of diminishing returns". This idea highlights how population or labor growth affects the decline in marginal returns due to land limitations. Ricardo stated that increasing labor productivity requires technological development and adequate capital accumulation. Therefore, Ricardo believed economic growth could be achieved in this way.

2. Neoclassical Theory:

- 1) Economic Growth according to Joseph A Schumpeter

In his work entitled "The Theory of Economic Development" Joseph A Schumpeter reviews the crucial role of entrepreneurs in the process of economic development. Schumpeter concluded that the essence of economic growth is innovation by innovators and entrepreneurs.

- 2) Economic Growth according to Robert Solow.

Robert Solow stated that economic growth involves four main factors: people, capital accumulation, modern technology, and output. In his formulation, Solow emphasized the complex interaction between these elements as the main driver of economic growth.

3. **Neokeynes Theory:** In this theory, Roy F. Harrod and Evsey D. Domar put forward their respective views on the relationship between investment, aggregate demand, and growth in production capacity. Both believed that investment plays an important role in increasing economic growth. The Neokeynes theory emphasizes that capital investment is a key factor in determining the success of economic growth.
4. **W. W. Rostow Theory:** discusses the theory of economic growth and development, and outlines his concepts in his famous book, "The Stages of Economic Growth: A Non-Communist Manifesto." In this book, Rostow uses a historical approach to explain the economic development of a society and describes the various stages of economic growth that occur in a historical context. In a society, the process of economic growth goes through several stages, namely: traditional society, take-off prerequisite stage, take-off stage, maturity stage, and high consumption stage.
5. **Karl Bucher's theory:** Karl Bucher's theory has several stages, namely production for one's own needs (closed households), the economy as a form of expanded product exchange in the market (city households), a national economy with an increasingly important role for trade (country households), trade activities that extend across national borders (world households).

The economic growth of a region is influenced by economic factors (Sukirno, 2015). The following economic factors affect economic growth:

- a. **Natural Resources:** A country's natural wealth, including the extent and fertility of its land, climate, forest products, and minerals, is a key factor in economic

- progress. Abundant natural resources are beneficial for economic development, especially in the early stages of economic growth. Countries that lack natural resources will face difficulties in rapid development.
- b. **Human Resources:** Human resources have a great influence on the economic progress of a country such as the quality and quantity of labor.
- c. **Capital:** capital is the stock of renewable factors of production. Capital accumulation involves investment in capital goods with the aim of increasing capital stock, national output, and national income. Capital formation is therefore of key importance for achieving economic growth as it increases national output and leads to technological progress
- d. **Technological Progress:** technological progress encourages innovation and new ideas that can increase the productivity of labor, capital, and other factors of production. There are several key technological advances in the context of modern economic development including scientific discovery, investment, innovation, refinement, and dissemination, all of which contribute to economic progress. Form

Labor

Simanjuntak (1998) defines labor as individuals aged 10 years or older, who have been or are currently engaged in work, are actively seeking work, or are conducting other activities such as education or taking care of the household.

Mulyadi (2003) Mulyadi (2003) states that labor is the population in the working age range (15-64 years) or the population of a country that has the potential to produce goods and services if there is demand for its labor, and is willing to participate in these activities.

According to the Law of the Republic of Indonesia Number 13 of 2003 concerning Manpower defines that labor is everyone who is

able to do work in order to produce goods and / or services both to meet their own needs and for the community. (Ministry of Industry, 2003).

Opinion Sumarsono (2003) states that labor includes all individuals who are willing and able to work, including those who work for themselves or their families without receiving wages, as well as people who are factually willing and able to work, despite experiencing forced unemployment due to a lack of job opportunities.

Sector

According to Hart (1971) economic activities can be divided into two sectors: formal and informal. The formal sector is a business that has received various economic protections from the government. Meanwhile, the informal sector is a business that does not receive economic protection from the government and has not utilized government assistance or facilities, even though these facilities are available. The criteria that determine whether a business is in the formal or informal sector is access to facilities provided by the government.

The formal sector is predicted to absorb 70% of the new workforce by 2024, while the non-formal sector is predicted to continue to grow and absorb 30% of the new workforce by 2024. (Ministry of Manpower, 2024). The manufacturing, trade, and service sectors are the formal sectors that absorb the most labor, while the informal sector is dominated by agriculture, small trade, and other services. (Bureau of Central

Facts

Economic Growth

The World Bank expects the Indonesian economy to grow by 5.2% in 2023 and 5.3% in 2024 (World Bank, 2023). The IMF predicts Indonesia's economic growth of 5.3% in 2023 and 5.2% in 2024 (International Monetary Fund, 2023). The OECD predicts Indonesia's economic growth of 5.0% in 2023 and 5.1% in 2024. (Organization for Economic Co-operation and Development, 2023)

Labor

1% economic growth can create 200,000-300,000 new jobs. The unemployment rate in Indonesia in February 2023 was 5.83%, down from 6.28% in February 2022. The labor force participation rate in Indonesia in February 2023 was 68.88%, up from 67.16% in February 2022. (Central Bureau of Statistics, 2023)

Problem Formulation

- a. How does economic growth affect the level of labor absorption in the formal and non-formal sectors?
- b. How does economic growth affect the skills and education of workers in the formal and non-formal sectors?
- c. How does economic growth affect wages and labor productivity in the formal and non-formal sectors?
- d. What efforts can be made to overcome unemployment due to economic growth?
- e. How effective are government programs in addressing unemployment?

Destination

The purpose of this study is to identify the effect of Indonesia's economic growth on the Indonesian labor force, both formal and non-formal sectors, as well as efforts to mitigate it. By collecting data and analyzing it, we can understand how economic growth affects the Indonesian workforce and how efforts can be taken to mitigate its impact. This will help the Indonesian government plan effective strategies to tackle poverty and develop a more stable and growing economy.

As for specifically analyzing the effect of Indonesia's economic growth on labor has several main objectives, namely:

- 1. Understanding the Relationship between Economic Growth and Labor:
 - a. Analyze how economic growth is predicted to affect labor demand in the formal and non-formal sectors.
 - b. Identify factors that affect the relationship between economic growth and

employment, such as economic structure, labor quality, and government policies.

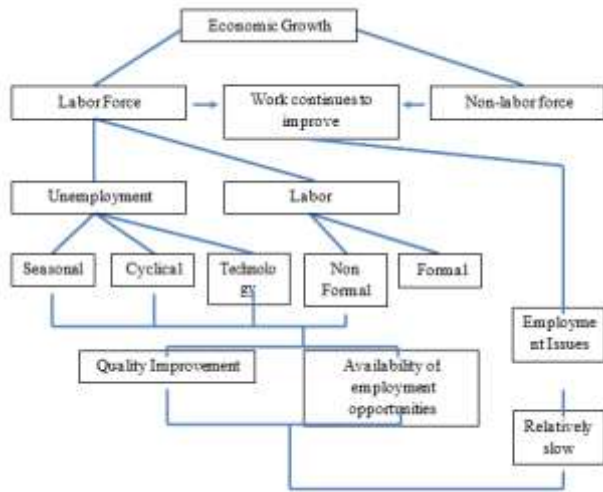
2. Estimating the Impact of Economic Growth on Labor
 - a. Predict the positive and negative impacts of economic growth on labor, such as job creation, unemployment rate, wages, and labor quality.
 - b. Predict the impact of economic growth on specific labor groups, such as women, youth, and people with disabilities.
3. Formulate countermeasures for negative impacts
 - a. Identify and formulate efforts to overcome the negative impacts of economic growth on labor, such as unemployment, income inequality, and skills mismatch.
 - b. Provide policy recommendations to the government, private sector, and educational institutions to improve the quality of the workforce and expand employment opportunities.
4. Improving Understanding of the Labor Market
 - a. Provide information to the community about opportunities and challenges in the future job market.
 - b. Assist in the formulation of targeted education and training programs to improve the competitiveness of the Indonesian workforce.
5. Supporting Appropriate Policy Making
 - a. Provide input for the government in formulating labor policies that are effective and responsive to economic changes.
 - b. Assist the government in achieving national development goals, such as job creation, poverty reduction, and improving people's welfare.

several economic theories and models, among others:

- a. Classical Theory:
 - a) Adam Smith: Economic growth depends on an increase in population which leads to an increase in output and output.
 - b) David Ricardo: Large population growth can lead to excess labor resulting in a decline in wages. This condition is referred to as the "stationary state."
- b. Neo-Classical Theory:
 - a) Joseph Schumpeter: According to Schumpeter, economic growth occurs when entrepreneurs create innovations and combine production processes with new business investments.
 - b) Robert M. Solow: Solow's theory emphasizes the importance of production factors such as capital, labor, and modern technology in maintaining economic growth.
- c. Endogenous Theory: This theory emphasizes that economic growth can be triggered from within, through increased investment in research, development, and innovation.
- d. Historical Theory: Scholars such as Karl Bucher, Werner Sombart, and Frederich List developed this theory. They argued that economic growth is influenced by the relationship between producers and consumers at various levels, from the household to the world.

Conceptual Framework

The framework of this research is based on



Hypothesis

Based on the above framework, the research hypothesis is as follows:

- H1: Indonesia's economic growth will increase labor absorption in the formal and non-formal sectors.
- H2: Indonesia's economic growth will increase the skills and education of the workforce in the formal and non-formal sectors.
- H3: Indonesia's economic growth will increase wages and labor productivity in the formal and non-formal sectors.
- H4: Indonesia's economic growth will reduce unemployment and poverty.
- H5: Government countermeasures will be effective in reducing the negative impact of economic growth on labor.

Data and Analysis

The data used in this study is secondary data that comes from various sources, such as the Central Statistics Agency (BPS), Bank Indonesia, and international institutions such as the World Bank and the International Monetary Fund (IMF). This data will be analyzed using statistical and econometric methods.

Data:

- 1. Secondary data
 - a. Economic growth prediction data from trusted institutions (IMF, World Bank, ADB)
 - b. Employment data (BPS)
 - c. Other statistical data

- 2. Primary data (optional)
 - a. Expert interview
 - b. Labor survey
- 3. Analysis technique
 - a. Regression analysis
 - b. Descriptive analysis
 - c. Statistical test

RESEARCH METHODS

In this study, researchers used a qualitative research design by applying descriptive research methods. The purpose of qualitative descriptive research is to describe, describe, explain, and provide a more in-depth explanation of the problems to be investigated, by learning as much as possible about a particular individual, group or event. In the context of qualitative research, humans are considered as research instruments, and research results are expressed in the form of words or statements that reflect the actual situation.

System Approach



Diagram Ekplanation

- Economic Growth. It is a key input that affects labor demand, wages, and unemployment.
- Labor. It is an input that is affected by economic growth.
- Analysis & Modeling. A process to study the relationship between economic growth and employment.
- Conclusions & Recommendations. This is the result of analysis and modeling that contains conclusions about the impact of economic growth on labor, as well as policy recommendations to maximize positive impacts and minimize negative impacts.
- Government Policy. This is the output of the analysis used to optimize the impact of

economic growth on employment.

- Evaluation & Revision. This is the process of evaluating the appropriateness of the model and conclusions, and revising them based on the latest data.

RESULTS AND DISCUSSION

Economic Growth and Employment in Indonesia

Economic growth is one of the main indicators of a country's progress. High economic growth is expected to have a positive impact on employment, such as:

1. Creation of new jobs: Economic growth will drive demand for goods and services, thus encouraging companies to create new jobs.
2. Increased demand for labor: Increased demand for goods and services will increase the demand for labor, thereby increasing employment opportunities for people.
3. Wage increase: An increase in labor demand will push up wages, thereby improving the welfare of workers.

The Impact of Economic Growth on Employment in the Formal and Nonformal Sectors

The impact of economic growth on labor in the formal and non-formal sectors varies.

a. Formal Sector:

- 1) Increased demand for high-skilled labor: Economic growth will drive demand for high-skilled labor, such as engineers, technicians, and health workers.
- 2) Opportunities for suitably qualified workers: Economic growth will open up opportunities for suitably qualified workers to get better jobs with higher salaries.

b. Non-formal Sector:

- 1) Growth of the non-formal sector: Economic growth is predicted to continue

to expand and absorb 30% of the new workforce by 2024.

- 2) Dominated by agriculture, petty trade, and other services: The non-formal sector is dominated by sectors that require low skills and relatively low wages.

Challenge

While economic growth has had a positive impact on employment, there are several challenges that need to be addressed, including:

- 1) Skills gap: Many Indonesian workers do not have the skills required by the industry.
- 2) Low labor productivity: Indonesia's labor productivity still lags behind other countries in Southeast Asia.

Countermeasures

1. Improve the quality of education and training so that the Indonesian workforce has the skills needed by industry.
 - 1) The government allocated an education budget of 20% of the 2023 state budget.
 - 2) Vocational training and apprenticeship programs continue to be strengthened to improve the skills of the workforce.
2. Creating a conducive investment climate
 - 1) The government is making various efforts to increase investment, such as simplifying licensing and tax incentives.
 - 2) Increased investment is expected to create new jobs and improve the quality of labor.
3. Creating new jobs
 - 1) Provide support to SMEs so that they can grow and create new jobs.
 - 2) Create new jobs through programs such as infrastructure development and creative industry development.

CONCLUSION

High economic growth is expected to have a positive impact on employment in Indonesia. However, there are several challenges that need to be addressed, such as the skills gap and low labor productivity. Efforts from the government and society are needed to overcome these

challenges and ensure that economic growth can benefit all people.

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