ABSTRACT


Unemployment is a common problem in most countries. Generally the national unemployment rate rose from average 4.83 percent in 1992-1999 to 9.08 percent in 2000-2008. An increase in the unemployment rate not only implies a serious underutilization of manpower, but also may likely generate a series of social problems in the long run. As such, dealing with the upsurge in the unemployment rate has become the top priority in the governments policy agenda. Aside from the rise of the aggregate unemployment rate, the regional unemployment rate in Indonesia shows wide variability of the unemployment rate among 26 provinces, moreover this unemployment rate seems to persist over time. This study intended to identify the persistence of regional unemployment and to explore the sources of this regional unemployment across Indonesian provinces. Using time series data from 1984 through 2008 it identified the existence of regional persistence with two approaches: Im Pesaran Shin panel unit root test and panel method to get the ’near unit root’ coefficient. Thus, to analyze factors affecting regional unemployment, panel data analysis was used. Panel unit root test showed that panel data in this period was stationary and this study found the coefficient was a near unit root process (0.87). A cross-regional panel study showed that the variables contributing to unemployment rate were the share of the labor force (15-24), minimum wage province, the percentage of the labor force that is male, and the share of labor force with a higher education. Real GDRP per capita, dependency ratio, and industry composition (the share of manufacturing and agriculture sectors to GDRP) negatively effected the dependent variable. Related to industry composition, even though both sector have a negative effect which reduced regional unemployment but the result showed that agriculture has the largest employment elasticity. Understanding the sources of regional unemployment is helpful to determine the appropriate policies to mitigate the unemployment rate across regions. This study provides important implications for government to make a new reorientation so that sector which has relatively high growth can also create employment. Second, this study recommends the promotion of a vocational education and training as a transition for young person to enter labor market. Third, it also suggests development of agriculture in rural area. Fourth, the government in region must have a specific unemployment program depending on potential characteristics of the regions and promotes new investments to create employment. Fifth, UMP is still needed as a reference in setting the workers wage, but the criteria of minimum wage should be determined not only refers to inflation rate but also includes employment growth, financial capability of company, and macroeconomic stability.

Keywords: Persistence, regional unemployment, panel, IPS panel unit root