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Research Paper

The Impact of Government Expenditure and Private Investments on Unemployment in Indonesia: Analysis of Demand Side

[1]A. Rizka Syamsul Bahri, [2]Fatmawati, [3]Madris
[1](*Economics and Business Faculty, Hasanuddin University)*
[2](*Economics and Business Faculty, Hasanuddin University)*
[3](*Economics and Business Faculty, Hasanuddin University)*
Corresponding Author: A. Rizka Syamsul Bahri

ABSTRACT: *The purpose of this study is to analyze the effect of government spending and private investment on unemployment in Indonesia both directly and indirectly through economic growth and the quality of human resources (HR). The analysis technique used in this research is structural model. The results showed that government expenditure was significant and negatively affected on unemployment in Indonesia. Private investment is significant and has a positive effect on unemployment in Indonesia. Government expenditure through economic growth and human resource quality is significant and has a positive effect on unemployment in Indonesia. While private investment through economic growth and human resource quality does not affect on unemployment in Indonesia.*
KEYWORDS: *Unemployment, government expenditure, private investment, economic growth, human resource quality, national development*

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I. INTRODUCTION

Economic development is an effort to improve people's lives. Todaro and Smith (2012) explain that economic development is a multidimensional process that involves various fundamental changes in social structure, attitudes of society and national institutions as well as accelerating growth, reducing inequality, and eradicating absolute poverty. Whereas (Sukirno, 2012), explains that economic development is economic growth followed by changes in the structure and pattern of economic activities.

Economic development in a country, both developed and developing countries can be seen from several economic indicators. Unemployment is one of the economic indicators that can give an idea of how economic development in a country. According to Blanchard and Johnson (2017), unemployment is a person who does not have a job but is looking for work. Whereas according to Kaufman and Hotchkiss (1999) in Wardiansyah and Bahri (2016), unemployment is a measure that is done if someone does not have a job but they are actively trying in the last four weeks to find job. According to (Romer, 2012), almost every country experiences the problem of unemployment, where there are many people who do not work, but they want to work like people in general and get wages.

Fiscal policy is seen as one of the most important tools in overcoming various problems in the economy, especially the problem of employment and unemployment. (Idenyi, et al., 2016) explained that the government can contribute significantly through fiscal policy as an important instrument because it allows the government to intervene in realizing full employment opportunities and other macroeconomic agendas. Government expenditure is one form of fiscal policy carried out by the government.

The problem of unemployment is an important issue, especially in developing countries. The unemployment problem can be linked to other indicators, including private investment. Increasing investment is one of the important factors in determining the level of income, investment activities allow a society to continuously improve economic activities and employment opportunities, increase national income and prosperity levels (Sukirno, 2000).

Economic growth and quality of human resources in a country are also factors that have an influence on unemployment, both directly and indirectly. High economic growth will have an impact on people's income. With the increasing amount of people's income, the community will be able to access better education so that it will have an impact on the higher quality of human resources.

II. THEORETICAL REVIEW

Definition of Unemployment

In a standard definition that has been determined internationally, the intended unemployment is someone who has been classified in the workforce, who is actively looking for work at a certain wage level, but cannot get the job he wants (Sukirno, 2000). (Samuelson and Nordhaus, 2010) explain that someone is classified as unemployed if they do not have a job, are actively looking for job in the previous four weeks, and are currently willing to work.

Unemployment is a macroeconomic problem that affects humans directly and is the most serious problem. For most people, losing a job means a decrease in living standards and psychological stress (Mankiw, 2007). Every day some workers lose or leave their jobs, and some who are unemployed are accepted to work. This continuous ups and downs determine the part of the unemployed workforce (Hall, 1979, in Mankiw, 2007).

Causes of Unemployment

The number of unemployed and the workforce shows the large number of population that must be included in the development process, which means that the unemployment rate and labor force are part of the population that is able to move the economic process. This illustrates that the dynamics of the development process must be able to involve the entire workforce, so the large number of workforce can be a burden for economic development (Muslim, 2014). The labor force that is growing very fast will certainly cause problems for the economy, especially the absence of employment opportunities. If new employment is not able to accommodate all the new workforce, then a portion of the new workforce will increase the unemployment rate (Syahril, 2014).

With the increasing number of unemployed people in a country, it affects the economy of a country. One of the causes of the large number of unemployed people in Indonesia is the lack of jobs and lack of expertise of job seekers, including educated job seekers (Franita, 2016). Besides that one of the causes of unemployment has been explained by Mankiw (2007), which states that workers have different preferences and abilities, and jobs have different characteristics. Meanwhile, the flow of information about prospective employees and job openings is imperfect, and the geographical mobility of workers is not instant. For all of these reasons, finding the right job requires time and effort and this tends to reduce the number of employment.

Relationship Between Variables

1. The Effects of Government Expenditures on Unemployment

Fiscal policy must be aimed at increasing employment opportunities and reducing unemployment or underemployment. For this reason, government expenditure must be directed towards providing social and economic overhead. Such expenditures create more jobs and increase the productive efficiency of the economy in the long run (Jhingan, 2013).

Furthermore (Ministry of Finance, 2019) explains that the form of negative relations that occur between increases (budget) and poverty and unemployment is in line with the thoughts of Keynesian economists. Where they underlie the notion that government variables (especially budgets) are considered as one of the driving variables of economic growth in a country. And later this is expected to create a multiplier effect on other economic sectors. This multiplier effect of government spending will be even greater if the assumption that government spending is used for productive activities can be fulfilled. Based on the description, it can be said that government expenditure has a negative influence on unemployment. When government spending increases, the unemployment rate will be lower.

2. The Effect of Government Expenditures on Economic Growth

Government expenditure is closely related to economic growth because government spending is a constituent component of Gross Domestic Product (or GRDP), along with public consumption, investment, and net exports. This thought was initiated by Keynesian economists where they underlie the idea that government variables are considered as one of the driving variables of economic growth. The government budget is expected to create a multiplier effect in other economic sectors (Ministry of Finance, 2014, in Hidayat and Nalle, 2017). Based on the previous explanation, it can be interpreted that government spending has a positive influence on economic growth.

3. The Effect of Private Investment on Unemployment

According to Harrod-Domar, investment not only creates demand, but also increases production capacity. Labor, which is one of the factors of production, will be increased automatically. The dynamics of investment affect the high and low level of economic growth, reflecting the widespread lack of development. So each country tries to create a climate that can stimulate investment, especially private investment which can help open employment opportunities so as to increase employment opportunities (Dumairy, 1997, in Sandika, et al., 2014). The greater the investment invested in a country, the more employment opportunities will be in the country, which will reduce the unemployment rate.

4. The Effect of Private Investment on Economic Growth

Investment is expenditure by the producer sector (private) for the purchase of goods and services to add to the stock used or for factory expansion (Boediono, 1992, in Sondakh, et al., 2017). Investment is one of the pillars of economic growth (Sajafii, 2009, in Wahyuni, et al., 2014). This is in accordance with Harrod-Domar's theory which states that economic growth requires investment, where economic growth is part of economic development, economic development will also have an impact on human development (Royan et al. 2015). According to (Pangestu, 1996, in Kurniawan, et al., 2017), the relationship between investment and economic growth is positive, where if investment is high, then economic growth tends to increase.

5. The Effect of Economic Growth on Unemployment

Okun stated that for every 2 percent decline in GNP from its potential GNP, the unemployment rate jumped 1 percent (Samuelson, 2005, in Darman, 2013). Economic growth will improve the product, so employment opportunities rise, unemployment will decrease (Aruan and Sriyono, 2014). The theoretical foundation of the relationship Okun investigates is based on the fact that increased labor must produce more goods and services. Arthur Okun found that the unemployment rate declined in the years when the real growth rate was high, while the unemployment rate increased in the years when the real growth rate remained low or even negative (Soylu et al. 2018). Economic growth has a negative influence on the unemployment rate. An increase in economic growth will reduce the unemployment rate.

6. The Effect of Economic Growth on HR Quality

High economic growth illustrates the amount of production of goods and services in a country that occurs due to increased demand for goods and services. In Malthus's theory explains that an increase in effective demand will increase welfare (Jhingan, 2013). Wijayanti (2015) explained in her research that the level of income of someone with an education level has a close relationship, namely a high level of education requires adequate funds. Of course school funds are closely related to the family economic level. In this case, clearly it can be interpreted that economic growth is very instrumental in improving the welfare level of the community. With the increase in economic growth will have an impact on increasing community income so that community efforts to obtain higher education will be achieved.

7. The Effect of HR Quality on Unemployment

According to Ehrenberg and Smith (1994) in Harfina (2009), the higher a person's expertise is seen from the length of education, the higher the income that will be obtained. Thus, a person who has skill (professional) has a risk of being underemployed which is lower compared to workers who do not have expertise (unskill). HR quality has a negative relationship on the unemployment rate. That is, that the higher the quality of human resources in a country, the lower the unemployment rate.

III. RESEARCH METHODS

The data analysis technique used to discuss the problem in this study is the Structural Model analysis. Structural models are models that show structural relationships between variables. Complex relationships can be built between one or several dependent variables with one or several independent variables. There may also be a variable that plays a dual role, that is, as an independent variable in a relationship, but becomes a dependent variable in another relationship given the existence of a tiered causality relationship. The equation model of this research can be seen from the following equation:

Economic Growth Model

$Y_{1it} = f\,(X_{1it-1}, X_{2it-1})$………………………………………………... (1)

HR Quality Model

$Y_{2it} = f\,(Y_{1it})$…………………………………………………….……. (2)

Unemployment Rate Model

$Y_{3it} = f\,(X_{1it-1}, X_{2it-1}\,;\, Y_{1it,}\, Y_{2it})$……………………………………… (3)

Based on the functional relationship above, it is then described in the following substructure equations:

Equation of economic growth substructure:

$Y_{1it} = \alpha_0 + \alpha_1 X_{1it-1} + \alpha_2 X_{2it-1} + \mu_{0it}$

$Y_{1it} = \ln \alpha_0 + \alpha_1 \ln X_{1it-1} + \alpha_2 \ln X_{2it-1} + \mu_{0it}$……………………....... (4)

The equation of the HR quality model substructure

$Y_{2it} = \beta_0 + \beta_1 Y_{1it} + \mu_{1it}$

$Y_{2it} = \ln \beta_0 + \beta_1 Y_{1it} + \mu_{1it}$…………………………………………. (5)

The equation for the unemployment substructure model

$Y_{3it} = \gamma_0 + \gamma_1 X_{1it-1} + \gamma_2 X_{2it-1} + \mu_{0it} + \gamma_3 Y_{1it} + \gamma_4 Y_{2it} + \mu_{1it} + \mu_{2it}$

$Y_{3it} = \ln \gamma_0 + \gamma_1 \ln X_{1it-1} + \gamma_2 \ln X_{2it-1} + \mu_{0it} + \gamma_3 Y_{1it} + \gamma_4 Y_{2it} + \mu_{1it} + \mu_{2it}$ …………………………………………………………….…….. (6)

The influence of government spending and private investment on HR quality through economic growth with the substitution of equations 4 to equation 5 can be formulated as follows:

$Y_{2it} = \ln \beta_0 + \beta_1 (\ln\alpha_0 + \alpha_1 \ln X_{1it-1} + \alpha_2 \ln X_{2it-1} + \mu_{0it}) + \mu_{1it}$

$Y_{2it} = \ln \beta_0 + \beta_1 \ln\alpha_0 + \beta_1 \alpha_1 \ln X_{1it-1} + \beta_1 \alpha_2 \ln X_{2it-1} + \mu_{0it} + \mu_{1it}$

$Y_{2it} = (\ln \beta_0 + \beta_1 \ln\alpha_0) + (\beta_1 \alpha_1 \ln X_{1it-1}) + (\beta_1 \alpha_2 \ln X_{2it-1}) + \mu_{0it} + \mu_{1it}$

Simplified into:

$Y_{2it} = \delta_0 + \delta_1 \ln X_{1it-1} + \delta_2 \ln X_{2it-1} + \mu_{3it}$……………….…………… (7)

Then the effect of government spending and private investment on the unemployment rate through economic growth and HR quality with the substitution of equation 4 and equation 7 to equation 6 can be formulated as follows:

$Y_{3it} = \ln \gamma_0 + \gamma_1 \ln X_{1it-1} + \gamma_2 \ln X_{2it-1} + \mu_{0it} + \gamma_3 (\ln\alpha_0 + \alpha_1 \ln X_{1it-1} + \alpha_2 \ln X_{2it-1} + \mu_{0it}) + \gamma_4 (\delta_0 + \delta_1 \ln X_{1it-1} + \delta_2 \ln X_{2it-1} + \mu_{3it}) + \mu_{2it}$

$Y_{3it} = \ln \gamma_0 + \gamma_1 \ln X_{1it-1} + \gamma_2 \ln X_{2it-1} + \mu_{0it} + \gamma_3 \ln\alpha_0 + \gamma_3 \alpha_1 \ln X_{1it-1} + \gamma_3 \alpha_2 \ln X_{2it-1} + \mu_{0it} + \gamma_4 \delta_0 + \gamma_4 \delta_1 \ln X_{1it-1} + \gamma_4 \delta_2 \ln X_{2it-1} + \mu_{3it} + \mu_{1it} + \mu_{2it}$

$Y_{3it} = \ln \gamma_0 + \gamma_3 \ln\alpha_0 + \gamma_4 \delta_0 + \gamma_1 \ln X_{1it-1} + \gamma_3 \alpha_1 \ln X_{1it-1} + \gamma_4 \delta_1 \ln X_{1it-1} + \gamma_2 \ln X_{2it-1} + \gamma_3 \alpha_2 \ln X_{2it-1} + \gamma_4 \delta_2 \ln X_{2it-1} + \mu_{0it} + \mu_{0it} + \mu_{3it} + \mu_{1it} + \mu_{2it}$

$Y_{3it} = (\ln \gamma_0 + \gamma_3 \ln\alpha_0 + \gamma_4 \delta_0) + (\gamma_1 + \gamma_3 \alpha_1 + \gamma_4 \delta_1) \ln X_{1it-1} + (\gamma_2 + \gamma_3 \alpha_2 + \gamma_4 \delta_2) \ln X_{2it-1} + (\mu_{0it} + \mu_{1it} + \mu_{2it} + \mu_{3it})$

Then it can be simplified to be:

$Y_{3it} = \Theta_0 + \Theta_1 \ln X_{1it-1} + \Theta_2 \ln X_{2it-1} + \mu_{4it}$…………………………… (8)

Where:

X_{1it-1} = Government Expenditure

X_{2it-1} =Private Investment

Y_{1it} =Economic Growth

Y_{2it} = HR Quality

Y_{3it} = Unemployment

$\alpha_0, \beta_0, \gamma_0, \delta_0, \Theta_0$ = Intercept

$\mu_0, \mu_1, \mu_2, \mu_3, \mu_4$ = error term

i = cross section

t = time series

IV. RESULT AND DISCUSSION

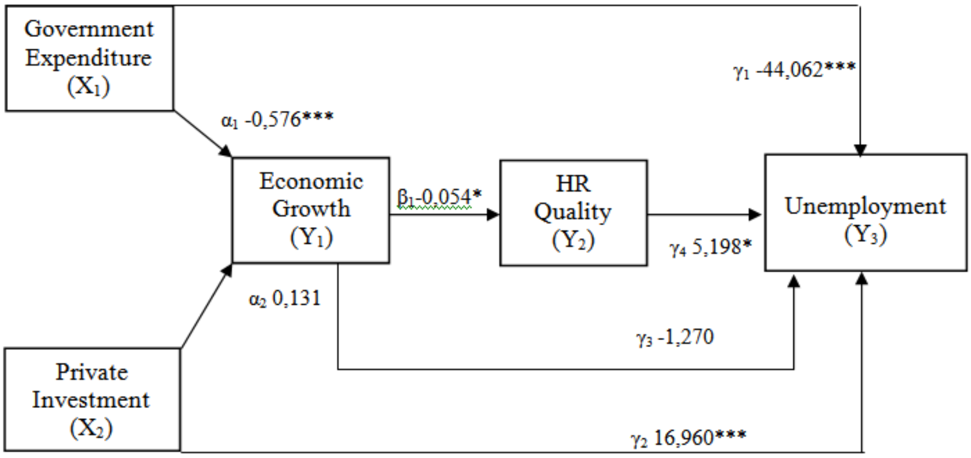
The following is the regression result of direct relationships between variables:

Table 1 Results of Analysis of Direct Variable Relationships

Variable Relationships	Coefficient	Probability	Information
$(X_1) \rightarrow (Y_1)$	-0,576***	0,009	Significant
$(X_2) \rightarrow (Y_1)$	0,131	0,398	Not significant
$(X_1) \rightarrow (Y_3)$	-44,062***	0,000	Significant
$(X_2) \rightarrow (Y_3)$	16,960***	0,000	Significant
$(Y_1) \rightarrow (Y_3)$	-1,270	0,285	Not significant
$(Y_2) \rightarrow (Y_3)$	5,198*	0,066	Significant
$(Y_1) \rightarrow (Y_2)$	-0,054*	0,089	Significant

Based on the analysis of the direct and indirect effects of government expenditure and private investment on unemployment through economic growth and human resource quality in Table 1 above, the results are presented in Figure 1 below:

Figure 1 Results of Analysis of Intervariable Functional Relationships



The regression results of indirect effects between variables can be seen in Table 2 below:

Table 2 Results of Analysis of Indirect Variable Relationships

Variable Relationship	Direct Effect Coefficient	Parameters of Indirect Relations	Indirect Effect Coefficient	Information
$X_1 \rightarrow Y_1 \rightarrow Y_2 \rightarrow Y_3$	-44,062***	$\alpha_1 . \beta_1 . \gamma_4$	0,162	Significant
$X_2 \rightarrow Y_1 \rightarrow Y_2 \rightarrow Y_3$	16,960***	$\alpha_2 . \beta_1 . \gamma_4$	-0,037	Not Significant

The indirect effect coefficient of government expenditure on unemployment through economic growth and HR quality is greater than the coefficient of direct influence. That is, government spending on unemployment through economic growth and quality of human resources has an effect and has a positive relationship with the indirect coefficient of 0,162.

The indirect effect coefficient of the private investment variable on unemployment through economic growth and HR quality is smaller than the coefficient of direct influence. That is, private investment on unemployment through economic growth and HR quality has no effect with the indirect coefficient of influence value of 0,037.

1. The Effects of Government Expenditures on Unemployment

Based on the results of the study show that government spending has an effect and has a negative relationship on unemployment in Indonesia. An increase in government spending will have an impact on the lower unemployment rate in Indonesia.

The results of this study are in line with the hypothesis which states that government spending has a negative relationship on the unemployment rate, where an increase in government spending will reduce the unemployment rate. In his theory Keynes revealed that an increase in government spending would reduce unemployment which would further have an impact on poverty reduction. The results of this study are in line with the results of the research presented by (Matsumae et al, 2016) and (Muslim, 2014), where in their study found that government spending had an impact on reducing unemployment.

The government as the determinant of fiscal policy has a very important role in driving the economy. A stable economy will have an impact on the increasing employment opportunities. Government spending in Indonesia has increased from year to year, this is done by the government to boost production capacity so that it has a positive impact on employment opportunities.

In general, the Indonesian economy in 2018 is still continuing the upward trend. Consumption in various regions is still strong, supported by increased revenues and realization of government spending, which tends to accelerate (Bank Indonesia, 2019). The amount of government spending from year to year has an impact on the expansion of employment and the decreasing unemployment rate in Indonesia.

2. The Effect of Government Expenditures on Unemployment Through Economic Growth and HR Quality

Based on the results of the study indicate that government spending has an effect and has a positive relationship on unemployment through economic growth and human resource quality in Indonesia. An increase in government spending will have an impact on the increasing unemployment rate in Indonesia.

Government spending as a public investment in Indonesia has not been able to create a multiplier effect in terms of reducing unemployment. Government expenditures that increase every year in reality have not been able to reduce the unemployment rate indirectly through economic growth and HR quality. Increased government spending from year to year has not been able to encourage high economic growth. In addition, not all people feel the benefits of economic growth, only certain groups enjoy economic growth, which has an impact on people's welfare. Economic growth that tends to be low has an impact on people's income, so there tends to be an inability for the community to improve the quality of their human resources through both formal and non-formal education. This has an impact on the increasing unemployment rate. Job seekers with high HR quality and good skills are more easily absorbed in the labor market.

3. The Effects of Private Investment on Unemployment

Based on the results of the study indicate that private investment is influential and has a positive relationship on unemployment in Indonesia. An increase in private investment will have an impact on the increasing unemployment rate in Indonesia. The results of this study contradict the hypothesis that private investment has a negative relationship on unemployment, where an increase in private investment will reduce the unemployment rate. In Harrod-Domar's theory, it is explained that basically investment activities will increase production capacity, automatic production processes are needed by many workers so that it will have an impact on increasing employment opportunities which will further have an impact on reducing unemployment. The results of this study also contradict the results of the study (Alrabba, 2017), where the results of the analysis found that private investment has a negative influence on unemployment. That is, the higher the private investment, the lower the unemployment.

Private investment in Indonesia in fact has not been able to create broad employment opportunities, which can absorb the workforce whose numbers are increasing every year. Menurut Sodik dan Nuryadin (2000) dalam Hadiyanti (2013), menyatakan bahwa investasi disepakati menjadi salah satu kunci dalam setiap pembicaraan tentang konsep ekonomi. The discourse of economic growth, the creation of new jobs, and poverty alleviation ultimately put investment as the main driver given that the consumption-driven economy has been recognized as very fragile since 1997.

4. The Effects of Private Investment on Unemployment Through Economic Growth and HR Quality

Based on the results of the study show that private investment has no effect on unemployment through economic growth and human resource quality in Indonesia. The increase in private investment will not have an impact on the unemployment rate in Indonesia. The results of this study contradict the hypothesis that private investment has a negative relationship on unemployment, where an increase in private investment will reduce the unemployment rate. The results of this study are in line with the results of the study (Onodugo et al., 2017), which explains that private investment has no effect on unemployment.

Private investment in Indonesia is still not productive, where the spread of private investment in various provinces has not been evenly distributed. Java Island is ranked first, which is the island with the highest private investment value in the last five years, followed by Kalimantan Island. This has led to optimal development occurring only on Java and Kalimantan. This certainly will have an impact on economic growth. From the attached data it is known that for the past five years economic growth in Java has stabilized above the 5 percent level, but this is different from other provinces outside Java which tend to fluctuate and decline.

Economic growth illustrates optimal production capacity. This has an impact on the social life of the community. High economic growth illustrates the income per capita of the community. Thus the community is able to improve the quality of its human resources through formal and non-formal education (training) so that opportunities to be absorbed in the labor market are greater. However, this only happened in Java so that not all provinces outside Java felt the same way. The uneven distribution of private investment in all provinces in Indonesia is the cause of insignificant private investment on unemployment through economic growth and HR quality.

V. CONCLUSSION

Based on the results of the research and analysis that have been carried out, it can be concluded as follows:

1. Direct government spending has a negative effect on unemployment in Indonesia. Indirect government spending through economic growth and HR quality has a positive effect on unemployment in Indonesia.
2. Direct private investment has a positive effect on unemployment in Indonesia. Private investment indirectly through economic growth and HR quality does not affect on unemployment in Indonesia.

VI. SUGGESTION

To achieve full employment opportunities and reduce unemployment there are several things that should be considered by the government, including:

1. The government as a determinant of fiscal policy needs to consider increasing government spending from previous years. Increased government spending will encourage increased production capacity so that more jobs are available.
2. The government needs to make various efforts and strategies to attract investors to invest in Indonesia. Private investment is one variable that according to economists can increase production capacity so that employment opportunities can be created for the community, besides that private investment can also encourage the creation of high economic growth.

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