

Unemployment and Underemployment in Indonesia, 1976-2000: Paradoxes and Issues

By

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January 2004

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ISBN 92-2-115216-2

First published 2004

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Printed by the International Labour Office. Geneva, Switzerland

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Preface

As Indonesia has struggled to recover from its dark and ugly period of devastation and repression, and from the “Asia crisis”, it has moved into an era where new institutions are taking shape.

In 2000, the ILO’s Socio-Economic Security Programme launched an ambitious project to take stock of the social and economic insecurities in the country, to assist our constituents and colleagues to devise new policies for reducing those insecurities and to promote universal social protection.

This paper is one of more than 20 that has emerged so far and focuses on labour utilization problems that emerged in the period of democratization.

Guy Standing
Director
Socio-Economic Security Programme

1. Introduction

This paper has three objectives. The first one is to illustrate, with labour force survey data spanning over 25 years, that much unemployment in a young and rapidly growing developing country, such as Indonesia before the crisis, was transitional, first-job search unemployment. This is fundamentally different to unemployment in developed countries. The second objective is to show that educated unemployment was not a problem in Indonesia, as was believed by many Indonesian policy makers and academics. The third objective is to show that underemployment, when defined in terms of involuntarily working shorter hours, was also not an employment issue. Working for long hours for little pay, misleadingly sometimes termed underemployment, remains a serious problem that the government should worry about.

The traditional view of developing country unemployment is that it is of minor importance, because it affects mainly members of relatively well-off families who can afford a long job search to obtain suitable formal sector employment. The luxury unemployment hypothesis states that most job seekers, being relatively poor, will quickly settle for the first job available, and implicitly assume that jobs are relatively easily available in traditional occupations or in self-employment. Though this hypothesis has rarely been adequately tested using data on income distribution for the unemployed, and on job search duration and unemployment rates of job seekers by income groups, the observation that unemployment is virtually non-existent in the adult population in many developing countries is taken as sufficient proof that unemployment is not a serious policy issue in developing countries.

This above view has been challenged by noting that unemployment rates have been high or even higher in poorer households than in richer households in a number of Latin American countries and that, even in the absence of an unemployment security system, job seekers from poor households do receive substantial support from their families to finance their often long job search (Turnham, 1994). This view further holds that youth unemployment in developing countries constitutes an economic, social and political problem of equal importance to that in developed countries, because young job seekers, who constitute the majority of the unemployed, experience serious difficulty in gaining access to gainful employment, notwithstanding the existence of a large traditional and self-employed sector.

The economic aspect of unemployment is related to the under-utilization of labour in poor countries, where this is often the only production factor in abundant supply. Educated unemployment has received particular attention in this context, since education often constitutes the largest component of the recurrent budget of developing countries. While the social aspect of unemployment is related to the sense of dignity, participation and contribution to society that work confers on the employed, the political aspect is mainly concerned with the potential for social unrest of unemployed urban youth, many of whom are said to come from relatively comfortable and influential families.

While this paper attempts to provide an assessment of the extent, nature and possible causes of unemployment in a large and rapidly developing country such as Indonesia, it should be stated at the outset that the statistical measurement of the unemployment rate itself portrays quite an ambiguous picture of the extent of unemployment. This is because the statistical definition of unemployment in labour force surveys and other similar enquiries in developing countries involves the key concept of *active job search*, or of actively looking for work in a reference period, usually in the week prior to enumeration. Thus those who are not working and not looking for work, such as the two thirds of the urban and half of the rural female population of working age population are not considered unemployed, even though the female working age population would be considered to be substantially under-utilized by developed country standards, where female labour participation rates are usually much higher. Those who were not looking for work in the previous week, but were doing so in the previous

month will similarly be missed out. In addition, discouraged workers, those not looking for work because they believe jobs were not available, would not be classified as unemployed especially in rural areas, though they certainly represent an important component of under-utilization of labour, and perhaps also constitute a social and political problem.

On the other hand, more people in urban areas actively look for work in the expectation of finding a job, and more urban females may also start actively looking for work in periods of abundant jobs and a tight labour market. Thus a high and rising urban unemployment rate may indeed signal a favourable economic environment. Similarly, if unemployment were concentrated in relatively richer families, a rising unemployment rate would further indicate a rising share of such families in urban areas and increasing economic prosperity in the population as a whole. The above illustrations warn against the reliance on the unemployment rate as the sole indicator of under-utilization of labour. As argued in this report, an adequate assessment of unemployment must measure unemployment rates by cohort due to the transitional nature of most open unemployment in developing countries, and combine these measures with information on job search duration.

The open unemployment rate of a country or region is the result of a combination of a multitude of circumstances and distinct factors, some acting on the supply side and others on the demand side. Supply side factors such as the age structure of the population, the decline in fertility, the educational attainment of youth, and the sustained rise in the economic well-being of the population, are generally of a long-term nature. The situation is rendered more complex because the first three factors above often increase the open unemployment rate as more people, particularly women, join the labour force, while the withdrawal of children and teenagers from the labour force, including those looking for work, to attend school is made possible by rising living standards of the ordinary households.

Others factors, acting on the demand side, are both of a long-term nature, such as the sectoral and status structure of employment, and some of a medium and short-term nature, such as the pace and nature of economic growth as a result of economic activity. Here too some features, such as the magnitude of self-employment and the size of the traditional and self-employed sector, are likely to facilitate youth employment, while others, such as capital-intensive product mix and manufacturing processes, restrict access to such employment. In addition, a strong rise in economic activity may increase the number of job seekers in its initial phase, while sustained labour-intensive growth eventually reduces unemployment.

The mere statement of a level of open unemployment or even the trend in its rate has therefore little substantive meaning in either the economic, social and political contexts unless accompanied by adequate additional information, even when confined to the urban population or the youth. Without the explicit consideration of the specific circumstances mentioned above and giving rise to the observed level and trends in the open unemployment rate, and without complementary information on the unemployment rate expressed as a ratio of the working age population, job search duration and trends in the employment rates, it is not possible to decide whether a particularly high level of open unemployment constitutes an employment problem or an indication of improvement in employment opportunities. Similarly a low or declining open unemployment rate can equally signal a rise in the demand for labour, or a low or deteriorating level of economic activity, resulting in a withdrawal from the labour force and increased disguised unemployment.

A detailed assessment of the age and educational structure of the population and of the employment structure of the work force is all the more necessary when drawing comparisons between the open unemployment rates of different countries, or among regions in a country, where the above factors are likely to be present in different degrees. Comparisons between narrowly defined groups such as the urban males, or female youth, by controlling for some of these factors, may be more instructive. An international comparison requires added care since

survey methods and questionnaires are likely to vary a great deal, and the existence or otherwise of employment insurance and social security schemes introduces a further complication.

The outline of the paper is as follows. Section 2 discusses eight paradoxes of open unemployment in Indonesia. It discusses the higher unemployment rate in urban areas, of females, of youth, of the more educated job seekers, and of general as opposed to vocational school leavers. It asks why the open unemployment rate rose while the economy grew in the 1980s and 1990s. It also discusses why the open unemployment rate did not vary with income, and the reasons for its widely different level in apparently similar provinces across the country. Section 3 reviews the characteristics of the underemployed, particularly the part-time and voluntary nature of much unemployment when defined in terms of short working hours. It then attempts to quantify disguised unemployment.

The final section 4 summarizes the findings of the study, and suggests that government should not unduly worry about unemployment and underemployment, and should critically evaluate all requests for government resources to alleviate unemployment. Nevertheless, it should not be complacent about unemployment and underemployment in Indonesia. It should closely monitor developments in unemployment and job search duration as they provide important indications of changes in the labour market and the general economy. Access to first-time employment is relatively difficult even in countries with a large traditional and self-employed sector. Young job seekers come from all income groups, not just the affluent, and from all educational backgrounds, and most of them look for work for a relatively long period of time. So whatever the government can do to facilitate the transition from school and college to work will be welcome. Second, it argues that many adults have to work extremely long hours to earn a living wage, and this is a cause for concern.

2. Eight paradoxes of open unemployment

Observers of open unemployment data in Indonesia before the crisis, and other similarly rapidly growing developing countries, are presented with the following eight paradoxes:

- i. Urban open unemployment rates were three times higher than in rural areas. Jakarta's unemployment rate was the highest in the country. So why did people continue to migrating to urban areas where, if we the open unemployment figures, urban areas had even fewer jobs than rural areas?
- ii. The youth open unemployment rate was several times higher than for adults, yet most businesses and the civil service recruited young people rather than people past the age of 30.
- iii. The female open unemployment rate was higher than for males, yet many modern sector activities recruited large numbers of women, including in labour-intensive manufacturing factories, supermarkets, department stores, restaurants, hotels, banks, insurance companies, and travel services.
- iv. The open unemployment for more educated persons was higher than for less educated persons. Senior secondary school leavers and university graduates formed an increasingly large proportion of the openly unemployed, 60 per cent of the total in 1997. Yet the demand for education remains strong, and private education schools and universities have mushroomed. Furthermore, businesses increasingly recruit tertiary graduates in preference to those holding lower qualifications even for secretarial and technician jobs, leading to qualification escalation.

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- v. At the senior secondary school level, the open unemployment rate of general secondary school leavers has been higher than that of vocational school leavers, yet they often do the same jobs and show little difference in pay once recruited.
 - vi. The Indonesian economy grew by an average of 7-8 per cent per year since the mid-1970s, yet the open unemployment rate steadily increased from 2 to 6 per cent by 1997. Why did economic growth not reduce the open unemployment rate?
 - vii. The open unemployment rate was very similar across income levels, yet job seekers from poorer households could apparently not afford to be openly unemployed.
 - viii. The open urban unemployment rate in some provinces such as South Sumatra, Aceh, East Kalimantan, NTT, Maluku and Irian Jaya was two or three times higher than in neighbouring, provinces such as Lampung, NTB and Central Kalimantan for no apparent reason.

Before addressing these paradoxes, it is worth pointing out that the interpretation of unemployment data is not merely academic. In the past, the government, committed scarce resources to alleviate the apparent plight of the urban unemployed, particularly its college graduates, and to expand investment in vocational education on the basis of unemployment data. Since central, provincial and district governments may make further similar budgetary allocations in the future; a correct interpretation of the nature and characteristics of unemployment is essential to assist policy makers in the judicious allocation of scarce government resources.

Most of the above paradoxes stem from the fact that the official rate of open unemployed measures simultaneously the lack and the increase in employment opportunities. Statistical offices measure the open unemployment rate by identifying persons who are not currently working *and* actively looking for work. Because of the latter, if more people actively look for work when they believe there are jobs available in a buoyant economy, this will push up the unemployment rate. On the other hand, if they do not actively look for work, perhaps because they believe there are no jobs available, this will keep the open unemployment rate low.

More fundamentally, unemployment in a rapidly growing developing country, such as Indonesia before the crisis, is different than in developed countries because most of it is transitional, search unemployment rather than structural unemployment. This is in turn due to their young and rapidly growing working age population, and the resulting large number of young, first-time job seekers entering the labour market each year. The evidence for the transitional or search nature of most open unemployment is provided by the age profile of the job seekers and their lack of job experience. This was first presented in tables 3 and 4 of Section 2 above, and is discussed again below. In addition to their increasing working age population, the low income and savings of most ordinary households, and the absence of an unemployment security system prevented most adults from remaining out of work for any length of time.

In addition, even within developing countries, urban unemployment levels vary from one country to another, from being relatively low in Indonesia to being relatively high in others, due to the prevalence of self-employment and unpaid family work as opposed to wage employment. These fundamental differences between developed and developing countries, and within developing countries, are discussed in the context of the eight paradoxes below.

Having drawn attention to the inherent ambiguity in the measurement of the open unemployment rate, and the transitional nature of most of it in a growing developing country, this section examines the relevance of models using the open unemployment rate such as the Harris-Todaro model, and the luxury unemployment hypothesis. But first, the seven paradoxes noted at the beginning of this section are addressed in turn below.

2.1 Higher unemployment rate in urban areas

The open unemployment rate in urban areas was higher than in rural areas because the proportion of urban youth actively looked for work was higher in urban areas. Job seekers believed that jobs were available in urban areas, and looked for work, while they believed that there were no jobs available in rural areas. Also some rural youth migrated to urban areas to look for work, precisely because they rated their chances of getting a job there as higher than if they remained in rural areas.

Before the crisis, the open unemployment rate in urban was 8 per cent, or three times higher than the 2.9 per cent rate in rural areas (Table 1). The urban-rural gap was even four times higher between 1976 and 1993. The open unemployment for Jakarta, at 11 per cent in 1997, was one of the highest in the country.

Table 1. Open unemployment rates by gender and in urban-rural areas, 1976 – 2000 (% of labour force)

	1976-79	1986-89	1990-93	1994-97	1998-2000
Urban Areas	6.4	7.1	5.7	8.2	9.7
Male	7.0	6.8	5.3	7.2	9.0
Female	5.0	7.8	6.5	10.0	10.7
Rural Areas	1.7	1.4	1.5	2.9	3.7
Male	2.0	1.4	1.4	2.4	3.4
Female	1.2	1.4	1.7	3.5	4.2
Total	2.5	2.7	2.7	4.6	6.0
Male	2.9	2.8	2.5	4.1	5.6
Female	1.7	2.7	2.9	5.6	6.6

Source: Labour Force Situation in Indonesia (Sakernas Survey), annual publication (table 2), CBS.

Note:

1. Four-year average for 1976-79, 1986-89 and 1990-93, and three-year average for 1993-97 and 1989-2000.
2. Reference period for looking for work changed from "previous week" to "currently" between 1993 and 1994. Figures for open unemployment rates are thus not directly comparable before and after 1993.

In 1994, the reference period for active job search was changed from *looking for work in the previous week* to *currently looking for work*. This definitional change resulted in a nearly doubling of the open unemployment rate from 2.7 to 4.6 per cent. However, the increase was more pronounced in rural areas than in urban areas (1.5 to 2.9 versus 5.7 to 8 per cent), in the sense that a majority of urban job seekers looked for work in the previous week, compared with just half in rural areas. This suggests that the urban unemployed were more active job seekers than their rural counterparts.

2.2 Higher unemployment rate of youth

The open unemployment rate for youth was higher than for adults, not because they were less employable, but because of a continuous flow of school leavers and college graduates undergoing their transition from full time education to full time work. Around 90 per cent of all open unemployment consisted of youth aged 15-29, and 80 per cent of all

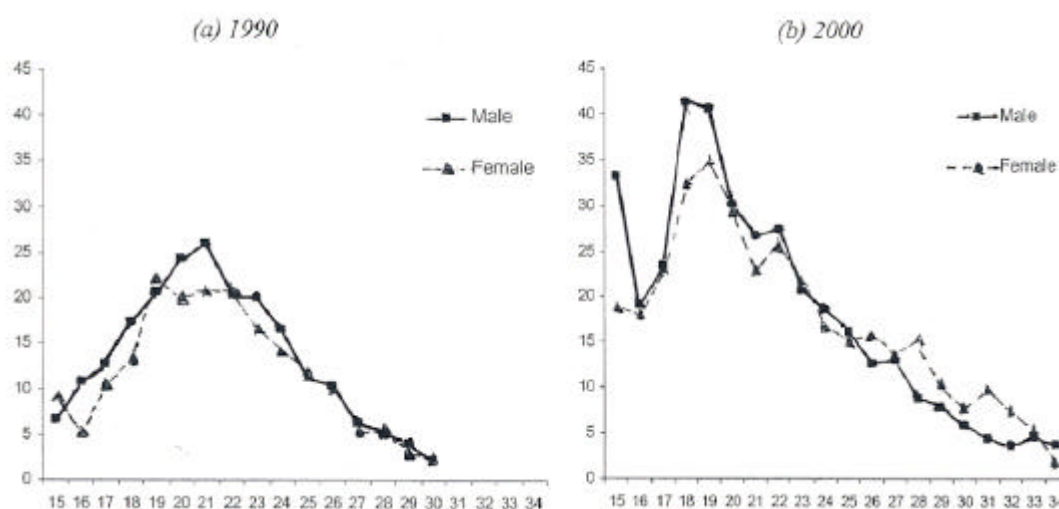
job seekers were without previous work experience (Table 2). The open unemployment rates of the 15-19 and 20-24 age groups were the highest precisely because they included respectively junior and senior secondary school leavers who did not pursue their studies further, and who were looking for their first job. No sooner than one batch of school leavers got absorbed into the world of work than another batch followed. It is this dynamic, continuous flow of new job seekers in the labour market, which kept their age-specific unemployment rates high throughout the year. In addition, the youth aged 15-29 formed a relatively high proportion of the total population during most years between 1976 and 1997 (over 40 and nearly 50 per cent nationally in urban areas respectively).

Table 2. Open unemployment rates and composition by age, 1976 – 2000

	Unemployment rate (% of labour force)					% Composition				
	76-79	86-89	90-93	94-97	98-00	76-79	86-89	90-93	94-97	98-00
Urban and rural	2.5	2.7	2.7	4.6	6.0	100	100	100	100	100
15-19	8.1	6.1	6.7	15.4	20.4	42.3	23.7	25.5	31.6	29.7
20-24	7.0	10.7	9.8	14.4	18.0	35.3	49.3	46.4	39.6	37.3
25-29	2.3	3.2	3.5	6.1	8.0	11.7	16.2	18.0	17.9	18.1
15-29	5.8	6.6	6.6	11.5	14.7	89.4	89.2	89.9	89.0	85.1
30+	0.4	0.5	0.4	0.8	1.4	10.6	10.8	10.1	11.0	14.9
Urban areas	6.4	7.1	5.7	8.2	9.7	100	100	100	100	100
15-19	21.5	18.5	13.9	25.2	30.4	36.0	17.7	19.4	24.7	23.7
20-24	16.8	24.9	18.9	22.3	25.8	40.0	53.0	49.5	42.2	38.6
25-29	6.1	8.3	7.6	10.8	13.1	13.4	18.4	20.7	20.7	20.6
15-29	14.3	16.8	13.3	18.3	21.5	89.4	89.1	89.6	87.6	82.8
30+	1.1	1.2	1.0	1.7	2.6	10.6	10.9	10.4	12.4	17.2
Rural areas	1.7	1.4	1.5	2.9	3.7	100	100	100	100	100
15-19	6.1	4.0	4.7	11.6	15.7	46.7	32.7	34.4	41.6	39.2
20-24	4.7	5.3	5.4	9.0	11.8	32.0	43.7	41.8	35.8	35.3
25-29	1.5	1.3	1.6	3.1	4.2	10.6	12.8	14.2	13.7	14.2
15-29	4.1	3.4	3.8	7.6	10.0	89.2	89.2	90.4	91.1	88.7
30+	0.3	0.2	0.2	0.4	0.6	10.8	10.8	9.6	8.9	11.3

Source: Labour Force Situation in Indonesia (Sakernas Survey), annual publication (Table 2), CBS.

Figure 1. Open urban unemployment rate by age, 1990 and 2000 (% of labour force)



Source: Labour Force Survey *Sakernas* (special tabulations), CBS.

Though the overall unemployment rate remained quite low at below 5 per cent of the labour force until 1997, the open unemployment rate for young job seekers in the 15-29 age group was more than twice as high at 12 per cent. Within this age range, the open unemployment rate was higher at 15 per cent for the 15-19 and the 20-24 age groups, before declining to around 6 per cent for the 25-29 age group. Past the age of 30 however, the unemployment rate dropped to less than 1 per cent of the labour force before the crisis. Interestingly before 1993, the open unemployment rate was much higher for the 20-24 age group than for the 15-19 age group, when the definition for job seeking required them to do so in the previous week (10 versus 7 per cent in 1990-93).

In fact, the incidence of unemployment varied systematically with age, even within narrow age groups such as 15-19 and 20-24, and followed an inverted U-shape curve. The urban open unemployment rate rose rapidly from only 7-9 per cent at age 15, peaked at 22-26 per cent at age 19-21, before declining rapidly to 10 per cent for persons aged 26, and finally to 1-2 per cent for persons aged 30 and above (see Figure 1). The profile just described was almost identical for males and females, and followed a similar though much lower curve in rural areas, peaking at about 6 per cent at age 20-21. The difference in open unemployment rates between single ages confirms the gradual absorption of unemployed school leavers into the work force, and thus of the transitional nature of most youth measured unemployment.

In terms of composition, the largest group within the openly unemployed consisted of the 20-24 age group, which accounted for 40-50 per cent of all open unemployment, while the age groups immediately below and above it accounted for a further 25-30 and 20 per cent.

Job search strategy and duration

The job search strategy of job seekers varied according to age and determined their job search duration, suggesting a certain degree of labour market segmentation. Job seekers in their 20s and early 30s were more likely to contact or apply to establishments and register their names in labour exchanges, a time-consuming process which took six months or more to complete. On the other hand, very young job seekers aged 15-19 and adults above the age of 30 were more likely to make use of informal channels, including contacting relatives and friends. This process took considerably less time. Nevertheless, as shown below, there was no relationship between job search duration and open unemployment rates.

The 20-24 age group experienced one of the highest open unemployment rate, 14 per cent, and one of the longest median job search duration of seven months in before the crisis (Table 3). However this relationship does not extend to other age groups. The median job search duration of the 25-29 and 30-34 age groups was similar to those in the 20-24 age group, yet their unemployment rates, at were respectively only about a third and a tenth of those in the 20-24 age group (6 and 2 per cent). Similarly, the median duration in urban areas was just one month longer than in rural areas (six versus five months), yet the urban unemployment rate was about three times higher than in rural areas across all ages (8 versus 2.8 per cent).

The lack of relationship between job search duration and unemployment rate suggests that the reasons for the observed variations in job search duration by age must be sought elsewhere, perhaps in the types of job search undertaken by job seekers in different age groups. Indeed, around 60 per cent of urban job seekers in their twenties contacted or applied to establishments for a job, compared with 45 per cent of those in the 15-19 and 35-39 age groups. Only half as many urban job seekers in their twenties made use of channels other than contacting firms or labour exchanges than younger and older people (30-40 versus 50-70 per cent). Furthermore, the age pattern of people registering in employment offices followed closely that of those applying to establishments, though only

half as many did so. Thus 25 per cent of urban job seekers made use of employment offices on average, this proportion declining to about 20 per cent for those in the 15-19 and 35-39 age group.

Table 3. Job search duration and strategy, 1996-1997

	Type of effort, 1997 (% of job seekers)			Job search duration 1996	
	Labour exchange	Application to establishments	Other	Mean (months)	Median (months)
Urban					
15-19	16	45	49	6.3	4.0
20-24	27	56	35	9.9	6.6
25-29	29	63	31	11.8	7.5
30-34	27	58	37	11.6	6.7
35-39	23	45	48	10.6	5.5
40-44	9	21	74	6.9	4.4
45+	4	33	66	6.9	4.1
Total	24	54	39	9.4	5.9
Rural					
15-19	11	32	62	6.0	4.0
20-24	19	49	44	9.0	5.9
25-29	23	46	46	11.1	5.8
30-34	14	49	48	9.8	5.1
35-39	10	29	70	8.7	3.7
40-44	5	20	80	4.4	2.7
45+	4	4	91	6.7	2.8
Total	15	40	54	8.0	4.9

Source: Labour Force Situation in Indonesia (Sakernas survey, table 30 and special tabulations), CBS.

Interestingly, the above job search strategy was similar for rural job seekers in the 20s, though not in their 30s, showing a marked preference for applying to establishments rather than making use of informal channels. This proportion was however lower than in urban areas and could explain their slightly lower job search duration. Just under 50 per cent of rural male job seekers in their 20s made contact or applied to establishments, and around the same proportion used other unspecified channels. The proportion of rural job seekers registered in employment exchanges, though about half of that in urban areas on average, was a little lower at 20 per cent for those in 20s. The latter may be due to the official requirement of registering with the Ministry of Manpower employment offices for all government positions.

If it is assumed that formal applications to establishments and registering in employment exchanges, the latter being a requirement for public service employment, take longer than pursuing alternative more informal channels such as relying on friends and relatives, then the preferred formal job search strategy of job seekers in their 20s in both urban and rural areas, and in their early 30s in urban areas, would largely explain their longer job search duration. The shorter job search duration of the 15-19 age group and those above the age of 30 in rural and 35 in urban areas can also be explained by their reduced reliance on lengthy formal applications to establishments.

That nearly two-thirds of job seekers in their 20s undertook applications to establishments may also provide an indication of their expectations that their efforts would be eventually rewarded. Such jobs may not however be open to job seekers who are respectively younger and older than those in their 20s and early 30s, with the exception of urban females in the 15-19 age group, directing them to increase their reliance on alternative channels, and to look for job opportunities in wage employment or self-employment in less organized activities.

There may in effect exist a number of labour market segments open to job seekers according to age and education, a first largely informal one open to those aged below 20 where entry is relatively easy and takes three to four months, a second largely formal one open to those who are educated and aged between 20 and 35, who are however required to undergo a lengthy application process lasting six to seven months, and a third largely informal one again open to adults aged 35 and above who spend some three months to find work which includes self-employment, particularly in rural males where search time is reduced to less than three months.

The job search duration differences between those looking for work while not working and those doing so while working at the time indicates that work experience conferred some advantage to job seekers, but only to adults. In general the difference between employed and unemployed job seekers increased with age as more experience was accumulated. Thus the share of those looking for work for less than three months was only 3 per cent higher for experienced male workers in the 25-29 age group at 32 compared with 29 per cent for unemployed job seekers. This gap however increased to 9 per cent in the 30+ age group. There was however little difference in the two younger 15-19 and 20-24 age groups, and persons in these age groups looking for work while employed spent about the same time as the unemployed job seekers (Dhanani, 1995, Table 2.2.7). The above finding that work experience only assisted the adult job seekers and not persons in the teens or early 20s, is consistent with that of a previous tracer study of secondary school leavers in Indonesia which observed that being unemployed did little or no harm to job seekers' chances of getting a good job, the latter being a reference to starting salary (Clark, 1983).

Finally, the median job search duration for unemployed urban job seekers was about six months in 1997, while the average or mean job search duration was three months longer at nine months. This is because a fifth of all job seekers looked for work for longer than 12 months, and provides an indication of the difficulty faced by the youth in obtaining their first full-time jobs.

2.3 Higher unemployment rate of females

The higher open unemployment rate of females was more apparent than real. Expressed as a percentage of their working age population rather than the usual labour force, this ranking was reversed because of the lower labour force participation of females. Only half of all women were in the labour force compared with more than 80 per cent for men. This in turn was due to the larger proportion of females outside the labour force engaged in housekeeping. Nevertheless the open unemployment for females rose faster than for males since 1976, precisely because of more job openings for women in the modern sector, and encouraging a larger number of women to actively look for work.

The open unemployment rate for females surpassed that of males since the mid 1980s in urban areas, and since the early 1990s in both urban and rural areas (Tables 1 and 4). In 1994-97, the female open unemployment rate was nearly 2 per cent higher overall (6 vs. 4 per cent), this difference widening to 3 per cent in urban areas (10 versus 7 per cent for females and males respectively). However, when expressed as a percentage of the working age population, the open unemployment rates of men were higher during 1994-97 (3.4 and 2.8 per cent). In either case, the open unemployment rate for women nearly doubled between 1990-93 and 1994-97 compared with a 60 percentage point increase for men.

Table 4. Open unemployment rates by gender, 1976 – 2000

	1976-79	1986-89	1990-93	1994-97	1998-2000
As % of labour force	2.5	2.7	2.7	4.6	6.0
Male	2.9	2.8	2.5	4.1	5.6
Female	1.7	2.7	2.9	5.6	6.6
As % of population	1.5	1.8	1.8	3.1	4.0
Male	2.1	2.3	2.1	3.4	4.7
Female	0.7	1.4	1.5	2.8	3.4
Labour force participation rate (LFPR)	58.8	66.5	66.1	66.7	67.3
Male	73.4	82.0	82.7	83.5	83.6
Female	42.7	51.7	50.0	50.5	51.3

Source: Labour Force Situation in Indonesia (Sakernas Survey), annual publication (table 2), CBS.

2.4 Is educated unemployment an issue?

More and more openly unemployed persons are senior secondary school leavers or college graduates than before. The share of senior secondary school leavers in the openly unemployed doubled from 25 to 50 per cent, while the share of tertiary education graduates increased from less than 2 to 12 per cent between 1976-79 and 1993-97 (Table 5). This development has led many observers to suggest that educated youth faced increasing difficulty in finding employment, and were somehow less employable than school leavers with lower educational qualifications. In fact the evidence that the more educated job seekers faced a better labour market than the less educated job seekers comes from three sources: relatively stable age and education-specific open unemployment rate, rising employment rates and relatively stable job search duration.

While the evidence is discussed in turn below, the large share of more educated in the openly unemployed was simply the reflection that most young job seekers in the 1990s were either secondary school leavers or college graduates. This was in turn due to the rapid educational expansion in this period and the higher educational attainment of the younger generation in general. In the 1970s and early 1980s in contrast, most youth only studied until primary or junior secondary school, and these were the educational qualifications of the majority of job seekers then.

The age and education-specific unemployment rates of the more educated persons have remained quite stable, except in the 1986-89 period when they rose for all age groups and all educational categories. Thus, the unemployment rate of senior secondary school leavers in the remained at around 30 per cent most of the time, while those with tertiary qualifications remained at below 40 per cent for the 20-24 age group. In the 25-29 age group, the corresponding figures were 12-14 per cent for senior secondary school leavers and around 20 per cent for tertiary graduates. The movement in these age and education-specific unemployment rates followed that of the overall unemployment rate. The exception to this was the 15-19 male age group, and primary and junior male school leavers who continued its increased enrolment in full-time education, and thus its long-term withdrawal from the labour force.

Table 5. Age and education-specific urban unemployment rates, 1976 – 2000

	Unemployment Rate (% of labour force)					% Composition				
	76-79	86-89	90-93	94-97	98-00	76-79	86-89	90-93	94-97	98-00
15-19	19.9	18.5	13.9	26.0	29.8	100	100	100	100	100
Less than primary	13.5	7.8	6.5	9.5	13.2	31	7	6	3	3
Primary	21.3	11.6	8.1	14.6	17.4	42	29	28	21	20
Junior secondary	31.5	19.7	12.9	20.9	24.1	17	26	27	24	26
Senior general	60.1	63.2	47.5	56.4	55.4	5	27	26	30	26
Senior vocational	46.0	53.2	44.8	56.9	62.7	4	10	13	21	24
20-24	16.6	24.9	18.9	23.0	26.6	100	100	100	100	100
Less than primary	7.6	6.2	4.7	7.0	11.0	12	3	2	1	2
Primary	12.0	8.6	5.3	7.8	10.9	23	8	6	7	8
Junior secondary	20.5	18.3	12.6	14.8	19.1	22	12	13	12	14
Senior general	30.3	42.1	30.9	32.9	35.6	19	51	51	47	43
Senior vocational	27.5	33.3	25.4	29.6	33.5	22	22	23	24	25
Tertiary	30.2	37.9	34.2	38.8	43.4	2	4	6	8	9
25-29	5.7	8.3	7.6	11.2	13.3	100	100	100	100	100
Less than primary	3.4	2.9	2.0	3.1	5.9	14	5	3	2	2
Primary	4.3	3.5	2.1	3.8	5.8	21	12	7	7	9
Junior secondary	7.6	7.3	5.0	6.9	8.6	24	13	10	11	12
Senior general	8.3	13.3	11.7	14.0	16.1	20	30	38	37	36
Senior vocational	5.7	10.1	8.5	11.9	14.0	12	19	16	15	14
Tertiary	12.4	19.6	19.9	23.6	25.2	8	20	26	29	27
All age groups	6.2	7.1	5.7	8.5	9.9	100	100	100	100	100
Less than primary	3.4	1.8	1.2	1.8	2.3	22	6	4	3	3
Primary	6.6	3.6	2.5	3.9	4.8	30	15	12	12	13
Junior secondary	8.8	7.0	5.4	7.6	9.2	20	15	15	15	16
Senior general	10.7	18.6	13.7	15.9	16.5	13	39	40	38	35
Senior vocational	11.4	12.0	9.3	13.9	17.1	13	18	18	19	20
Tertiary	4.3	9.2	8.7	11.8	12.9	2	7	10	12	12

Source: Labour force situation in Indonesia (Sakernas Survey), annual publication (table 2), CBS.

Another quite regular pattern is that, in each age group, the open unemployment rate was highest for those with the highest educational qualifications. For instance, the open unemployment rate for the 15-19 age group was 56 per cent for senior secondary school leavers, declining to 20 and 15 per cent for junior secondary school leavers and primary school leavers during 1994-97. Similarly for the 25-29 age group, tertiary graduates displayed the highest unemployment rate at 24, compared with just 11-14 per cent, 7 and 4 per cent respectively for the senior, junior and primary school leavers. This was of course due to the fact that those with the highest qualifications in each age group were the most recent job seekers, while those with the lowest educational level had the opportunity to look for a job the longest, once again emphasizing the transitional nature of most open unemployment.

Next, the probability of being employed either increased or remained stable over time for all educational categories, and was highest for tertiary graduates (Table 6). Thus the employment rate of senior secondary school leavers increased from 45 to 53 per cent, while that of the vocational school leavers remained stable at 68 per cent between 1986-89 and 1994-97. Similarly the employment rate of tertiary graduates remained relatively stable at 76 per cent over this period.

Table 6. Age and education-specific urban employment rates, 1976 – 2000

	1976-79	1986-89	1990-93	1994-97	1998-2000
<u>Male and Female</u>	<u>41.4</u>	<u>41.6</u>	<u>44.8</u>	<u>49.0</u>	<u>54.4</u>
Less than primary	37.1	34.9	35.1	36.0	56.0
Primary	41.8	42.0	45.7	48.8	57.3
Junior secondary	39.3	35.0	39.0	41.4	41.9
Senior general	52.1	45.5	49.0	52.7	52.5
Senior vocational	65.0	68.0	69.7	67.2	63.8
Tertiary	79.6	77.8	78.4	75.6	75.1
<u>Male</u>	<u>58.9</u>	<u>55.3</u>	<u>58.8</u>	<u>63.7</u>	<u>70.0</u>
Less than primary	52.3	43.5	43.2	44.7	77.9
Primary	62.0	58.2	62.0	65.5	75.9
Junior secondary	55.4	49.8	54.1	56.4	56.3
Senior general	66.9	57.5	62.8	66.9	67.4
Senior vocational	76.2	78.5	81.5	78.9	75.0
Tertiary	87.6	84.0	86.0	83.5	81.8
<u>Female</u>	<u>24.6</u>	<u>28.2</u>	<u>31.1</u>	<u>34.8</u>	<u>39.3</u>
Less than primary	26.6	29.0	29.4	29.8	43.3
Primary	19.3	26.6	31.0	34.1	41.1
Junior secondary	18.4	18.8	22.6	26.0	27.2
Senior general	25.0	27.3	30.3	34.8	34.0
Senior vocational	49.0	53.7	54.3	52.6	50.1
Tertiary	54.1	64.3	64.6	63.9	65.9

Source: Labour force situation in Indonesia (Sakernas Survey), annual publication (table 2), CBS.

Finally, the median job search duration declined by about a month, from seven to six months, between the 1978-89 and 1990-96 (Table 7). The jobs search period increased by education level, from about four to five months for those with primary school education or below, five to six months for those with junior secondary and senior secondary education, and 6.5 months for tertiary graduates in the 1990s, six months for was all educational categories. Interestingly however, the median job search duration declined for all education categories by about a month in general. In the first year of the crisis, the median job search duration does not appear to have increased. Job search duration data for 1999 and 2000 are needed to better understand this discrepancy.

Table 7. Urban median job search duration by education level, 1976 – 1998 (months)

	Male					Female					Male + Female				
	78-79	86-89	90-93	94-96	98	78-79	86-89	90-93	94-96	98	78-79	86-89	90-93	94-96	98
Below primary	4.2	3.7	3.7	4.0		4.3	3.3	3.8	4.0		4.1	3.5	3.7	4.0	
Primary	5.2	4.5	4.8	4.0		5.1	4.1	5.0	5.0		5.1	4.4	4.9	4.5	
Junior secondary	6.6	5.5	6.1	5.0		6.6	5.4	5.8	4.0		6.6	5.4	6.0	4.5	
Sen. general	7.8	6.8	6.6	6.0		7.2	6.6	6.3	6.0		7.6	6.8	6.5	6.0	
Sen. vocational	8.1	6.4	5.7	6.0		6.9	6.6	6.4	5.0		7.6	6.5	6.0	5.5	
Tertiary	7.0	6.5	6.4	6.0		5.7	6.2	6.5	6.0		6.5	6.4	6.5	6.0	
All categories	6.6	7.0	6.0	6.0	6.0	6.8	6.5	6.0	6.0	6.0	6.6	6.8	6.0	6.0	6.0

Source: Labour force situation in Indonesia (Sakernas Survey), annual publication (table 2), CBS.

Graduate unemployment

The rising share of tertiary graduates in total unemployment, despite substantial public and private investments in their human capital, has come under increasing scrutiny. Government departments, in the belief that new graduates were increasingly unlikely to secure wage employment, embarked upon entrepreneurship training programmes to persuade graduates to enter self-employment.

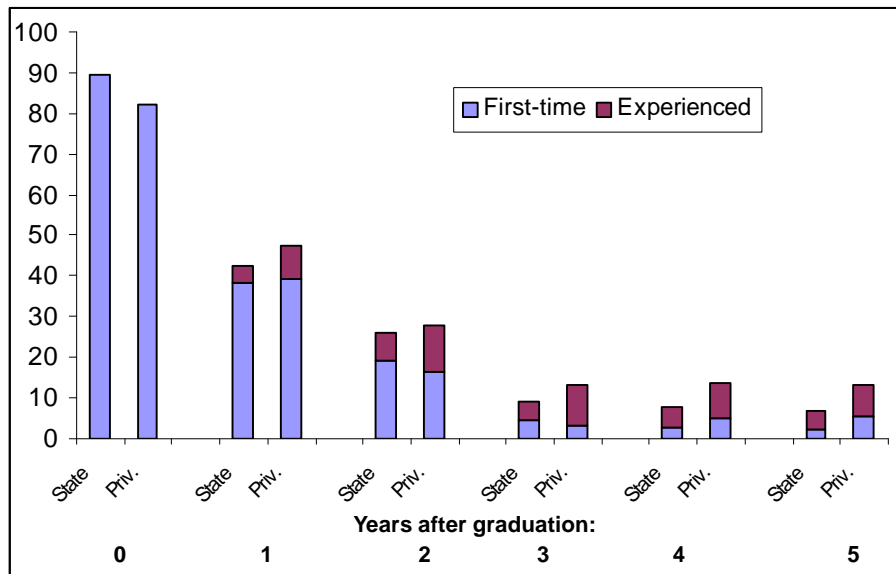
Tertiary education has experienced rapid expansion in recent years, with an estimated one hundred new private universities opening their doors every year in the early 1990s. Estimates of the annual output of the tertiary education system vary widely however depending on the source of data used, from about 350,000 per year according to the labour force surveys to only half as many, 180,000 graduates, according to the Ministry of Education in 1993. The annual tertiary education output over the past three years can nevertheless be estimated at around 200,000, more than two-thirds of whom were university graduates, while the remaining were diploma graduates. Private institutions accounted for around 60 per cent of the total output, but they specialized in non-technical courses. Public institutions, though accounting for the remaining 40 per cent of the total output, therefore continued to account for two-thirds of all science and technology graduates, a situation which has changed little in the previous five years (Dhanani and Sweeting, 1995).

That the labour market for tertiary graduates improved between the late 1980s and the 1990s was already pointed out earlier, with evidence of relatively stable age and education-unemployment rates, stable job search duration declining, and employment rates, indicating their high participation in the labour force, and their continued access to jobs in a period of rapid expansion of tertiary education. Unfortunately, the labour force surveys do not provide information on the unemployment profile of tertiary graduates by year of graduation. For those looking for work, the data does not distinguish between the large numbers of people who have just graduated, and those who graduated in the previous year or even two years ago. In a period of rapid tertiary education expansion, the former are likely to dominate the aggregate unemployment figures, and give an exaggerated view of difficulty in access to work for tertiary graduates. A 1994 tracer study of technical graduates sheds some more light on this process of transition from college to work (Dhanani and Sweeting, 1995).

This tracer study noted that the unemployment rate dropped from around 85 to 44 per cent within a year of graduation, and to 27 per cent within two years of leaving college (Figure 2). The transition from college to work was virtually but not altogether complete, when the unemployment rate fell again to 11, 10 and 9 per cent some three, four and five years after graduation. Of these, respectively 85, 60 and 25 were first-time job seekers from respectively one, two and three-year old cohorts. In other words, after two years, the majority of the openly unemployed graduates were experienced job seekers looking for the second or third job, and consisting of frictional unemployment while in between jobs.

In line with their generally low unemployment rates, the median job search duration of engineering graduates was only two months for diploma graduates and four months for degree graduates. Science and agricultural graduates spent respectively twice and three times as long, since around half of all them entered government service characterized by slow recruitment procedures stretching to ten months. Furthermore, job search time decreased by a month between 1989 and 1993, partly due to a shift in employment from government service and state-owned enterprises to private sector enterprises, though it also declined by about a month in government service. This study revealed that long-term graduate unemployment, though relatively low at 3 to 4 per cent, affected mainly agricultural and science graduates in locations where private sector employment opportunities in manufacturing, trade and construction were relatively scarce such as West Sumatra and East Nusa Tenggara.

Figure 2. Unemployment rate of 1989-93 technical graduates (% of labour force)



Source: Dhanani and Sweeting (1995). Tracer Study of Technical Graduates (figure 1)

What are the implications of these findings for government programmes to assist the unemployed graduates? There may indeed be no shortage of graduates willing to register for government-sponsored entrepreneurship courses simply because of the relatively long waiting period required to secure permanent full-time employment in some sectors such as government services. However, the need and relevance of allocating additional public funds for graduates, especially for those of state universities who have already benefited from subsidized higher education, must be assessed in light of all the evidence available on the labour market for graduates.

Quite apart from the issue of training inexperienced and therefore relatively ill-suited young graduates in setting up their own business rather than focussing on management and business training for older workers with proven technical expertise and who express a desire to move into self-employment and create wage employment for new workers in the process, it is also important to ascertain whether this additional allocation of public resources is justified if those being trained in entrepreneurship, and who may only consider such a career move as a last resort, eventually enter and remain in wage employment with or without such training.

2.5 Higher unemployment rate of senior versus vocational secondary school leavers

The lower open unemployment rates of vocational secondary school leavers has often been cited as evidence of their easier access to the labour market compared general secondary school leavers, and have led some policy makers to express preference for investing in vocational education on the basis of this evidence alone. However, the unemployment differences may be more apparent than real. When expressed as a percentage of population rather than labour force, this difference disappears (Table 8). Furthermore, the school leavers of both streams faced an equal job search duration period, and were often recruited in similar jobs and similar pay. In other words, the labour market did not distinguish between them, as shown below.

Table 8. Open unemployment rates of senior secondary school leavers, 1976 – 2000

	As % of labour force					As % of Population				
	76-79	86-89	90-93	94-97	98-00	76-79	86-89	90-93	94-97	98-00
15-19										
General	60.1	63.2	47.5	56.4	55.4	13.1	16.3	13.6	21.0	19.9
Vocational	46.0	53.2	44.8	56.9	62.7	18.3	23.2	23.6	37.1	40.3
20-24										
General	30.3	42.1	30.9	32.9	35.6	18.3	23.4	17.6	22.6	26.2
Vocational	27.5	33.3	25.4	29.6	33.5	18.0	24.9	23.2	28.3	33.6
25-29										
General	8.3	13.3	11.7	14.0	16.1	5.5	8.8	6.8	9.3	10.9
Vocational	5.7	10.1	8.5	11.9	14.0	8.9	16.5	16.5	20.4	22.2
All age groups										
General	10.7	18.6	13.7	15.9	16.5	6.2	10.4	7.8	10.0	10.3
Vocational	11.4	12.0	9.3	13.9	17.1	8.3	9.3	7.1	10.8	13.2

Source: Labour force situation in Indonesia (Sakernas Survey), annual publication (table 2), CBS.

As a percentage of the labour force, the open unemployment rate of the senior general school leavers was indeed higher than that of senior vocational school leavers after 1986-89, though this difference narrowed over time, and stood at 16 compared with 14 per cent in urban areas in 1994-97. These differences all but disappeared when unemployment rates were expressed as a share of their population, and stood at around 10 per cent for both by 1994-97. The reason for this was the size of the labour force, which was relatively small for secondary school graduates, many of whom chose to continue studying, while it was relatively large for senior secondary vocational school leavers because this stream was considered terminal, and most entered the labour force upon finishing school. Though not shown here, there was little difference between males and females.

Open unemployment rates were reversed for youth, and were actually higher for vocational school leavers (37 versus 21, and 28 versus 23 per cent for the 15-19 and the 20-24 age groups in 1994-97). Furthermore, vocational school leavers displayed a consistently higher employment rate (67 versus 53 per cent in 1994-97, Table 6). These figures confirm the terminal nature of vocational education and the early entry in the labour force of their graduates on one hand, either as employed or unemployed job seekers, and the higher school attendance of those with general education on the other.

Turning now to their job search experience, both streams spent virtually the same time looking for work, respectively eight and six months each during 1986-89 and 1990-93 (Tables 7). Finally, there was no significant difference in the earnings of school leavers of either stream (Dhanani and Islam, 2001, p. 14).

In sum, the widely divergent open unemployment rates between vocational and secondary school leavers are misleading when expressed as a percentage of the labour force. If anything, youth unemployment rates of vocational school leavers were higher as a percentage of their working age population, reflecting the terminal nature of their education and their earlier entrance in the labour market, initially as job seekers. There was little difference in job search duration once school leavers from either stream started looking for work, and little difference in pay once they started working, indicating little differentiation between them in the labour market. Of course, a more definite assessment would require that unemployment figures for vocational education to be broken down according to technical, economic and other vocational specializations. Unfortunately, the labour force surveys do not collect educational attainment data at this level.

2.6 Why did the unemployment rate continue to rise during rapid growth?

The Indonesian economy grew by an average of 7-8 per cent per year since the mid-1970s, yet the open unemployment rate increased marginally from 2.5 to 2.7 per cent between 1976-79 and 1986-89, remained at this level until 1990-93, before rising sharply to 4.6 per cent in 1994-97. This has led some observers to characterize the economic growth in Indonesia of the 1980s and 1990s as employment-unfriendly, and unable to create adequate job opportunities required by a growing labour force.

The almost doubling of the open unemployment rate after 1993 was primarily the result of the change in the reference period for measuring the openly unemployed, as already noted earlier. Nevertheless, the overall unemployment rate did register a small rise between the mid 1970s and the mid 1980s, and again between 1994 and 1997 for which comparable data are available. These increases were due to four factors, rapid urbanization, an increasingly younger working age population, at least until the mid 1990s, more educated youth, and increasing participation of women in the labour force. Arithmetically, the large weight in total unemployment of the higher unemployment rate in urban areas, of educated youth and of females produced a higher overall rate of open unemployment for the whole country. Furthermore, the apparent stability or moderate rise in the overall open unemployment rate masks several trends in the age and gender composition of the unemployment, some pulling up the open unemployment rate while others pushing it down. These compensating trends are discussed below.

Before 1993, the reference period for looking for work in the labour force survey was *in the previous week*, while after 1993, the reference period changed to *currently looking for work*. That the doubling of the open unemployment rate between 1993 and 1994 was due to this definitional change can be clearly seen by comparing the national labour force survey *Sakernas* and the national socio-economic survey *Susenas* (Table 9). Before 1993, the two surveys used different reference periods, thus producing different figures (2.7 versus 4.6 per cent), while after 1994 the reference period was the same, i.e., currently looking for work, producing fairly similar figures (4.4-5.1 per cent).

Table 9. Open unemployment rates in Sakernas and Susenas surveys, 1992-1994 (Population aged 10 and above)¹

	1992	1993	1994	1996	1997
<u>Unemployed (% labour force)</u>					
Sakernas	2.71 ²	2.75 ²	4.36	4.89	4.68
Susenas	4.55	4.63	5.15	5.08	5.14
<u>Others (% population)</u>					
Sakernas	7.18	7.43	7.70	6.76	6.48
Susenas	6.83	6.14	6.35	6.77	6.83

Source: Labour force Situation in Indonesia, labour force survey, August, various years (Sakernas). Welfare Statistics, National Socio-economic Survey, February (Susenas), various years, CBS.

Note:

¹ Based on population aged 10 and above. Figures differ from table 3.1 based on population aged 15 and above.

² Based on definition Not working and looking for work in the previous week. All other figures based on Not working and currently looking for work.

As for changes in the composition of the labour force, the share of the urban labour force more than doubled from 16 to 38 per cent, while the share of youth with senior secondary school increased from 21 to 50 per cent between 1976-79 to 1994-97 (Table 10).

Due to the higher open unemployment rate of urban areas and of educated youth, these increases contributed to the observed increase in the overall unemployment rate.

In addition to the above, the male and female open unemployment rate moved in opposite directions. The male rate declined from 2.9 to 2.5 per cent, while the female rate increased from 1.7 to 2.9 per cent between 1976-79 and 1990-93. For males, this was due to the relatively rapid decline in the unemployment rate of the 15-19 age group from 9.5 to 6.2 per cent, in line with their increasing enrolment in full-time education. In contrast, females in the 15-19 and 20-24 age groups both saw a large increase in their unemployment rate in response to increased job opportunities for females (5.8 to 7.4, and 4.9 to 9.7 per cent for the 15-19 and 20-24 age groups respectively). The withdrawal of young males and the addition of young females to the labour force is further confirmed by similar movements in their employment rates, declining for males aged 15-19 and rising for females aged 15-19 and 20-24.

The unemployment rate and the employment rate moved in the same direction, rising and declining together. This provides additional evidence of the search nature of most youth unemployment in Indonesia in response to perceived job opportunities or in response to increased school attendance.

Table 10. Changes in working age population and unemployment rate by gender, 1976 - 2000

	1976-79	1986-89	1990-93	1994-97	1998-2000
<u>Labour force</u>	100	100	100	100	100
Urban	16	23	28	34	38
Rural	84	77	72	66	62
Male	66	61	61	61	61
Female	34	39	39	39	39
% 15-29, above junior school.	21	40	42	50	51
% 15-29, junior school and below	79	60	58	50	49
<u>Unemployment rate¹</u>					
<u>Male</u>	2.9	2.8	2.5	4.1	5.6
15-19	9.5	5.9	6.2	14.2	18.7
20-24	8.0	11.4	9.9	13.6	17.8
25-29	2.8	3.6	3.4	5.3	7.6
30+	0.5	0.5	0.4	0.7	1.4
<u>Female</u>	1.7	2.7	2.9	5.6	6.6
15-19	5.8	6.4	7.4	17.2	22.9
20-24	4.9	9.8	9.7	15.6	18.2
25-29	1.3	2.6	3.6	7.4	8.5
30+	0.3	0.4	0.4	0.9	1.3
<u>Employment rate²</u>					
<u>Male</u>	71.3	79.7	80.6	80.1	79.0
15-19	54.1	43.6	44.5	39.6	35.8
20-24	80.8	69.0	70.8	70.7	67.6
25-29	94.2	91.1	90.5	89.7	87.5
30+	70.5	91.0	91.1	91.0	90.7
<u>Female</u>	41.9	50.3	48.6	47.7	48.0
15-19	32.8	33.5	32.7	29.3	25.6
20-24	35.6	46.2	43.9	43.1	42.3
25-29	42.1	53.8	50.3	48.2	48.2
30+	46.2	55.4	53.7	53.4	54.7

Source: Labour Force Situation in Indonesia (Sakernas Survey), annual publication (table 2), CBS.

¹ Unemployment rate as % of labour force

² Employment rate as % of population.

2.7 Not all job seekers are affluent

The luxury or *bourgeois* unemployment hypothesis states that most people in developing countries are too poor to become openly unemployed, and that most job seekers come from relatively well-off families. A previous section indicated that young unemployed job seekers indeed spent a considerable time looking for work. However, these job seekers were in the midst of their transition from school to work and thus, a priori, likely to be composed of persons from all income classes. The luxury unemployment hypothesis would hold if most unemployed youth came from wealthy families, and if they spent much longer looking for suitable work, while poorer job seekers would quickly settled for the first job available. In addition, the hypothesis implicitly assumes a plentiful supply of jobs in wage employment, or at least relatively easy entry into self-employment.

Testing the luxury unemployment hypothesis requires information on the income distribution of the unemployed, and on both job search duration and unemployment rates of job seekers by income groups. The national socio-economic survey *Susen*, which provide unemployment data by expenditure group, but not job search duration, shows that the open unemployment rate increased from 5.4 to 6.3, 6.4 and 7.3 for respectively quintiles 1, 2, 3 and 4, before declining to 6.9 for quintile 5 in 1999. The unemployment rate rose by about 1 per cent from 4 to 5 per cent between expenditure quartiles 1 and 2, and by a further 1 per cent from 6 to 7 per cent from quartiles 2 and 4 in 1997 (Table 11). Nevertheless, the differences were not very large, especially between quintiles 2 and 5, indicating a very weak relationship between open unemployment and income past the poorest quintile 1.

Table 11. Open unemployment rates by expenditure quintiles, 1997 and 1999

Rp. 000/capita/month (% of total population)	Q1	Q2	Q3	Q4	Q5	Total
<u>Male</u>						
1997	3.2	3.9	4.5	4.9	5.3	4.3
1999	4.7	5.9	5.7	6.6	6.3	5.8
<u>Female</u>						
1997	4.7	5.8	7.1	8.3	8.1	6.6
1999	6.7	7.1	7.6	8.6	7.8	7.5
<u>Male + Female</u>						
1997	3.7	4.6	5.4	6.1	6.3	5.1
1999	5.4	6.3	6.4	7.3	6.9	6.4

Source: National Socio-economic survey *Susen* 1997 and 1999 in ADB 2000 (table 9.28 to 9.30).

Furthermore, when broken down by urban-rural location, there was no relationship between open unemployment and expenditure in urban areas, and only a weak relationship in rural areas. The urban unemployment rate, at 4 per cent in 1993, was relatively stable across most expenditure categories, while the rural rate displayed a small increase of about half a percent, from 1.6 to 2.3 per cent, between the poorest and richest expenditure quartile (Table 12).

The relationship between unemployment and income becomes somewhat more complex when disaggregated by age. In contrast to the prediction of the luxury unemployment hypothesis, younger age categories in poorer households had a higher unemployment rate. At the same time, unemployment was positively related to expenditure for job seekers in their 20s in rural areas, but not in urban areas, with the possible exception of females in the 25-29 age group.

Very young job seekers would be expected to come from poor families; otherwise they would remain at school rather than enter the labour force. The data does indeed indicate a gradual and significant decline in the unemployment rate of children aged 10-14 and teenagers aged 15-19 in urban areas, where the unemployment rate and the employment rate of the poorest expenditure group were both about three times as high as for the richest expenditure group. Perhaps due to lack of employment opportunities, there was no difference in unemployment rates by expenditure group in rural areas, though, as in the case of urban areas, young children and teenagers from poorer households were far more likely to be working than those of richer families.

Table 12. Unemployment and employment rates by expenditure groups and age, 1993

Rp. 000/capita/month (% of total population)	15-19	20-24	25-29	30-34	All ages
Unemployment rate					
Urban areas					
Less than 30 (20%)	10.3	14.3	5.0	2.0	4.3
30-40 (19%)	8.2	16.2	6.2	2.1	4.4
40-60 (30%)	6.9	18.4	7.3	2.7	4.8
60+ (31%)	3.9	12.6	6.8	2.2	3.8
Rural areas					
Less than 20 (22%)	5.5	4.1	1.2	0.8	1.6
20-30 (37%)	5.9	5.7	1.8	0.7	1.9
30-40 (21%)	5.4	6.7	2.2	0.7	2.0
40+ (20%)	5.1	8.0	3.0	0.9	2.3
Employment rate					
Urban areas					
Less than 30 (20%)	38.1	68.7	89.1	95.2	62.0
30-40 (19%)	26.7	66.5	87.5	96.3	61.8
40-60 (30%)	19.6	57.5	87.4	95.9	60.3
60+ (31%)	13.9	46.3	83.1	95.3	61.5
Rural areas					
Less than 20 (22%)	68.8	88.8	96.4	98.2	74.6
20-30 (37%)	61.7	86.5	96.2	98.4	75.0
30-40 (21%)	54.8	84.4	95.6	98.5	75.4
40+ (20%)	43.6	78.4	94.9	98.4	75.2

Source: National Socio-economic Survey Susenas 1993 (unpublished tabulations), CBS, from Dhanani (1995, table 2.3.1).

Note:

1. Unemployment rate and employment rate as per cent of population.
2. Data produced from published tables by expenditure groups and not from raw data. Hence unemployment by only approximate quintiles.

The unemployment rate of the 20-24 age group, the largest in open unemployment, displays however an inverted U-shaped pattern, increasing from 14 to 18 per cent between the poorest and the middle groups, before declining again to 13 per cent in the richest group, and exhibiting a similar pattern for both males and females in urban areas. The relatively low rates at either ends of the expenditure spectrum is likely to be due to the fact that a large number of 20-24 year olds from poorer households would already be employed, while many of those in richer households would remain in further education and therefore outside the labour force. Thus the highest unemployment rates were those of job seekers from middle-income families, having recently completed senior secondary school education, and now looking for work in large numbers. In rural areas however, the unemployment rate increased steadily with income, and doubled between the poorest and richest expenditure groups. Those completing secondary school education and remaining in rural areas presumably made a choice to enter the labour force rather than continue their studies in urban areas.

An alternative way of looking at unemployment and income relationships is to compare the median income of the families of the unemployed with that of the labour force

and the population as a whole. In line with the above findings, there was no difference between them either in urban or rural areas (Table 13). When disaggregated by age however, urban job seekers in the 10-14 age group came from households whose median expenditure was only 60 per cent of that of the population as whole, while that of the unemployed in the 15-19 age group was 80 per cent of the overall. Older job seekers in the 25-29 and 30-34 age groups in urban areas, and in the 20-24 age group in the rural areas, came from relatively prosperous families. There was however little difference between the median income of the largest group of job seekers, namely those in the 20-24 age group in urban areas, and its corresponding population.

Table 13. Median expenditure of unemployed and population by expenditure groups, 1993 (Rp. 000/capita/month)

	15-19	20-24	25-29	30-34	All ages
Urban areas					
Unemployed	34	43	45	43	40
Population	41	45	44	42	41
Rural areas					
Unemployed	23	27	28	23	24
Population	23	24	23	23	23

Source: Labour Force Situation in Indonesia (Sakernas Survey), annual publication (table 2), CBS.

It is not possible to assess directly the link between long-term unemployment and income due to the absence of a question on job search duration in the national socio-economic survey *Susenas*. However the 1978 labour force survey, by incorporating a question on means of support, indicates that the majority of job seekers relied on family and friends as expected. In urban areas, this proportion did not vary with job search duration, while in rural areas, longer-term job seekers relied more on their families. In addition, a slightly higher proportion of those looking for work for longer than twelve months, particularly in the case of males, relied on occasional work, while the opposite was true in rural areas. A larger proportion of long term male, though not female, job seekers were looking for part-time rather than full-time work in both urban and rural areas.

Around 80 and 90 per cent of male and female urban job seekers relied on family or friends for support, proportions which varied little with job search duration (Dhanani, 1995, Table 2.3.3). However, 15 per cent of long-term male job seekers relied on an occasional job compared with 10 per cent for short-term job seekers. There was no difference in females in this respect. In contrast in rural areas, the proportion of job seekers relying on family and friends increased by 10 per cent, from 72 to 82 per cent for males, and from 82 to 90 per cent for females, between short term and long term job seekers. Furthermore, fewer long-term job seekers relied on occasional work (20 and 13 per cent for males, and 5 and 10 per cent for females).

While some 80 and 70 per cent of male and female job seekers, whether long term or short term, were looking for full-time work in urban areas, nearly 60 per cent of long term male job seekers in rural areas were in fact searching for part-time work compared with 80 per cent of short term job seekers. These two sets of observations indicate that the majority of job seekers, whatever their job search duration, relied on family and friends for support, though short term job seekers in rural areas were twice as likely to support themselves with occasional work than in urban areas. Except for the large preference for part-time work in males, long-term job seekers in rural areas therefore behaved more like their urban counterparts, though they accounted for just 3 per cent of the total compared with 20 per cent in urban areas for males. The corresponding figure for females was also lower at 13 per cent in rural areas compared with 27 per cent in urban areas.

In sum, the unemployment and expenditure data in the national socio-economic survey do not support the luxury unemployment hypothesis of concentration of unemployment and higher rates of unemployment in relatively prosperous households. The relatively constant unemployment rate across expenditure groups, and the lack of relationship between unemployment and expenditure, does not really come as a surprise considering the predominance of young first-time job seekers in the midst of their transition from school to work, affecting all income classes. Though the lack of job search duration data by income cannot establish this with certainty at present, the unemployed are likely to experience similar difficulty in obtaining their first job regardless of the income brackets of their parents. In fact, though numerically small, the data clearly indicates that unemployed children and teenagers come from predominantly poor families. The support provided by their families to finance the job search of the majority of job seekers is further evidence against the luxury unemployment hypothesis.

2.8 Why did unemployment rates vary by province?

There were significant and persistent regional differences in the open unemployment rates both, ranging from a low of 2 per cent in West Nusa Tenggara to a high of 10 per cent in Maluku in urban areas. The urban unemployment rate in Bali-Nusa Tenggara of 3.6 per cent was only half of the 7-8 per cent rates in Sumatra, Sulawesi, Maluku and Irian Jaya in 1990-93 (Table 14). Java and Kalimantan, at 5.5 and 5.2 per cent, were however close the country average of 5.7 per cent. Other low unemployment provinces in the 3-4 per cent range included Central Kalimantan, Yogyakarta and Lampung, while high unemployment provinces included Irian Jaya, North Sulawesi, West Sumatra and Aceh, at around 8 per cent in urban areas.

Table 14. Factors contributing to open urban unemployment rate, 1990 - 1993

	Island						Indonesia
	Sumatra	Java	Bali-NT	Kalimantan	Sulawesi	Maluku-Irian Jaya	
Unemployment rate	6.9	5.5	3.6	5.2	7.4	8.8	5.7
GDP/capita (Rp. 000/yr)	538	605	365	771	438	581	571
GDP Growth rate 90-93	7.0	7.6	8.3	6.8	8.4	12.1	7.6
<u>% aged 15-29</u>							
In population aged 10+	40.6	38.7	40.9	40.3	41.3	44.1	39.3
With sen. secondary qual.	22.6	19.8	18.8	21.6	23.8	28.5	20.6
<u>% of total employment in:</u>							
Wage employment	52.2	56.2	45.2	47.9	47.2	59.4	54.4
Agriculture	12.1	9.7	15.3	9.3	12.3	9.2	10.4
Trade	28.8	28.4	30.2	29.5	30.9	27.8	28.7
Services	31.0	28.5	29.5	30.9	34.4	45.8	29.5

Source: Regional income and labour force survey *Sakernas*, CBS in Dhanani (1995, table 4.1.3).

These large island and provincial differences have existed since the start of the labour force survey series in the late 1970s and were not related to income as discussed below. They were due to a combination of structural factors. On the supply side, provinces with higher unemployment rates were also those with a younger working age population. Moreover, a larger proportion of their youth were secondary school leavers. Educated women in particular were more inclined to enter the labour force and look for work than

their less educated counterparts. On the demand side, provinces with a relatively large share of the urban work force in traditional sectors such as agriculture and trade, where self-employment was predominant, appear to allow for easier entry of youth into employment. In contrast many provinces with a relatively higher share of their work force in wage employment, particularly in the service sector, posted high unemployment rates, as entry of youth into such employment was relatively more arduous.

The association between these factors and open unemployment has been further explored through multi-variate analysis. Education (proxied by the share of secondary school leavers in the youth) and employment status (proxied by the share of wage employees in total employment) were both significant at the 95 per cent confidence level. These two variables explained about 46 per cent of the provincial variation in open unemployment. Adding a third variable, the population age structure variable (proxied by the share of youth in the working age population), though not significant, improved the explanatory power of the equation to 49 per cent, a fairly significant result in cross-sectional analysis of this kind.¹ Though there were undoubtedly other influences, as well as measurement problems in the unemployment rate and in independent variables, these three factors could explain 50 per cent of the variations observed between the 27 provinces.

In sum, a high or low open unemployment rate in some provinces relative to the country average can neither be judged as favourable or unfavourable, because they were due to a combination of a number of long-term demographic and socio-economic trends.

3. Underemployment

3.1 The voluntary nature of most part-time work

For the present purpose, underemployment includes all individuals who worked less than normal hours and who, in addition, wanted to work more hours. In 1997 before the crisis, nearly 40 per cent of all workers worked less than 35 hours per week, and over a fifth of all Indonesian workers worked less than 25 hours per week (Table 15). The average working week in fact consisted of just over 35 hours in the late 1970s, rising to 38 hours by 1992. Of those working less than 25 hours or 35 hours a week, only a tenth were looking for work. The remaining did not look for work primarily because there was no need to do so, or because they were housekeeping or attending school. Hardly anybody mentioned 'lost hope' as a cause. Thus most part-time work was in fact voluntary.

The incidence of shorter hours of work, or part-time work, declined from 29 to 23 per cent of total employment for those working less than 25 hours a week, and from 46 to 38 per cent for those working less than 35 hours a week in this period. This decline was due primarily to rapid urbanization and a corresponding shift away from agriculture, where shorter hours are more common (32 compared with 44 hours in other sectors in 1995, table 17). In addition, the proportion of very young male workers, many of whom worked shorter hours, also declined over the years, thus pushing up the average hours worked by males especially in rural areas. On the other hand, the share of women, who generally

¹ Linear regression results using 81 pooled observations for 1990-92 (27 provinces x 3 years) for urban areas were as follows:

$$\text{Unemployment rate (\% of labour force)} = -8.53 + 0.11(\% \text{ Aged 15-19 in pop.}) + 0.21 (\% \text{ aged 15-19 with sen. sec. educ.}) + 0.10 (\% \text{ wage employment})$$

(0.10) (0.07) (0.04)

$$R^2 = 0.49, \text{ Adjusted } R^2 = 0.42.$$

Figures in brackets are standard errors (Dhanani, 1995, table 4.1.7).

work shorter hours than men, increased in the labour force, reducing the average number of hours per week. They worked 33 compared with 41 hours per week for men, and their share in the labour force rose from 33 to 36 per cent between 1976 and 1997. This last trend is likely to continue, and will slow down somewhat the continuing decline in part-time employment expected to take place in the future.

Table 15. Trends in part-time employment, 1976 – 1997 (% of total employment)

	% Working less than 25 hours a week				% Working less than 35 hours a week			
	1976-79	1986-89	1990-93	1994-97	1976-79	1986-89	1990-93	1994-97
<u>Urban + Rural</u>	<u>29</u>	<u>24</u>	<u>23</u>	<u>23</u>	<u>46</u>	<u>42</u>	<u>39</u>	<u>38</u>
Male	24	16	15	15	40	31	30	29
Female	38	37	35	35	57	57	54	53
<u>Urban</u>	<u>13</u>	<u>11</u>	<u>11</u>	<u>12</u>	<u>23</u>	<u>21</u>	<u>20</u>	<u>21</u>
Male	10	8	8	8	19	16	15	16
Female	19	18	17	18	31	31	30	31
<u>Rural</u>	<u>32</u>	<u>28</u>	<u>27</u>	<u>28</u>	<u>50</u>	<u>47</u>	<u>46</u>	<u>46</u>
Male	27	19	18	19	44	35	35	36
Female	41	41	40	42	60	63	62	62

Source: Labour Force Situation in Indonesia (Sakernas Survey), annual publication (table 2), CBS. (table 17).

Part-time work presents a number of features clearly differentiating it from full-time work. First, nearly 80 per cent of all part-time workers were found in rural areas, and over 70 per cent of them were engaged in agriculture in 1993, confirming the generally shorter hours in this sector. Second, female workers formed over 50 per cent of the part-timers, whereas they accounted for just 30 per cent of full-time workers. In addition, workers below the age of 20 accounted for 8 per cent of part-time workers whereas this proportion was 6 per cent in full-time work (Table 16, column shares). A slightly different way of looking at these characteristics is to observe that urban jobs were mainly full-time, in sectors other than agriculture, and was the norm for men over the age of 20, whereas over half of the those aged below 20 worked part-time (Table 16, row shares).

Table 16. Characteristics of Part-time Employment, 2000

	Column percentage			Row percentage			Workers (million)
	0-34	35+	All	0-34	35+	All	
<u>Total</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>36</u>	<u>64</u>	<u>100</u>	
Urban	22	47	38	20	80	100	34.2
Rural	78	53	62	45	55	100	55.6
Agriculture	70	31	45	55	45	100	40.5
Other sectors	30	69	55	19	81	100	49.3
Male	46	70	62	27	73	100	55.5
Female	54	30	38	50	50	100	34.3
Aged 15-19	8	6	7	45	55	100	5.9
Aged 20+	92	94	93	32	68	100	83.9
Workers (million)	31.9	55.9	89.8	31.9	55.9	89.8	89.8

Source: Labour Force Situation in Indonesia (Sakernas Survey), annual publication (table 2), CBS. (tables 11 and 17).

Finally, census data reveals that family workers generally worked shorter hours than others on average, particularly in agriculture, which employed nearly 80 per cent of all family workers (Table 17). Family workers worked an average of 27 hours a week in general and 26 hours a week in agriculture. Female family workers worked 26 hours a week in general, and just 24 hours a week in agriculture, where they accounted for nearly 60 per cent of all female workers. Similar data is not available in labour force surveys.

Table 17. Employment and average hours of work of family workers, 1995

	% Total employment			Average hours per week			Workers (million)
	Agriculture	Other	All	Agriculture	Other	All	
<u>Total</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>32</u>	<u>44</u>	<u>39</u>	<u>80.1</u>
Family workers	32	5	18	26	30	27	14.8
Others	68	100	91	35	45	42	65.3
<u>Male</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>36</u>	<u>47</u>	<u>42</u>	<u>51.7</u>
Family workers	18	4	10	28	33	29	5.1
Others	89	96	90	38	48	43	46.6
<u>Female</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>26</u>	<u>40</u>	<u>34</u>	<u>28.4</u>
Family workers	58	15	34	24	32	26	9.6
Others	42	85	66	29	41	38	18.8
<u>Workers (million)</u>	<u>35.2</u>	<u>44.9</u>	<u>80.1</u>				
Family workers	11.3	3.5	14.8				
Others	23.9	41.4	65.3				

Source: Inter-censal population survey Supas 1995 (tables 53). CBS.

Given the above attributes of part-time work in Indonesia, to what extent does it constitute an employment problem? The concentration of part-time work in the agricultural sector where shorter working hours is a common feature, in female workers, many of whom were family workers, and in young workers raises the question of whether it amounted to an underemployment problem at all.

The 1995 population inter-censal survey data, unlike the labour force surveys, contains additional information regarding reasons for working shorter hours. It shows that just over 10 per cent of all part-time workers were looking for additional or other work (Table 18). These proportions were in fact quite stable across all workers, whether working very short hours or very long hours, some as many as 60 hours per week. The reasons given for not wanting more work also conform to the characteristics of most part-time workers. The majority of those working less than 35 hours per week stated there was no need to work more (58 per cent), the remaining ones consisting mainly of females engaged in house keeping (26 per cent) or attending school (6 per cent). Only 2 per cent stated having lost hope. Of those working less than 25 hours a week, housekeeping and attending school were relatively more important (32 and 9 per cent). In sum, only 10% of persons currently working less than normal working hours can be correctly classified as underemployed, whereas the remaining 90 per cent of part-time workers did not wish to work more.

Table 18. Workers looking for work and reasons for not looking for work, 1995 (% of total employment)

Hours per week	0-24	0-34	35+	All
<u>% Total employment</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Looking for work	13	13	11	12
Not looking for work	87	87	89	88
<u>Reasons for not looking</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
No need	48	58	85	76
Lost hope	2	2	2	2
Attending school	9	6	-	2
House-keeping	32	26	7	14
Other	8	7	5	6

Source: Inter-censal Population Survey Supas 1995 (table 38.9), CBS.
Note: Looking for additional or other work.

While part-time employment in Indonesia can thus hardly be regarded as a problem of lack of work for the part-time workers themselves, since most of it was probably voluntary at the prevailing wage rates and other terms of work, long hours or very long hours worked in manufacturing, where two thirds of workers were still engaged in household and cottage industries, and services may be a reflection of relatively low earnings. Around 50 per cent of manufacturing and trade workers worked more than 45 hours of work per week, compared with less than 20 per cent in agriculture in 1997, this proportion increasing to 60 per cent after the crisis (Dhanani, 2001, table 2.6). Trade workers experienced even more hardship than workers in manufacturing than the above figures would suggest, since the proportion of those working inordinately long hours, above 60 per week, was 22 per cent or three times more than in manufacturing before and after the crisis. In all therefore, only about a quarter of workers in manufacturing and services could afford to work reasonably normal hours, 35-44 hours per week.

In sum, around 40 per cent of all workers worked less than 35 hours a week, but this was almost all voluntary part-time work, involving mainly female family workers and children in agriculture. Thus, while shorter hours or work were not much cause for concern, underemployment in terms of very long hours was a cause for concern, particularly in the trade and manufacturing sectors.

3.2 Disguised unemployment

The “others” outside the labour force

To be classified as openly unemployed in the labour force surveys, respondents had to be out of work and be currently looking for work. People not looking for work, including those who believed there was no work, but willing to work, were automatically relegated to the “others” category outside the labour force. In addition, the “others” included at least three more groups, i.e., those who are too old or disabled to work, the retired, and those who did not need to work.

Because of the residual and diverse nature of the “others” category in the labour force survey, it is not possible to separately quantify the number of people who did not actively engage themselves in job search but willing to work if presented with a suitable opportunity. There are nevertheless several reasons to believe that this group was not only quite large but that, it interacted with the measured unemployment category in ways which depended on local circumstances, and which were therefore difficult to predict. Since it constitutes an important aspect of labour un-utilization, and may add a potential social and political dimension similar to that presented by open unemployment, a rough estimate of disguised unemployment and labour under-utilization is attempted below.

Nearly 10 million persons were classified in the residual “others” category compared with six million persons in open unemployment in 2000 (Dhanani, 2001, table 2.3). The share of “others” in the working age population increased from 5 to nearly 8 per cent between 1976-79 and 1986-89, but remained at this level until 1990-93 (Table 19). It declined by 1 per cent starting in 1994, and remained at around 7 per cent until 2000. The decline, almost all of it in urban areas, was probably due to the change in the reference period for looking for work from *previous week* to *currently looking for work* noted before, and a switch from some persons previously classified as “others” to openly unemployed after this year. This is suggested by the fact that the total share of “others” and openly unemployed remained quite stable at 12 per cent in urban areas before 1993 and after.

The nature of the activity “others”, despite its significant share in the working age population, remained largely unclear, because they were not in the labour force (either working or not working but actively looking for work), nor were they attending school or house keeping, the usual two activities of people outside the labour force.

Table 19. Others and Open Unemployment Rates, 1976 – 2000 (% of Population 15+)

	1976-79	1986-89	1990-93	1994-97	1998-2000
<u>Urban + Rural</u>	<u>6.40</u>	<u>9.29</u>	<u>9.36</u>	<u>10.07</u>	<u>10.72</u>
Others	4.95	7.47	7.60	6.98	6.71
Openly Unemployed	1.46	1.82	1.76	3.09	4.02
<u>Urban</u>	<u>9.94</u>	<u>13.13</u>	<u>12.05</u>	<u>12.31</u>	<u>13.36</u>
Others	6.55	9.38	8.89	7.48	7.51
Openly Unemployed	3.39	3.75	3.16	4.84	5.85
<u>Rural</u>	<u>5.66</u>	<u>7.72</u>	<u>8.03</u>	<u>8.71</u>	<u>8.82</u>
Others	4.61	6.68	6.96	6.68	6.13
Openly Unemployed	1.05	1.03	1.07	2.03	2.69

Source: Labour Force Situation in Indonesia (Sakernas Survey), annual publication (table 2), CBS.

Between 1986 and 1990 at least, but not after 1994, the labour force survey questionnaire distinguished between those not capable of work and all others, though corresponding tabulations are not published. Unpublished tables revealed that some 40 per cent of all “others” were incapable of work in 1990. Though this proportion was 60 per cent for adults, it dropped to just 6 per cent for younger persons aged 10-29, signifying that the remaining 94 per cent of youth, amounting to some 3.5 million persons, were at least capable of work but chose to remain outside the labour force (Table 20). Adding the 2.2 million adults, who similarly shunned the labour force, a total of 5.7 million persons, or roughly three times the total number of openly unemployed persons, remained outside the labour force in that year.

Table 20. Composition of “others” outside the labour force by age group, 1990

	Million			Percent		
	10-29	30+	All	10-29	30+	All
<u>Urban + Rural</u>	<u>3.78</u>	<u>5.41</u>	<u>9.20</u>	<u>100</u>	<u>100</u>	<u>100</u>
Not capable	0.24	3.22	3.47	6	60	38
Others	3.54	2.19	5.73	94	40	62
<u>Urban</u>	<u>1.31</u>	<u>1.87</u>	<u>3.19</u>	<u>100</u>	<u>100</u>	<u>100</u>
Not capable	0.05	0.81	0.86	4	43	27
Others	1.26	1.06	2.32	96	57	73
<u>Rural</u>	<u>2.47</u>	<u>3.54</u>	<u>6.01</u>	<u>100</u>	<u>100</u>	<u>100</u>
Not capable	0.19	2.41	2.60	8	68	43
Others	2.28	1.13	3.41	92	32	57
<u>Male</u>	<u>1.97</u>	<u>2.49</u>	<u>4.46</u>	<u>100</u>	<u>100</u>	<u>100</u>
Not capable	0.12	1.28	1.40	6	51	31
Others	1.85	1.21	3.06	94	49	69
<u>Female</u>	<u>1.81</u>	<u>2.93</u>	<u>4.74</u>	<u>100</u>	<u>100</u>	<u>100</u>
Not capable	0.12	1.95	2.07	7	67	44
Others	1.69	0.98	2.67	93	33	56

Source: Labour Force Survey Sakernas 1990 (unpublished tabulation), CBS.

Also starting in 1986, all respondents in and out of the labour force were asked if they would accept work, although the wording of the question does not make it clear whether this signified additional work or a new job in the case of those already working, and under what terms and conditions of work. The high response rate to this question from those already employed, just under a quarter of the total labour force in 1993, was therefore not altogether unexpected in such a relatively vaguely worded enquiry, and may be a reason for not publishing the corresponding tabulations. Nevertheless, for those outside the labour force, 8 million persons, equivalent to 11 per cent of the labour force, were willing to

accept work. This proportion rose to 27 per cent for those classified as others, compared with just 5 and 19 per cent for those attending school and house-keeping (Table 21).

Table 21. Willingness to work for persons outside the labour force, 1993

	Percent share willing to work			Age composition (%)		
	10-29	30+	All	10-29	30+	All
<u>Urban + Rural</u>	<u>21.2</u>	<u>4.2</u>	<u>10.6</u>	<u>75</u>	<u>25</u>	<u>100</u>
Attending school	4.8	14.7	4.8	98	2	100
House-keeping	29.7	12.6	19.3	60	40	100
Other	50.8	7.1	27.0	86	14	100
<u>Gender</u>						
Male	12.7	1.1	5.3	87	13	100
Female	33.7	9.4	19.0	70	30	100
<u>Urban</u>	<u>28.0</u>	<u>5.8</u>	<u>14.2</u>	<u>75</u>	<u>25</u>	<u>100</u>
Attending school	5.2	13.1	5.2	98	2	100
House-keeping	26.6	10.2	15.7	56	44	100
Other	57.1	9.8	31.2	83	17	100
<u>Rural</u>	<u>18.4</u>	<u>3.6</u>	<u>9.1</u>	<u>75</u>	<u>25</u>	<u>100</u>
Attending school	4.4	16.7	4.5	98	2	100
House-keeping	31.2	14.5	21.8	62	38	100
Other	47.0	5.3	24.3	88	12	100

Source: Labour Force Survey Sakernas 1993 (unpublished tabulation), CBS.

Younger persons below the age of 30 in the “others” category were particularly willing to accept work. Over 50 per cent of these were willing compared with only 7 per cent for adults over the age of 30. A similar situation was observed in those engaged in housekeeping, where 30 per cent of younger persons were willing to work compared with only 13% for adults. Women were three to four times more likely to be willing to accept work, and thus comprised the bulk of disguised unemployment.

Applying these ratios to 2000, potentially discouraged workers presently engaged in house-keeping or without a clearly defined activity and thus classified as “others”, could amount to some 7.5 million people or 5 per cent of the working population, compared with six million openly unemployed in 2000. This figure, which excludes those willing to work but still as school, indicates the similar magnitude of disguised unemployment and open unemployment. In other words, total unemployment, both open and disguised, affected as many as 13.5 million people, or 8 per cent of the (adjusted) labour force. Youth formed the majority of both types of unemployment, while women accounted for a smaller than men in open unemployment, and a larger share in disguised unemployment.

4. Conclusions and implications

4.1 Open unemployment

In the past, the government committed scarce resources to alleviate the plight of the unemployed, including programmes for the urban unemployed, particularly the college graduates, and the expansion of investment in vocational education. These and other similar measures were taken on the basis of unemployment data. Since central, provincial and district governments may make further similar budgetary allocations in the future, a correct interpretation of the nature and characteristics of open unemployment is essential to assist policy makers in the judicious allocation of scarce government resources.

Statistical offices measure the open unemployment rate by identifying persons who are not currently working *and* actively looking for work. Because of the latter, if more people actively look for work when they believe there are jobs available in a buoyant economy, this will push up the unemployment rate. On the other hand, if they do not actively look for work, perhaps because they believe there are no jobs available, this will keep the open unemployment rate low. Thus the official rate of open unemployed measures simultaneously the lack and the increase in employment opportunities. This ambiguity is not unique to Indonesia or developing countries. Even the United States monthly labour force survey has reported a surge in open unemployment at the beginning of several business cycles for the same reason.

Nevertheless, open unemployment in a rapidly growing developing country, such as Indonesia before the crisis, is different than in developed countries because most of it consists mainly of youth looking for their first job. Thus it is transitional, search unemployment rather than structural unemployment. The large number of young, first-time job seekers entering the labour market each year is in turn the result of their young and rapidly growing working age population. In addition, the low income and savings of most ordinary households, and the absence of an unemployment security system prevented most adults from remaining out of work for any length of time. Finally, even within developing countries, urban unemployment levels vary from one country to another and from one region to another, due to differences in the education level of youth, and the prevalence of self-employment and unpaid family work compared to wage employment.

In light of these fundamental characteristics of open unemployment in Indonesia, this section addressed at least eight paradoxes of open unemployment data in Indonesia before the crisis, and found the following. The open unemployment rate in urban areas was higher than in rural areas because the proportion of urban youth actively looked for work was higher in urban areas. Job seekers believed that jobs were available in urban areas, and looked for work, while they believed that there were no jobs available in rural areas. Also some rural youth migrated to urban areas to look for work, precisely because they rated their chances of getting a job there as higher than if they remained in rural areas.

The open unemployment rate for youth was higher than for adults, not because they were less employable, but because of a continuous flow of school leavers and college graduates undergoing their transition from full time education to full time work. Around 90 per cent of all open unemployment consisted of youth aged 15-29, and 80 per cent of all job seekers were without previous work experience. It is this dynamic, continuous flow of new job seekers in the labour market, which kept their age-specific unemployment rates high throughout the year. In addition, the youth aged 15-29 formed a relatively high proportion of the total population during most years between 1976 and 1997.

The higher open unemployment rate of females than for males was more apparent than real. Expressed as a percentage of their working age population rather than the usual labour force, this ranking was reversed because of the lower labour force participation of females. Only half of all women were in the labour force compared with more than 80 per cent for men. This in turn was due to the larger proportion of females outside the labour force engaged in housekeeping. Nevertheless the open unemployment for females rose faster than for males since 1976, precisely because of more job openings for women in the modern sector, and encouraging a larger number of women to actively look for work.

The large share of more educated in the openly unemployed was simply the reflection that most young job seekers in the 1990s were either secondary school leavers or college graduates. This was in turn due to the rapid educational expansion in this period and the higher educational attainment of the younger generation in general. In the 1970s and early 1980s in contrast, most youth only studied until primary or junior secondary school, and these were the educational qualifications of the majority of job seekers then.

The labour market for senior secondary school leavers and tertiary graduates improved between the late 1980s and the 1990s, with evidence of relatively stable age and education-unemployment rates, stable job search duration and employment rates, indicating their high participation in the labour force, and their continued access to jobs in a period of rapid expansion of secondary and tertiary education.

The difference in open unemployment rates between vocational and secondary school leavers were misleading when expressed as a percentage of the labour force. If anything, youth unemployment rates of vocational school leavers were higher as a percentage of their working age population, reflecting the terminal nature of their education and their earlier entrance in the labour market, initially as job seekers. There was little difference in job search duration once school leavers from either stream started looking for work, and little difference in pay once they started working, indicating little differentiation between them in the labour market. Of course, a more definite assessment would require that unemployment figures for vocational education to be broken down according to technical, economic and other vocational specializations. Unfortunately, the labour force surveys do not collect educational attainment data at this level.

The rising of the open unemployment rate over the years was due to a number of factors. The almost doubling of the open unemployment rate after 1993 was primarily the result of the change in the reference period for measuring the openly unemployed. In addition, the small rise between the mid 1970s and the mid 1980s, and again between 1994 and 1997 was due to rapid urbanization, an increasingly younger working age population, at least until the mid 1990s, more educated youth, and increasing participation of women in the labour force. Arithmetically, the large weight in total unemployment of the higher unemployment rate in urban areas, of educated youth and of females produced a higher overall rate of open unemployment for the whole country.

The unemployment and expenditure data in the national socio-economic survey did not appear to support the luxury unemployment hypothesis of concentration of unemployment and higher rates of unemployment in relatively prosperous households. The small differences in open unemployment rates across expenditure quintiles, and thus the weak relationship between unemployment and expenditure, was due to the predominance of young first-time job seekers in the midst of their transition from school to work, affecting most income groups. In fact, though numerically small, unemployed children and teenagers came from predominantly poor families. During the extended job search, most job seekers received support from their families. However, to the extent that the *Susen* survey underestimates the true degree of poverty at the bottom end of the distribution, the poorest quintile of households, where they to be correctly identified, would be characterized by lower levels of education and would display less open unemployment than richer households. This should be subjected to a survey better designed to cover the poorest households, such as those without fixed address or living illegally on state land.

The open unemployment rate varied widely between provinces and islands, due to a combination of structural factors. On the supply side, provinces with higher unemployment rates were also those with a younger working age population. Moreover, a larger proportion of their youth were secondary school leavers. Educated women in particular were more inclined to enter the labour force and look for work than their less educated counterparts. On the demand side, provinces with a relatively large share of the urban work force in traditional sectors such agriculture and trade, where self-employment was predominant, appear to allow for easier entry of youth into employment. In contrast many provinces with a relatively higher share of their work force in wage employment, particularly in the service sector, posted high unemployment rates, as entry of youth into such employment was relatively more arduous.

What are the policy implications of the above findings? First of all, having noted the inherent ambiguity in the measurement of the open unemployment rate, and the transitional nature of most of it in a growing developing country, models using the unemployment rate such as the Harris-Todaro model, have limited relevance to countries such as Indonesia. The open unemployment rate, on its own, provides little information on difficulty or otherwise in access to employment. Its use in the Harris-Todaro model of rural-urban migration for calculating the expected urban wage may not therefore be justified in all countries, since a high urban rate of unemployment can signify a higher opportunity for finding work in urban areas compared with rural areas.

Second, the luxury unemployment hypothesis is only partially correct, and the reality is in fact more complex. The traditional view of unemployment in developing countries, that it is of minor importance, because it affects mainly members of relatively well off families who can afford a long job search to obtain suitable formal sector employment, was shown not to be valid. The observation that unemployment is virtually non-existent in the adult population in many developing countries is taken as sufficient proof that unemployment is not a serious policy issue in developing countries. While the overall unemployment rate is low, access to first-time employment is relatively difficult even in countries with a large traditional sector. Young job seekers come from all income groups, not just the affluent, and from all educational backgrounds, and most of them must be prepared to look for work for a relatively long period of time. Anything that the government can do to facilitate this transition from school and college to work will be welcomed by the openly unemployed.

Third, the government should focus its assistance for unemployed school leavers and graduates on better matching of job seekers with potential employers, and better labour market information and labour exchanges. It does not need to spend its scarce resources in assisting unemployed graduates in becoming self-employed entrepreneurs, especially those who may only consider such an opportunity move as a temporary move, while looking for permanent wage employment with or without such training. Young graduates are inexperienced and therefore relatively ill suited in setting up their own business. In any case, graduates and senior school leavers will continue to be given preferences for jobs relative to less educated job seekers. Little can be done in practice to this qualification escalation in the light of the rapid expansion of public and private education at all levels, but it does mean that educated job seekers are at advantage in the labour market. If any expenditure at all is justified, then it should be focused on enterprise managers with a track record of some years and who have shown their potential to expand the number of waged workers they employ.

Fourth, the choice of investment in secondary vocational schools or general schools should not be based on unemployment data alone, which are misleading at best. They should be made on the basis of other labour market signals and information such as wage trends and differentials, employer surveys and key informants in the industrial and commercial sectors.

4.2 Underemployment and disguised unemployment

Around 40 per cent of all workers worked less than 35 hours a week, but the average working week consisted of 39 hours in 1995, this number being smaller for females and in agriculture (34 and 32 hours respectively). Of those working less than 25 hours or 35 hours a week, only a tenth were looking for more or additional work. The remaining did not look for work primarily because there was no need to do so, or because they were housekeeping or attending school. Hardly anybody mentioned 'lost hope' as a cause. Thus most part-time work was in fact voluntary, involving mainly female family workers and children in agriculture. While shorter hours or work were not much cause for concern,

underemployment in terms of very long hours was a cause for concern, particularly in the trade and manufacturing sectors, where nearly 60 per cent of workers worked more than 45 hours a week, indicating low earnings.

Discouraged workers presently engaged in house-keeping or without a clearly defined activity and thus classified as ‘others’, could amount to some 7.5 million people or 5 per cent of the working population, compared with six million openly unemployed in 2000. This figure, which excludes those willing to work but still at school, indicates the similar magnitude of disguised unemployment and open unemployment. In other words, total unemployment, both open and disguised, affected as many as 13.5 million people, or 8 per cent of the (adjusted) labour force. Youth formed the majority of both types of unemployment, while women accounted for a smaller than men in open unemployment, and a larger share in disguised unemployment.

4.3 Employment data

There are at least four implications for data collection and presentation. First, a satisfactory monitoring of youth unemployment rate requires unemployment information by year of leaving school or graduation. The design of an appropriate question in national labour surveys, to elicit important information relating to cohorts with particular age and education characteristics, should be a priority for labour statisticians and the International Labour Organization. Second, no additional information is collected on those outside the labour force classified as “others” and “housekeepers”, which nevertheless constitute significant proportions of the working age population. This should be rectified since much of this may actually constitute disguised unemployment.

Third, a more detailed classification of those currently classified as “self-employed” is needed to differentiate those who are really wage employed, but whose wages take the form of commissions on sales, or are paid through some sort of piece rate system. Fourth, the labour force survey publications do not include tables on job search duration, although the relevant information is collected and processed. This serious discrepancy should be rectified soon by providing standard tables on job search duration by age, education and type of effort undertaken. And fourth, national statistical authorities should introduce changes in the wording and order of questions relating to unemployment with only the greatest of caution and pre-testing, to avoid a repeat of the sharp break in unemployment series such as that witnessed between 1993 and 1994.

The well-established annual national labour force survey *Sakernas*, on which this study relied on almost exclusively, is indispensable for monitoring employment, unemployment, underemployment and wages. No other survey does this. Because of scarce resources and decentralization, this integrity of this crucial survey is in jeopardy, with constant pressures to reduce its size and other cost-cutting measures. One recent casualty has been the reduction of the publication of the 2000 survey to a breakdown by island rather than province, and fewer tables. The government should in fact allocate more funds to strengthen and expand this survey to provide reliable and comparable data across the country, by adding questions on the place of work and residence, inter-sectoral mobility and migration, and by allocating sufficient funds for its complete publication.

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