The Inflation Rate on Unemployment in Thailand

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Abstract.
The purpose of this study is to evaluate the impact of changes in the inflation rate on the unemployment rate in Thailand over the period 2018-2022, with secondary data obtained from the World Bank as a source of information. The approach used in data analysis is through descriptive qualitative research methods and literature studies by referring to previous research journals relevant to the topic, as well as accessing data through websites as published sources of information. The results of this study indicate that during the period, there were fluctuations in the development of the inflation rate and the unemployment rate in Thailand. In general, there is a tendency that when the inflation rate decreases, the unemployment rate increases. This result is consistent with the theory proposed by A.W. Philips, where low unemployment rates are often associated with high inflation rates. In contrast, high unemployment rates are often associated with low inflation rates.

***Keywords**: Inflation, Phillips Theory, Unemployment*

INTRODUCTION

Unemployment is a problem that is routinely experienced in various regions. The unemployment rate is an important indicator to measure the economic progress of a region, as a rising unemployment rate tends to reflect a deteriorating economic situation. A high unemployment rate can also be a serious obstacle to the long-term development of a region, with the very worrisome consequence that the problem of poverty spreads and puts more pressure on the problem of crime to fulfill the needs of its citizens. One factor that can trigger the unemployment rate is inflation, which is the phenomenon of an overall rise in prices at the general level. Inflation can disrupt economic stability and create additional pressure on the unemployment rate by reducing people's purchasing power, which then impacts employment. In this case, inflation is one of the factors that needs to be analyzed in depth to understand its impact on the unemployment rate. Every year, a high inflation rate has the consequence of increasing the unemployment rate, and this significantly affects people's quality of life. Regions with stable economies tend to have low inflation rates, while other regions may experience extreme hyperinflation. When hyperinflation occurs, the impact on the unemployment rate can be devastating. As prices across all sectors experience tremendous increases, companies tend to respond by reducing the number of their employees. As a result, a significant increase in the unemployment rate is almost inevitable, and the economic situation of the area can suffer a serious setback(Bintang & Prana, 2020).

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The unemployment rate experiences periodic fluctuations, and likewise, the inflation rate also experiences fluctuations and a downward trend. This is considered a positive development as a low inflation rate has the potential to reduce the unemployment rate. However, in reality, there is a mismatch between the decline in the inflation rate and the expected decline in the unemployment rate. Therefore, the government and related stakeholders must remain committed to addressing the problem of high unemployment. This needs to be done to prevent an increasingly heavy burden on the community in meeting their basic needs and to encourage more active economic participation. High inflation in a country means that a country's economy is poor. According to Sukirno, economic policy, especially the monetary policy of a country, tries to keep inflation at a creeping inflation rate. Inflation can have a good effect on the economy. Corporate profits increase and will encourage investment. So that employment opportunities and income increase and encourage economic growth (SEPTIATIN et al., 2016).

According to Bick in his research on "Threshold Effect of Inflation on Economic Growth in Developing Countries," it is stated that there is an important relationship between the inflation rate and economic growth. Therefore, a decrease in economic growth can potentially increase the unemployment rate.

Unemployment is a universal challenge faced by all countries around the world. A high unemployment rate can threaten a country's national stability. Therefore, every country strives to keep the unemployment rate within an acceptable range. Unemployment is a chronic and complex problem in almost every country, and continued population growth contributes to an increase in the number of individuals seeking employment. If jobs are unable to absorb this number, unemployment will occur.

LITERATURE REVIEW

Inflation

Inflation is a condition in which economic prices increase generally. The impact of inflation can cause a country to face an economic crisis in both the short and long term. Mahendra (2016) explains inflation as a stage in the economy when there is an increase in wages and prices, demand for labor exceeds supply, and the amount of money in circulation increases significantly. Another factor that plays a role in this is the exchange rate, which is the comparability of the amount of money in the country's currency with other countries' currencies. A declining national economic policy or an increasing need for foreign exchange for international transactions are two elements that can cause a depreciation of the rupiah exchange rate (Mahendra, 2016).

The definition of inflation according to (Kalsum, 2017) Inflation is a condition in which there is a continuous increase in the price of goods. Salim et al. (2021) explain that inflation occurs when commodity prices increase due to certain factors which in turn affect the price increases of other goods. The impact of this inflation is instability in a country's economy. Thus, it can be concluded that inflation is a situation where commodity prices rise due to certain factors, which in turn leads to a sustained increase in the prices of goods. However, it should be noted that temporary price increases, such as those that occur around holidays or due to seasonal factors, cannot be classified as inflation.

In short, inflation can cause people to bear additional costs. This hurts sectors that distribute income and adversely affects the purchasing power of people on fixed incomes, especially the lower class. On the other hand, the richer middle and upper classes tend to be able to shield their wealth from the effects of inflation. A rising inflation rate can also lead to a weakening of the domestic currency against foreign currencies. As a result, companies face declining performance, and investments in the capital market are also negatively affected.

The causes of inflation can be categorized based on its source, namely internal factors known as domestic inflation, and external factors known as imported inflation. Domestic inflation is mainly caused by pressures from domestic macroeconomic variables, which push up the prices of goods. On the other hand, imported inflation occurs due to price increases in other countries that have trade relations with the importing country, increasing the prices of imported goods.

Unemployment

Unemployment is a problem commonly faced by various countries, especially developing countries. The impact of unemployment is not only negative, even a low level of unemployment is sometimes undesirable as it can affect the productivity of the country(Muslim, 2014) Unemployment can be explained as individuals who are in the labor force, trying to find a job, but are unable to find the job they want.

Another definition of unemployment (Mahsunah, 2013) Unemployment refers to members of the labor force who are actively seeking work that is in line with their skills and educational background, but suitable job opportunities are not yet available in sufficient numbers (Yacoub, 2013) Unemployment can include three groups: individuals who are looking for a job or preparing for a business, those who are not looking for a job because they feel the opportunities are very limited, and those who already have a job but have not started working. All three groups are considered unemployed.

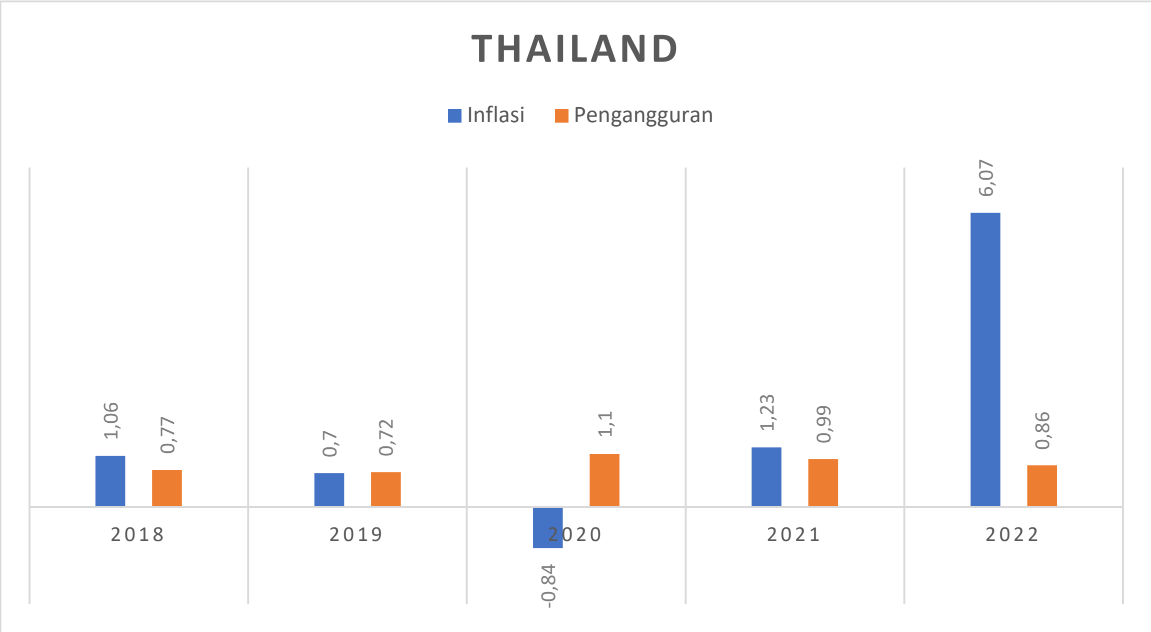
Within the framework of the definition of unemployment above, those who are actively looking for work and/or preparing a business but have not succeeded in getting the desired job are considered unemployed. Unemployment can be caused by various factors. Some of the factors that can cause unemployment include:

1. One factor is the continuous increase in the labor force; however, this increase is not proportional to the country's economic growth.
2. Human resources have a variety of qualifications. Employers tend to look for people with the right abilities or at least a certain level of education. However, many people who have completed senior high school or its equivalent find it sufficient to qualify due to twelve years of compulsory education.
3. Insufficient number of jobs available. The availability of jobs is perceived to be very limited due to Indonesia's ever-increasing and growing population. While many factors can affect the number of jobs available, the view that parents instill in the younger generation is that success is associated with working for a big company rather than starting your own business and creating your jobs.
4. Members of the workforce who are not familiar with the work environment. The influence of the surrounding environment and the idealism that characterizes society means that many members of the workforce do not have a clear understanding of their interests and passions. Therefore, this results in immaturity in thinking about the field of work to pursue.

RESEARCH METHOD(S)

This research uses descriptive qualitative methods and literature studies. This method relies on information from previous research journals (Kurniawan, 2014) This research also involves collecting data from online sources, such as websites, about the title. In the descriptive qualitative research approach, the researcher acts as the main tool in data collection. In this method, data is collected and analyzed inductively (Sugiyono, 2012) to produce and process descriptive data such as narrating the results of interviews and or observations.

FINDINGS AND DUSCUSSION



Source: (World Bank, 2023)

Figure 1. Development of Inflation and Unemployment Rate in Thailand from 2018 to 2022

Inflation and the unemployment rate are two indicators used to measure a country's economic performance. The relationship between the two is a major concern in macroeconomic analysis (Annazah & Rahmatika, 2019).

In 1958, economist A.W. Philips published an article entitled "The Relationship between Unemployment and the Rate of Change of Money Wages in the United Kingdom, 1861-1957". In his research, he found that there is a negative relationship between the unemployment rate and the inflation rate. In other words, a low unemployment rate tends to be inversely related to a high inflation rate, while a high unemployment rate tends to be related to a low inflation rate(Phillips, 1958).

Analysis based on Figure 1 shows that over the past 5 years, there have been fluctuations in the development of the inflation rate and the unemployment rate in Thailand. In general, it can be concluded that a decrease in the inflation rate tends to be accompanied by an increase in the unemployment rate. This result indicates that the Phillips curve phenomenon still applies in Thailand. The conclusion from this result is that there is a trade-off between the inflation rate and the unemployment rate.

When the government manages to keep the inflation rate at a low level, the consequence is an increase in the unemployment rate. Conversely, if the unemployment rate is low, then inflation will tend to increase. When the unemployment rate decreases, firms will tend to hire more workers with a significant increase in wages. An increase in output that exceeds potential capacity will also result in increased resource use and demand for funds. This then triggers a rise in prices, which in turn affects people's inflation expectations, contributing to an increase in inflation due to low unemployment. (Annazah & Rahmatika, 2019).

This result is consistent with the research conducted by Chu et al. and Alisa (2015), which also stated that there is a link between the unemployment rate and inflation. In this context, inflation can be considered as a necessary cost to achieve a low unemployment rate, and conversely, to achieve a low inflation rate, the unemployment rate will tend to be high. However, it is important to keep in mind that both studies show that the relationship between the unemployment rate and inflation is only valid in the short term. In the long term, the economy will return to its potential level which will bring the unemployment rate back to its original level.

According to (Indayani & Hartono, 2020) In this opinion, unemployment is an economic indicator of a country that is reflected through changes in Gross Domestic Product (GDP). Meanwhile, when we talk about inflation indicators, there are similarities with GDP in the context of the domestic economy (Rachmawati, 2018) Inflation indicators involve components such as the Consumer Price Index (CPI), the Wholesale Trade Price Index (IHPB), and the Gross Domestic Product (GDP) deflator. This reflects that inflation and unemployment both relate to GDP-centered indicators. GDP is an important measure used to assess the market prices of goods and services in a country and calculate national income.

CONCLUSION AND RECOMMENDATION

Based on the analysis of the development of inflation and unemployment rates in Thailand, there are fluctuations from year to year. In general, if the inflation rate decreases, the unemployment rate will tend to increase. This result is to the theory of A.W. Philips, where a low unemployment rate is often associated with a high inflation rate, while a high unemployment rate is often associated with a low inflation rate.

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