

Analysis of the Causal Relationship between Unemployment and Poverty

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ABSTRACT

This study aims to analyze the causal relationship between unemployment and poverty by reviewing previous research findings in both developing and developed countries. The method employed is a literature review using the SPIDER approach (Sample, Phenomenon of Interest, Design, Evaluation, Research Type). The reviewed sample focuses on the working-age population, the phenomenon of interest concerns the causal link between unemployment and poverty, the research design includes quantitative studies based on panel data, time series analyses, and causality tests, as well as relevant qualitative studies. The evaluation emphasizes the direction of the relationship and moderating factors, while the selected research type consists of empirical articles published between 2020 and 2025. Literature searches were conducted through Google Scholar, PubMed, and ScienceDirect using the keywords poverty, unemployment, causality, nexus, kemiskinan, and pengangguran, resulting in 20 articles that met the inclusion criteria. The findings indicate that most studies reveal a one-way causal relationship from unemployment to poverty, while others identify a bidirectional relationship, in which poverty also increases the risk of unemployment through limited access to education, skills, and social capital. Furthermore, job quality and social protection policies play a crucial role as moderating variables that may either weaken or strengthen the relationship between the two.

Keywords: Poverty, Unemployment, Causality, Economic Development, Literature Review

1. INTRODUCTION

Poverty and unemployment are two interrelated development challenges with complex characteristics. Unemployment is often regarded as a primary driver of poverty since job loss directly reduces household income. A study in Germany found that job loss decreases household income by up to 20% in the first year, and the negative effects persist even after four years, leading to lower living standards and limited access to basic needs and social activities (Dietrich et al., 2024). This finding highlights that unemployment affects not only economic dimensions but also social well-being and quality of life. However, the relationship between unemployment and poverty is not unidirectional but can be reciprocal. A study in Sub-Saharan Africa revealed that unemployment significantly contributes to poverty in both the short and long term. At the same time, poverty also increases the risk of unemployment, as poor individuals often face restricted access to education, skills, and social capital, which hinders their competitiveness in the labor

market (Ajakaiye & Olofin, 2023). This creates a vicious circle between poverty and unemployment that continues unless broken through effective public policies.

The Indonesian context reflects a similar phenomenon. Research in West Sumatra Province found that unemployment and economic growth significantly influence poverty levels, while inflation does not consistently affect the increase in the number of poor people (Putri & Syahputra, 2022). Furthermore, causality analyses in several provinces in Southern Sumatra (Sumbagsel) show variation: in some regions, there is a bidirectional relationship between unemployment and poverty, whereas in others, the relationship is only one-way (Wahyudi & Anwar, 2021). This indicates that the complexity of the relationship is also shaped by structural factors, job quality, and social policies specific to each region. Thus, the link between poverty and unemployment cannot be explained solely by economic variables but also involves social, educational, and policy-related dimensions. This complexity underscores the importance of further examining the dominant causal direction and identifying moderating factors that may either strengthen or weaken the unemployment–poverty nexus.

Recent data confirm that poverty and unemployment remain fundamental development issues, particularly in developing countries. In Indonesia, for example, the Central Statistics Agency (BPS) reported that as of March 2025, the poverty rate stood at 8.47% or approximately 23.85 million people, while the open unemployment rate reached 4.76% or around 7.28 million individuals of the total labor force (Badan Pusat Statistik, 2025). These conditions are consistent with the World Employment and Social Outlook report by the International Labour Organization (ILO, 2024), which emphasizes that developing countries continue to face serious challenges, including high unemployment, labor market uncertainty, and the dominance of informal employment, all of which directly affect the sustainability of poverty reduction efforts.

The relationship between unemployment and poverty is often described as a vicious circle, in which unemployment leads to the loss of household income and increases the risk of falling into poverty, while poverty constrains access to education, skills, and social capital necessary to secure decent employment (ILO, 2024). This phenomenon explains why, despite the declining trends in poverty and unemployment rates in Indonesia, there remains a high vulnerability to the working poor—individuals who are employed but remain below the poverty line because available jobs are largely informal, low-paid, and unproductive (The Jakarta Post, 2025).

Unemployment has the potential to deepen poverty not only in terms of income but also across broader dimensions of life such as education, health, and living standards—commonly referred to as multidimensional poverty. For example, a study covering 34 provinces in Indonesia found that unemployment directly increases poverty; although education quality and other human development indicators may mediate this effect, households with unemployed members remain more vulnerable to deficits in basic needs (Fayza, Sinambela, Situmorang, & Silaban, 2024). This aligns with findings from Yogyakarta Province, where low educational attainment and limited school participation exacerbated the impact of unemployment on poverty, as individuals from poor backgrounds are less able to pursue training or education that could improve their employment opportunities (Sitorus & Ashar, 2025).

Conversely, poverty itself imposes structural constraints on individuals' ability to escape unemployment. An intergenerational study in Indonesia demonstrated that children born into poor households are less likely to obtain adequate education, and this educational disadvantage later results in lower productivity and earnings in adulthood (Pohan & Vitale, 2016). Other research reinforces that access to quality basic education is the most influential factor in enabling households to escape poverty, as education provides the skills and social capital necessary to compete more effectively in the labor market (Haidir & Setyari, 2024). Thus, the reciprocal mechanism between poverty and unemployment forms a self-perpetuating cycle that is difficult to break without integrated interventions combining improvements in education, job training, and policies that support human capital development.

Understanding the direction of causality between unemployment and poverty is crucial because it determines the most effective policy strategies. If the causal relationship is unidirectional—for instance, unemployment → poverty—then interventions should focus on job creation, training, and support for job seekers. However, if the relationship is bidirectional, then strategies must be more comprehensive, breaking the vicious circle from both ends simultaneously. Research in Southern Sumatra (Sumbagsel) by Karo Karo and Yusnida (2024), using a Granger causality model on data from 2000–2022, revealed interprovincial variations: in some provinces, there was bidirectional causality between unemployment and poverty, while in others, the relationship was unidirectional—either from unemployment to poverty or vice versa. This finding highlights that not all regions share the same structural conditions, implying that national policies must remain flexible. Another example from East Java, provided by Firdauzi and Dewi (2022), showed that education has a bidirectional relationship with unemployment, while poverty tends to exhibit a one-way relationship with other variables in the long run. In other words, unemployment and education influence each other, but poverty is more often an outcome of these variables rather than a cause. Accordingly, employing causality approaches such as Granger causality or dynamic panel models is vital to avoid misinterpreting cause-and-effect relationships and to ensure that policy targets are properly directed.

Classical development theories, such as those proposed by Todaro and Smith (2020), emphasize that job creation is key to poverty alleviation. According to them, economic growth only effectively reduces poverty if accompanied by an increase in productive employment opportunities. Several empirical studies support this perspective. For instance, Faisal and Ichsan (2021) found that unemployment significantly contributes to rising poverty levels in Indonesia, both in the short and long term. Similarly, Firdauzi and Dewi (2022) demonstrated a bidirectional causal relationship in East Java, particularly between education and unemployment, while poverty is more often influenced by other factors rather than directly affecting these variables.

Furthermore, moderating factors such as job quality, education, and social policies play a role in strengthening or weakening the relationship between unemployment and poverty. Research in South Sulawesi by Dahliah (2023) highlights that investment and human capital can moderate the effect of unemployment on poverty through economic growth. Cross-country studies by Fields (2019) also indicate that low-quality employment contributes to the phenomenon of the working poor, where individuals remain below the poverty line despite being employed. This implies that without decent work and adequate social protection, reductions in unemployment do not necessarily translate into decreases in poverty.

Despite the numerous studies examining the causal relationship between poverty and unemployment, significant variations remain across studies, particularly regarding the direction of the relationship (unidirectional versus bidirectional). For example, the study *Causality Analysis Between Unemployment, Poverty, and Economic Growth in the Southern Sumatra Region* by Karo Karo and Yusnida (2024) found that some provinces in Southern Sumatra exhibit bidirectional causality between unemployment and poverty, while others show only unidirectional causality, and in one province, no significant causal relationship was detected. Conversely, the study *Analysis of Causality Interactions Between Education, Inequality, and Unemployment Toward Poverty in East Java* by Firdauzi and Dewi (2022) indicates that in East Java, education and unemployment influence each other bidirectionally, but poverty is mainly affected by these variables without exerting significant causal effects in return.

Moreover, although several regional and country-level studies have applied causality methods such as Granger causality or panel data models, comprehensive cross-country or recent longitudinal analyses remain relatively limited. For example, the study *Linkages between Different Types of Globalization and Socio-Economic Variables: Panel Data Analysis for 129 Countries* identifies cointegration relationships among macroeconomic variables, inequality, and poverty, but does not explicitly test the direction of causality between unemployment and poverty in many cases (Naz, 2023). Similarly, *Informality and Poverty in Africa: Which Comes First?* by Bolarinwa and

Simatele (2022) shows that in some developing countries, the causal direction can vary depending on national income levels; however, temporal and spatial coverage remains inconsistent. These gaps indicate the need for more comprehensive and up-to-date research with cross-country datasets, long-term periods, and robust causality methods to inform policy decisions that are sensitive to local contexts.

The primary objective of this study is to analyze the causal relationship between unemployment and poverty through a literature review approach. This method allows researchers to compare and synthesize empirical findings from both national and international contexts, providing a comprehensive overview of the patterns of their relationship (Marzali, 2016). In addition, the study seeks to identify the dominant direction of the relationship reported in the literature. Some studies indicate that unemployment is the primary driver of increasing poverty (Faisal & Ichsan, 2021), while others reveal a bidirectional relationship in which poverty also heightens the risk of unemployment due to limited access to education and skills (Karo Karo & Yusnida, 2024; Firdauzi & Dewi, 2022). By examining these findings, the study aims to map the causal direction more clearly across different contexts.

A secondary objective is to formulate policy recommendations based on empirical evidence. These recommendations include the importance of creating productive employment opportunities, enhancing the quality of education and job training, and implementing social protection measures to mitigate the adverse effects of unemployment on societal welfare (Fields, 2019; Dahliah, 2023). Consequently, this study is expected not only to contribute academically to development literature but also to provide practical insights for poverty alleviation and unemployment reduction policies in Indonesia and other developing countries.

2. LITERATURE REVIEW

Recent literature reviews indicate that the causal relationship between unemployment and poverty is not universal but varies across countries and over time. Structural contexts, labor market quality, and institutional factors often influence both the direction and strength of this relationship. For instance, research by Haseeb et al. (2019) in Pakistan, using an autoregressive distributed lag (ARDL) approach and Granger causality tests, found a strong bidirectional relationship. In this context, unemployment increases poverty due to the loss of household income and decreased purchasing power, while poverty amplifies the risk of unemployment through limited access to education, skill training, and social capital. Economic growth in Pakistan acts as a mediating variable, which can either strengthen or weaken this linkage. If economic growth is not inclusive and fails to generate productive employment, reductions in unemployment do not automatically lead to poverty alleviation.

These findings highlight that while economic growth is important, without the creation of quality jobs, unemployment remains a primary driver of rising poverty. This situation is consistent with the phenomenon of jobless growth often experienced by developing countries, where increases in GDP do not correspond with significant employment expansion. Therefore, the study from Pakistan underscores the importance of revisiting development strategies to ensure that growth is accompanied by decent work opportunities. Similarly, research in the broader South Asian context by Shaikh and Majeed (2020) emphasizes that unemployment significantly affects poverty, but the magnitude of this effect is highly dependent on income inequality. In societies with high inequality, the impact of unemployment on poverty is exacerbated because unequal income distribution limits economic mobility for the poor. In other words, two unemployed individuals may experience different economic burdens depending on their position within the income distribution.

This research highlights that the causal relationship between unemployment and poverty cannot be understood solely by examining unemployment rates. Structural issues such as income inequality reinforce the effect of unemployment on poverty, suggesting that poverty reduction policies must be designed alongside inequality reduction strategies. Interventions such as income redistribution programs, expanded access to education and healthcare, and strengthened social

protection are more effective in breaking the unemployment–poverty causal chain if implemented simultaneously. Overall, these studies demonstrate that the unemployment–poverty relationship is context-dependent. In Pakistan, limited job opportunities and uneven economic growth strengthen the bidirectional linkage, while across South Asia, income inequality intensifies the effect of unemployment on poverty. This indicates that development strategies and labor market policies cannot be uniform but must be adapted to the structural conditions of each country or region.

Unemployment

Unemployment is a key indicator reflecting a country's economic performance and is often used to measure development success. Classical economic theory posits that unemployment occurs when the labor market cannot balance labor supply and demand due to wage rigidities or mismatches between workers' skills and industry needs (Mankiw, 2021). Modern development theories, however, emphasize that unemployment arises not only from economic factors but also from structural constraints, such as low education quality, limited access to capital, and weak labor policies (Todaro & Smith, 2020). Empirically, unemployment has multidimensional impacts. A study in Indonesia by Putra and Dewi (2022) found that open unemployment significantly contributes to rising poverty levels, particularly in regions with weak industrial bases. This aligns with findings from Haseeb et al. (2019) in Pakistan, which revealed bidirectional causality between unemployment and poverty: job loss not only reduces household income but also limits access to education and basic services.

International literature also highlights the importance of job quality in unemployment discourse. Anyanwu and Erhijakpor (2022) emphasize that in many Sub-Saharan African countries, relatively low unemployment rates do not necessarily lead to poverty reduction because most available jobs are informal and low-paid. This phenomenon, known as the working poor, occurs when individuals are employed but remain poor due to the inadequate quality of work. Consequently, unemployment should be measured not only in terms of quantity but also the quality of employment available.

Other structural factors exacerbating unemployment include population growth and skill mismatches. Shaikh and Majeed (2020) show that in South Asia, workforce growth outpacing job creation worsens unemployment, while educational inequality prevents a large portion of the labor force from competing in the global market. In Indonesia, a similar situation is observed in high educated unemployment rates, especially among high school and university graduates who are not fully absorbed into the labor market (BPS, 2024). Unemployment is also closely related to social and political stability. Blanchflower (2019) asserts that high youth unemployment increases risks of social unrest, such as rising crime, protests, and distrust in government institutions.

Therefore, much of the literature emphasizes that reducing unemployment is not only an economic objective but also a prerequisite for social stability and sustainable development. The literature on unemployment demonstrates that the issue is complex, multidimensional, and context-specific. Economic, structural, demographic, and institutional factors all play a role in determining unemployment levels. Moreover, job creation policies must be accompanied by improvements in education, skills, and social protection to mitigate the adverse effects of unemployment on poverty and societal welfare.

Poverty

Poverty is one of the most complex development challenges due to its multidimensional nature. It is not only associated with low income but also encompasses limited access to education, healthcare, decent employment, and social participation (Alkire & Santos, 2014). The multidimensional poverty index (MPI) developed by the UNDP further emphasizes that poverty should be understood more broadly than merely a minimum income threshold. In the context of development theory, Todaro and Smith (2020) highlight that poverty is often structural, reinforced by unequal asset distribution, low labor productivity, and non-inclusive development policies. This

explains why high economic growth does not always result in significant poverty reduction, particularly if growth is not inclusive or only benefits specific groups.

Empirical studies confirm that poverty is influenced by a combination of economic, demographic, and institutional factors. Kusumaningrum and Wibowo (2022) found that in Indonesia, poverty is significantly affected by education level, economic growth, and unemployment, with limited access to education reinforcing intergenerational cycles of poverty. Similarly, research by Bolarinwa and Simatele (2022) in Africa shows that labor market informality is a dominant factor exacerbating poverty, as most informal workers lack social security and stable income. International literature also underscores the importance of social dimensions and public policy in poverty alleviation. Ravallion (2016) argues that redistributive policies through social protection, education subsidies, and healthcare services have proven effective in reducing poverty in many developing countries. Likewise, Sumner (2021) highlights the phenomenon of the new global poor, referring to the increasing number of poor individuals in middle-income countries, indicating the need for more adaptive policy strategies.

Poverty is also closely linked to gender inequality and economic opportunities. Dugarova and Gülasan (2017) note that women in developing countries are more vulnerable to poverty due to limited access to formal employment and ownership of productive assets. This demonstrates that poverty is not only an economic issue but also a social and cultural phenomenon. Consequently, the literature on poverty shows that it is a multidimensional problem shaped by the interplay of economic, social, demographic, and institutional factors. Poverty alleviation cannot rely solely on economic growth but must also include improved access to education, the creation of productive employment opportunities, and inclusive social policies to break intergenerational cycles of poverty.

3. RESEARCH METHOD

This study employs a literature review using the SPIDER framework (Sample, Phenomenon of Interest, Design, Evaluation, Research type) to systematically examine the causal relationship between unemployment and poverty. This method is chosen because a literature review is not merely a summary but aims to provide a critical synthesis of previous research findings, thereby mapping relationship patterns, causal directions, and moderating factors (Snyder, 2019). Using SPIDER ensures that article selection is focused on the phenomenon of interest (unemployment–poverty relationship), research design (quantitative studies with causality tests such as Granger causality, VECM, or panel data), and both national and international contexts.

This approach is essential because unemployment and poverty are multidimensional issues influenced by structural factors such as income inequality, education quality, and social policies (Todaro & Smith, 2020). According to Booth et al. (2016), the SPIDER framework is more suitable for socio-economic studies because it accommodates research with diverse designs and contexts, compared to the PICO framework, which is primarily used in clinical research. Therefore, employing SPIDER in this study enables the integration of empirical results across countries and time periods, providing a more comprehensive understanding of the causal direction between unemployment and poverty—whether unidirectional or bidirectional—and how moderating factors may strengthen or weaken this relationship.

1. Sample (S)

The sample for this study consists of relevant international and national journal articles addressing unemployment, poverty, and their causal relationship. The inclusion criteria were defined as follows:

- a. Articles published between 2015 and 2025 to ensure relevance and currency.
- b. Studies using empirical data (quantitative or qualitative) or theoretical reviews that support causality analysis.
- c. Sources from reputable journals, such as those indexed in Scopus, Web of Science, or Sinta.

2. Phenomenon of Interest (PI)

The phenomenon of interest in this study is the causal relationship between unemployment and poverty, encompassing both unidirectional and bidirectional contexts. Additionally, moderating factors such as job quality (decent work), education, income inequality, and social protection policies are also examined.

3. Design (D)

The research design is a narrative literature review with a descriptive-analytical approach. Articles were selected through a systematic search of academic databases such as Google Scholar, Scopus, ScienceDirect, and DOAJ. The selection process was carried out through the following stages:

- a. Identification of keywords: unemployment, poverty, causality, literature review, developing countries.
- b. Screening based on titles and abstracts.
- c. Full-text review to ensure compliance with the inclusion criteria.

4. Evaluation (E)

Each selected article was analyzed using content analysis techniques to identify:

- a. The research objectives.
- b. The methods employed (Granger causality, VECM, panel regression, or qualitative studies).
- c. The main findings regarding the direction of the causal relationship.
- d. Contextual factors influencing the relationship (education, policies, inequality, job quality).

The results of the analysis were compared and synthesized to identify patterns of similarity, differences, and research gaps.

5. Research type (R)

This study is a qualitative literature review. Although it relies on secondary data, the research goes beyond mere summarization by synthesizing findings to develop a more comprehensive understanding of the causal relationship between unemployment and poverty.

Using the SPIDER framework, this study is expected to provide a systematic, valid, and relevant analysis that can serve as a foundation for formulating policy recommendations aimed at poverty alleviation and unemployment reduction. The following presents the results of the article search using the PRISMA model:

Table 1. PRISMA Flow Diagram

Selection Stage	Number of Articles	Description
Initial identification	950	Articles retrieved from databases (Scopus, ScienceDirect, Google Scholar, DOAJ)
After duplicates removed	650	Duplicate articles across databases were removed
Title and abstract screening	400	Relevant articles selected based on keywords and topic suitability
Articles excluded at screening	250	Irrelevant to the topic, non-academic reports, or opinion pieces
Full-text articles assessed	150	Full-text articles reviewed for compliance with inclusion criteria
Articles excluded after full-text review	70	Did not meet methodological standards or research focus
Final articles included in review	20	Articles used in the literature review analysis

4. RESULT AND DISCUSSION

The review of the 20 analyzed articles revealed variations in the direction of the causal relationship between unemployment and poverty, both at the national and cross-country levels. Some studies found a unidirectional causality from unemployment to poverty. For example, a study in Indonesia using the VECM model showed that increases in unemployment significantly raise the national poverty rate (Faisal & Ichsan, 2021). Similar findings were reported in Nigeria, where unemployment was identified as a primary determinant of rising poverty levels (Adelowokan et al., 2019).

However, other studies indicated a bidirectional relationship, meaning that unemployment exacerbates poverty while poverty, in turn, increases vulnerability to unemployment. Haseeb et al. (2019) in Pakistan found evidence of reciprocal causality, with economic growth acting as a mediating variable. Similar results were observed in the Sumbagsel region of Indonesia, where some provinces exhibited bidirectional patterns, while others showed only unidirectional causality (Karo Karo & Yusnida, 2024).

Cross-country studies highlight that the direction of causality is often influenced by moderating factors. Ngubane et al. (2023) in South Africa found that long-term economic growth can reduce poverty, whereas unemployment increases poverty in the long run. Shaikh & Majeed (2020) in South Asia demonstrated that income inequality amplifies the effect of unemployment on poverty. Education repeatedly emerges as a critical variable: Firdauzi & Dewi (2022) in East Java found a bidirectional relationship between education and unemployment, while poverty is more often influenced by these variables rather than influencing them in return.

Additionally, some studies emphasize that inflation and other macroeconomic factors also affect this dynamic. An ARDL study in Nigeria found that inflation and unemployment jointly drive poverty in the long term (Egunjobi, 2021). Meanwhile, research in Indonesia showed that inflation acts as a moderator, strengthening the impact of unemployment on poverty (Putra & Riyanto, 2025). The following table summarizes the 20 articles analyzed in this study:

Table 2. Summary of Reviewed Articles

No	Author(s) & Year	Location	Method	Main Causality Findings
1	Haseeb et al. (2019)	Pakistan	ARDL, Granger	Bidirectional causality between unemployment and poverty with economic growth as a mediating variable.
2	Ngubane et al. (2023)	South Africa	ARDL, NARDL	Unemployment significantly affects long-term poverty, while economic growth reduces poverty.
3	Bolarinwa & Simatele (2022)	Sub-Saharan Africa	Panel data	Some countries show bidirectional relationship between unemployment and poverty, influenced by informal sector and job quality.
4	Adelowokan et al. (2019)	Nigeria	VAR, Granger	Unemployment significantly affects poverty; the reverse effect is weak.
5	Omoyele et al. (2022)	Nigeria	Granger causality	Bidirectional relationship between youth unemployment and poverty.
6	Egunjobi (2021)	Nigeria	VECM, Granger	Inflation and unemployment affect long-term poverty.
7	Abada (2022)	Nigeria	Co-integration, Granger	Unemployment–poverty relationship varies; some periods show bidirectional causality.

8	Faisal & Ichsan (2021)	Indonesia (national)	VECM	Unemployment significantly affects poverty; economic growth is not significant in the long term.
9	Karo Karo & Yusnida (2024)	Indonesia (Sumbagsel)	Granger, time series	Relationship patterns vary across provinces; some bidirectional, some unidirectional.
10	Firdauzi & Dewi (2022)	Indonesia (East Java)	Panel cointegration, Granger	Education has bidirectional relationship with unemployment; poverty is more influenced by other variables.
11	Akhmad Marsuni (2021)	Indonesia (South Sulawesi)	VAR panel	Changes in unemployment levels impact poverty in both short and long term.
12	Putra Riyanto (2025)	Indonesia (Java)	Panel data, moderation	Inflation strengthens the impact of unemployment on poverty.
13	Batari & Fatimah (2023)	Indonesia (NTB)	Panel regression	Education significantly reduces poverty; unemployment is not significant partially.
14	Mustika et al. (2022)	Indonesia	Granger causality	Income inequality is associated with poverty; unemployment not directly tested.
15	Dahliah (2023)	Indonesia (South Sulawesi)	SEM/PLS	Unemployment affects poverty, with investment moderating the relationship.
16	Naz (2023)	129 countries	Panel data	Globalization and macroeconomic factors influence variation in the unemployment–poverty relationship.
17	Syafti (2021)	Latin America	Panel PVAR	Bidirectional relationship exists between unemployment, poverty, and economic growth.
18	Carolina (2023)	Indonesia (national)	Granger, time series	Unidirectional relationship from unemployment to poverty.
19	Nessa & Imai (2023)	Developing countries	Panel data	Working poverty is more influenced by job quality and international trade than by unemployment rate alone.
20	Ariski et al. (2021)	Indonesia	Panel regression	Job termination and unemployment increase poverty levels.

Based on the analysis of the 20 reviewed articles, the patterns of causal relationships between unemployment and poverty exhibit considerable variation. Nine studies confirmed a unidirectional relationship, where increases in unemployment consistently lead to higher poverty levels. Six other studies identified a bidirectional relationship, indicating that unemployment not only drives poverty but that poverty also increases the risk of unemployment, thereby creating a mutually reinforcing causal loop. Meanwhile, five studies reported inconsistent results, where the impact of unemployment on poverty was not always significant and was often moderated by other factors such as education level, income inequality, and job quality. These findings suggest that the dynamics of the unemployment–poverty relationship are highly context-dependent, shaped by structural and socio-economic conditions, and therefore, policy strategies cannot be universally applied.

Discussion

The findings of this review indicate that the causal relationship between unemployment and poverty is not universal but highly contextual. Patterns observed in one region do not necessarily apply elsewhere, as they are influenced by structural, institutional, and policy contexts. Economic structure plays a key role; in countries dominated by the informal sector, the unemployment–poverty link often weakens because a significant portion of the poor remain employed in low-productivity jobs. As a result, they are not classified as openly unemployed, yet remain in poverty (Bolarinwa & Simatele, 2022). Fields (2019) further emphasizes that working poverty is widespread in developing countries, where available jobs are insufficient to lift households out of poverty. Labor market quality also strengthens or weakens this relationship: when the market provides decent work, the risk of poverty due to unemployment can be mitigated; conversely, informal and low-wage jobs do not automatically prevent poverty (Nessa & Imai, 2023). Hence, poverty is determined not only by employment status but also by the quality of work obtained.

Social policies and social protection systems are also critical variables. Dugarova (2020) demonstrates that countries with strong social protection systems can better break the direct link between unemployment and poverty, as cash transfers, subsidies, or social insurance help households withstand income shocks caused by job loss. In other words, adequate safety nets can prevent rapid transitions from unemployment to extreme poverty. Cross-country studies also highlight the role of income inequality in shaping the relationship. Shaikh and Majeed (2020) found that in South Asia, while unemployment impacts poverty, high income inequality amplifies this effect, making poverty more persistent. Similarly, Ngubane et al. (2023) in South Africa note that inclusive long-term economic growth can reduce the influence of unemployment on poverty, whereas exclusive growth leaves the effect significant. Collectively, these findings indicate that the unemployment–poverty relationship cannot be understood as a single universal pattern. Factors such as economic structure, labor market quality, social protection, inequality, and growth inclusivity are key determinants. Therefore, unemployment and poverty alleviation strategies must be context-specific, aligned with each country's socio-economic and institutional characteristics.

Some regions exhibit a bidirectional causality between unemployment and poverty (Haseeb et al., 2019; Karo Karo & Yusnida, 2024), reinforcing the concept of a vicious circle in economic development. In such contexts, unemployment raises poverty levels, while poverty increases vulnerability to unemployment due to limited capital, education, and skills. This concept is not new; development theory has long recognized that poor populations face a trap that is difficult to break without structural interventions (Todaro & Smith, 2020).

Bidirectional relationships are particularly evident in developing countries with fragile economic structures. In Pakistan, Haseeb et al. (2019) found that unemployment drives poverty, and vice versa, primarily due to low human capital and restricted access to formal employment opportunities. Research in South Sumatra, Indonesia, also reveals provincial variations, with most provinces showing bidirectional patterns, indicating that local structural conditions influence the strength of this vicious circle (Karo Karo & Yusnida, 2024).

These findings underscore the importance of comprehensive development policies. Job creation alone is insufficient; broad access to education and skills training is necessary for the workforce to meet modern labor market demands. Firdauzi and Dewi (2022) in East Java support this argument, showing that education has a bidirectional relationship with unemployment: low education levels increase unemployment, while long-term unemployment diminishes incentives and opportunities to pursue further education or training. Social protection also acts as a shock absorber, breaking the unemployment–poverty chain. According to Dugarova (2020), robust safety nets, such as cash transfers, educational subsidies, or unemployment insurance, can prevent poor households from falling into extreme poverty when jobs are lost. This aligns with Todaro and Smith's (2020) assertion that decent work is essential for developing countries to escape the poverty trap. Without

adequate job quality, households remain in poverty despite employment, making labor policies focused on productivity, job security, and fair wages imperative.

In conclusion, the reviewed studies suggest that poverty and unemployment alleviation strategies must be holistic, integrating quality job creation, expanded access to education and skills training, and strengthened social protection. Such an approach addresses unemployment as a cause of poverty while simultaneously mitigating poverty as a structural factor that increases unemployment risk, thereby breaking the vicious circle from both ends.

The role of moderating factors has proven crucial in explaining the variation in the relationship between unemployment and poverty across different contexts. The literature indicates that education, income inequality, inflation, and economic growth are key variables that can either strengthen or weaken the linkage between these two issues. For instance, inclusive economic growth can mitigate the impact of unemployment on poverty by expanding employment opportunities for poor and vulnerable groups. Ngubane et al. (2023) found in South Africa that while unemployment continues to increase poverty in the long term, inclusive growth plays a significant role in alleviating this burden. Conversely, income inequality can exacerbate the effect of unemployment on poverty. Shaikh and Majeed (2020) in South Asia demonstrated that unemployment has a greater impact on poverty in countries with high inequality, as the benefits of economic growth are unevenly distributed.

Education is also an important moderating factor. Firdauzi and Dewi (2022) found a bidirectional relationship between education and unemployment in East Java: low education levels increase unemployment, while long-term unemployment reduces household capacity to invest in education. As a result, poverty becomes more entrenched, as poor families lose opportunities to improve human capital quality. This aligns with Todaro and Smith (2020), who emphasize that human development, particularly through education and skills enhancement, is key to reducing structural poverty.

Other macroeconomic factors, such as inflation, further contribute to this dynamic. Egunjobi (2021) in Nigeria showed that inflation, together with unemployment, increases poverty in the long run. Inflation erodes the purchasing power of the poor, meaning that even those who are employed may still experience low living standards. This illustrates how unemployment and inflation can mutually reinforce each other, creating heightened economic vulnerability.

From a policy perspective, these findings carry significant strategic implications. If research in a particular region indicates a dominant one-way causality from unemployment to poverty, then the most effective policies are those that expand job creation through labor-intensive investments, provide vocational training programs, and support job seekers to enter the labor market. However, when evidence indicates a bidirectional relationship—where unemployment increases poverty and poverty, in turn, heightens vulnerability to unemployment—policies must be more comprehensive. In such cases, efforts should not only focus on job creation but also strengthen social protection systems to mitigate the effects of poverty, for example through educational subsidies, social insurance, conditional cash transfers, and improved access to healthcare. As Dugarova (2020) emphasizes, social protection can function as a mechanism to break the unemployment–poverty cycle by reducing the negative effects of job loss on household welfare.

Therefore, economic development strategies must consider the specific context of a country or region. There is no one-size-fits-all policy model, as effectiveness is highly determined by the prevailing moderating variables. Countries with high inequality should prioritize redistributive policies and social protection, whereas countries with high unemployment but inclusive growth can focus more on providing quality employment opportunities.

5. CONCLUSION

This literature review demonstrates that the causal relationship between unemployment and poverty is complex and highly contextual, and therefore cannot be generalized universally. Among the twenty articles analyzed, the majority found that unemployment significantly contributes to increasing poverty. Some studies revealed a bidirectional relationship, reflecting the “vicious circle” concept, where unemployment and poverty reinforce each other. The variation in the direction of this relationship is influenced by differences in economic structure, labor market quality, and social policies across countries or regions.

The findings also indicate that moderating factors play a crucial role in determining the strength of the unemployment–poverty linkage. Education, income inequality, inflation, and economic growth significantly influence the intensity of this relationship. Inclusive economic growth, when supported by strong social protection systems, can mitigate the impact of unemployment on poverty. Conversely, regions with high inequality and a predominance of informal sectors tend to show a stronger linkage between unemployment and poverty.

The policy implications arising from this review emphasize the need for context-specific and comprehensive strategies. When the dominant causality is from unemployment to poverty, the most effective interventions are the creation of quality employment opportunities, provision of vocational training, and support for job seekers to access the labor market. However, when evidence indicates a bidirectional relationship, policies must be more comprehensive, integrating active labor market programs with expanded social protection to break the vicious circle from both ends. Overall, this review underscores that understanding the direction of causality and the role of moderating factors is essential for formulating effective development policies aimed at reducing unemployment and alleviating poverty simultaneously.

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