

Mediating Economic Growth toward Inclusive Development: State Institutional Capacity and the Developmental Role of BPJS Ketenagakerjaan in Indonesia

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Article Info	ABSTRACT
Keywords: state capacity; social protection; labour welfare; inclusive development; BPJS Ketenagakerjaan	This article examines BPJS Ketenagakerjaan as a manifestation of state institutional capacity in mediating the transformation of economic growth into inclusive development in Indonesia. Challenging growth centred development assumptions, the study argues that labour welfare outcomes depend on institutional mediation rather than macroeconomic expansion alone. Using a qualitative institutional and public policy analysis based on statutory documents, official reports, labour market data, and peer reviewed literature, the study identifies three key mechanisms. First, BPJS Ketenagakerjaan strengthens social fiscal and administrative capacity through expanding coverage and long term fund accumulation. Second, it institutionalises collective risk pooling that stabilises labour incomes amid market volatility. Third, its long horizon funds exhibit potential to function as public patient capital for development financing, conditional on governance quality. The findings reposition employment based social security as an active developmental institution rather than a residual welfare instrument. The study contributes to development economics and public administration by extending social investment and state capacity debates to developing economies with high labour informality.

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INTRODUCTION

For several decades, mainstream development economics has treated economic growth as the principal conduit through which societal welfare is expected to improve. This perspective is rooted in the assumption that market mechanisms will autonomously diffuse the benefits of growth through employment creation, income expansion, and increased consumption. Within the neoclassical tradition, distributive outcomes are largely conceptualised as endogenous processes that unfold independently of state institutional arrangements. As a result, economic growth is frequently assumed to constitute a sufficient condition for welfare enhancement, while institutions are positioned as secondary and largely facilitative. Over the past two decades, however, a substantial body of theoretical and empirical scholarship has increasingly challenged this assumption, demonstrating that economic growth does not

inherently translate into broad based improvements in social welfare (Rodrik, 2011; Acemoglu & Robinson, 2012).

Advances in institutional economics and public administration have fundamentally reframed this debate by demonstrating that economic growth is not socially neutral. Rather, the distributional consequences of growth are profoundly shaped by the capacity of the state to design, govern, and coordinate economic and social policies. In contexts characterised by weak institutional capacity, improvements in macroeconomic indicators frequently coexist with stagnant labour welfare, persistent income insecurity, and heightened social vulnerability. This condition, often described as growth without development, reflects not episodic policy failure but deep seated structural deficiencies in governance and institutional coordination (North et al., 2009; Fukuyama, 2013).

Recent cross national empirical evidence further strengthens this critique of growth centred development strategies. Comparative analyses by the World Bank (2020) and the International Labour Organization (2021) demonstrate that increases in aggregate output do not automatically reduce labour income vulnerability, particularly in developing economies marked by high levels of informality and limited social protection coverage. These studies show that sustained economic growth often coexists with persistent employment precarity and income insecurity among informal workers. Ravallion (2016) similarly argues that the poverty reducing effects of growth are highly contingent upon the institutional mechanisms through which income gains are distributed. Political economy research further reinforces this perspective by demonstrating that the welfare effects of growth are conditional upon governance quality and the institutional configuration of public policy instruments, especially social protection systems (Khan, 2010; Pritchett et al., 2018).

In response to these limitations, public administration and political development scholarship has increasingly reasserted the centrality of the state in development processes. The state is no longer conceptualised merely as a regulator that corrects market failures, but as an institutional architect with both normative and functional responsibilities to shape development trajectories. State capacity, manifested through bureaucratic competence, public financial governance, and effective cross sector coordination, emerges as a critical determinant of whether economic growth is translated into inclusive and sustainable welfare outcomes (Evans, 1995; Mazzucato, 2018).

Parallel developments in international social policy research have reinforced this perspective through the emergence of the social investment paradigm. This approach reconceptualises social protection not as a residual redistributive mechanism activated after growth has occurred, but as a productive institutional investment that stabilises incomes, enhances labour productivity, and supports long term aggregate demand. Comparative studies show that countries with strong employment based social security systems exhibit greater economic resilience during systemic shocks, including the global financial crisis and the COVID 19 pandemic (Hemerijck, 2017; Garrizmann et al., 2023).

More recently, this literature has expanded to examine the macroeconomic role of social security institutions and pension funds as providers of long term development finance. Research suggests that large scale public funds with extended investment horizons can

function as patient capital, supporting infrastructure development and productive sectors with substantial employment multipliers, provided they are embedded within robust governance and regulatory frameworks (Inderst & Stewart, 2023; OECD, 2024). However, this strand of research remains heavily skewed toward advanced economies, leaving the institutional dynamics of social security funds in developing countries with fragmented labour markets insufficiently theorised and empirically examined.

Indonesia offers a particularly instructive empirical setting for addressing this gap. Despite sustained economic growth, Indonesia continues to face structural challenges in converting macroeconomic performance into broad based labour welfare improvements, largely due to the persistence of labour informality. Within this context, BPJS Ketenagakerjaan occupies a strategically pivotal institutional position. With rapidly expanding managed assets and coverage encompassing tens of millions of workers, BPJS Ketenagakerjaan represents one of the largest public financial institutions in the country. Its long term and relatively stable fund structure provides latent capacity not only to deliver labour protection, but also to contribute to macroeconomic stabilisation, productivity enhancement, and national development financing.

Nevertheless, existing academic studies on BPJS Ketenagakerjaan remain predominantly administrative and legal in orientation, conceptualising the institution as a passive social protection mechanism operating downstream of economic growth. Consequently, BPJS Ketenagakerjaan has yet to be fully integrated into the core analytical frameworks of development economics and public administration that emphasise the active role of state institutions in mediating the distributional effects of growth.

Against this backdrop, this article examines BPJS Ketenagakerjaan as a manifestation of state institutional capacity that actively mediates the transformation of economic growth into inclusive national development within a developing country context. This article makes three interrelated contributions to the international literature. First, it advances a theoretical integration between development economics and public administration by conceptualising social security institutions as developmental actors rather than residual welfare instruments. Second, it provides empirically grounded insights from Indonesia that extend social investment and development finance debates beyond their traditional focus on advanced economies. Third, it offers policy relevant implications by reframing the strengthening of BPJS Ketenagakerjaan not as a narrow technocratic reform, but as a strategic development instrument essential to enhancing labour welfare, improving productivity, and consolidating long term national development foundations.

METHOD

This study adopts a qualitative research approach with an institutional and public policy analysis design to examine the role of BPJS Ketenagakerjaan as a manifestation of state institutional capacity in mediating the transformation of economic growth into inclusive national development. A qualitative approach is appropriate for analysing policy processes, institutional arrangements, and state market relations within complex and context specific development settings. The unit of analysis is BPJS Ketenagakerjaan as Indonesia's national

employment social security institution. The study relies on secondary data sources, including statutory and regulatory documents, official policy guidelines, annual and financial reports published by BPJS Ketenagakerjaan, national labour market statistics, and peer reviewed academic publications in the fields of development economics, public administration, and social policy. The use of secondary data enables a systematic and evidence based assessment of institutional capacity and policy performance in public institutions (Creswell & Poth, 2021; Peters, 2021; Bowen, 2009).

Data collection was conducted through document analysis and a systematic review of relevant academic literature focusing on institutional mandates, governance arrangements, long term fund management, and policy instruments related to labour protection and development financing. Data analysis employed qualitative thematic analysis guided by institutional economics and public administration frameworks to identify mediating mechanisms linking economic growth, social protection, and national development. Analytical validity and reliability were enhanced through data source triangulation across legal documents, institutional reports, and academic literature, as well as the consistent application of established methodological principles to ensure robustness and transparency of the findings (Guest et al., 2012).

RESULTS AND DISCUSSION

BPJS Ketenagakerjaan and State Institutional Capacity

The empirical findings indicate that BPJS Ketenagakerjaan represents a substantive component of Indonesia's state institutional capacity in the governance of labour welfare. Evidence drawn from official institutional reports and national labour statistics demonstrates a sustained increase in managed assets accompanied by a continuous expansion of participant coverage. This trajectory reflects the consolidation of an institutionalised system of social risk management embedded within the broader architecture of state governance. In comparative development literature, the expansion and institutionalisation of social protection systems are widely regarded as key indicators of strengthened state capacity in middle income economies (World Bank, 2022).

Beyond scale expansion, the results show that BPJS Ketenagakerjaan operationalises multiple dimensions of institutional capacity simultaneously. The accumulation of long term funds indicates enhanced social fiscal capacity, while the widening of coverage across diverse employment categories signals strengthened administrative reach. Moreover, relatively stable participation and contribution compliance suggest a degree of institutional credibility and public trust. Taken together, these dimensions point to a structural shift from fragmented and residual welfare provision toward a more coherent and durable institutional framework for labour protection. This finding is consistent with institutional theory emphasising that effective state capacity depends on the credibility, stability, and embeddedness of public institutions rather than on policy design alone (North, 1990).

Table 1. Dimensions of Institutional Capacity in BPJS Ketenagakerjaan

Dimension	Empirical Indicator	Institutional Implication
Social fiscal capacity	Growth of managed assets	Financial sustainability of labour protection
Administrative capacity	Expansion of participant coverage	Reduced exclusion in labour markets
Institutional credibility	Stable compliance patterns	Strengthened public trust

Source: Authors' synthesis based on BPJS Ketenagakerjaan reports and institutional theory.

Institutional Mediation between Economic Growth and Labour Welfare

The results further demonstrate that economic growth does not automatically translate into improved labour welfare outcomes. In Indonesia, persistent labour informality and market segmentation constrain the distributive effects of macroeconomic expansion. The findings indicate that welfare outcomes are mediated by institutional arrangements rather than determined solely by aggregate growth performance. This observation aligns with political economy perspectives that conceptualise development as a function of institutional mediation rather than market driven diffusion (Evans, 1995; World Bank, 2017).

BPJS Ketenagakerjaan performs a mediating role by embedding collective risk pooling mechanisms within the growth process. Through employment based social insurance, the institution reduces workers' exposure to income volatility and employment shocks. As a result, labour welfare outcomes become less contingent on cyclical growth dynamics and more closely anchored in institutionalised income protection. International labour research similarly shows that limited social protection coverage amplifies vulnerability among workers, particularly in economies characterised by high levels of informality (ILO, 2021).

Table 2. Institutional Mediation between Growth and Labour Welfare

Economic Process	Labour Market Risk	Institutional Mechanism	Welfare Outcome
Output expansion	Income volatility	Employment based insurance	Income stabilisation
Structural change	Labour informality	Coverage extension	Social inclusion

Source: Authors' analysis informed by labour market and social protection literature.

Social Protection as Social Investment

The findings support a social investment perspective that conceptualises social protection as a productive institutional mechanism rather than a residual redistributive policy. The income stabilisation provided by BPJS Ketenagakerjaan contributes to preserving labour market participation and productive capacity by mitigating the long term effects of economic shocks. In developing economy contexts marked by structural vulnerability, such stabilising functions constitute a foundational component of inclusive development rather than a secondary policy effect. This interpretation is consistent with social policy literature emphasising the role of social protection in sustaining economic resilience and labour market continuity (Barr, 2012; UNDP, 2018).

Unlike conventional welfare arrangements that prioritise short term risk compensation, BPJS Ketenagakerjaan operates with an extended temporal horizon. This long term orientation supports aggregate demand stability and reduces the erosion of human capital during periods of economic downturn. The findings thus nuance dominant social investment debates by highlighting stabilisation rather than activation as the primary developmental function of social protection in emerging economies.

Table 3. Social Protection Orientation

Dimension	Conventional Welfare	Social Investment Approach
Policy logic	Risk compensation	Capacity preservation
Temporal focus	Short term	Long term
Developmental role	Peripheral	Central to resilience

Source: Adapted from Barr (2012) and UNDP (2018).

Long Term Funds and Development Financing

The analysis also highlights the potential role of BPJS Ketenagakerjaan’s long horizon funds as a source of public patient capital for development financing. Stable contribution inflows combined with extended investment horizons create favourable conditions for financing infrastructure and productive sector investment with long term multiplier effects. International policy research recognises that well governed social security funds can complement national development strategies when aligned with clear public mandates and regulatory frameworks (OECD, 2019).

At the same time, the findings underscore that this developmental potential is conditional on institutional quality. Transparent governance arrangements, regulatory coherence, and effective oversight mechanisms are essential to ensuring that long term social funds contribute to sustainable development outcomes. Comparative evidence shows that weak governance can undermine both financial performance and developmental impact of social protection institutions, particularly in developing country contexts (World Bank, 2020).

Table 4. BPJS Ketenagakerjaan as Public Patient Capital

Fund Characteristic	Development Potential	Institutional Condition
Long investment horizon	Infrastructure development	Transparent governance
Stable inflows	High multiplier investment	Regulatory clarity
Public mandate	Inclusive growth	Policy coordination

Source: Authors’ synthesis based on BPJS disclosures and OECD analyses.

Discussion and Contribution to the Literature

This study provides strong empirical support for the argument that BPJS Ketenagakerjaan functions as an institutional mediator linking economic growth, labour welfare, and inclusive development. The Indonesian case reinforces a growing consensus in development economics that aggregate economic expansion does not automatically translate into reduced labour insecurity or improved welfare outcomes. Instead, the distributional consequences of growth are fundamentally conditioned by the capacity of the state to institutionalise collective risk sharing and income protection mechanisms. In labour markets characterised by high informality and employment volatility, the absence of such institutions allows growth to coexist with persistent vulnerability and inequality.

By demonstrating the role of BPJS Ketenagakerjaan in stabilising incomes and mitigating labour market risks, this study aligns with recent scholarship emphasising that social protection systems constitute core components of state capacity rather than auxiliary policy instruments. Comparative research shows that countries with stronger employment based social protection frameworks are better able to buffer workers against economic shocks and sustain social cohesion during periods of structural change (ILO, 2023; World Bank, 2023). The Indonesian experience thus confirms that labour welfare outcomes depend less on the rate of growth itself than on the institutional channels through which growth is mediated.

From a theoretical perspective, this study contributes to the integration of development economics and public administration by repositioning social security institutions as active developmental actors. Classical welfare state theory conceptualised social protection primarily as a redistributive response to market failure (Esping Andersen, 1990). More recent institutional and political economy approaches, however, highlight the productive and stabilising functions of social policy in shaping long term development trajectories. The findings presented here reinforce this shift by showing that BPJS Ketenagakerjaan contributes not only to post hoc redistribution, but also to the ex ante stabilisation of labour incomes and productive capacity, a function increasingly recognised as central to inclusive development strategies (Hemerijck, 2023).

This study also extends the social investment literature beyond its traditional empirical focus on advanced economies. While social investment frameworks have predominantly emphasised activation, skills formation, and human capital development in OECD countries, the Indonesian case demonstrates that income stabilisation and risk pooling remain foundational investment functions in emerging economies with fragmented labour markets. In such contexts, preserving workers' income security during economic shocks constitutes a prerequisite for productivity enhancement and sustained participation in growth processes, rather than a secondary welfare outcome (Barr, 2012; OECD, 2023).

Moreover, the analysis contributes to ongoing debates on the macroeconomic role of public social funds. The findings suggest that the long horizon and relatively stable contribution base of BPJS Ketenagakerjaan provide latent capacity for development financing through patient capital, echoing recent international research on the developmental potential of well governed public financial institutions (Inderst & Stewart, 2023; OECD, 2024). However, this potential is explicitly shown to be conditional on governance quality, regulatory clarity, and institutional accountability. This reinforces institutional theory arguments that state capacity is not merely a function of scale or resources, but of credible rules, oversight mechanisms, and policy coordination (North et al., 2009; Fukuyama, 2022).

Taken together, the findings contribute empirically and conceptually to the literature by demonstrating that social security institutions in developing countries can play a dual role as instruments of labour protection and as stabilising pillars of national development. By situating BPJS Ketenagakerjaan within broader debates on state capacity, social investment, and inclusive growth, this study helps bridge a persistent gap between development economics and public administration scholarship. It also challenges growth centred policy

paradigms by reaffirming that inclusive development is fundamentally an institutional achievement rather than an automatic by product of market expansion.

CONCLUSION

This study finds that economic growth alone is insufficient to achieve inclusive development without effective institutional mediation. The analysis demonstrates that BPJS Ketenagakerjaan plays a strategic role in Indonesia's state institutional capacity by extending employment based social protection, stabilising labour welfare, and mobilising long term social funds that support national development. Its contribution confirms that social security institutions can function as active developmental mechanisms rather than residual welfare instruments. The findings underscore the importance of strengthening governance, regulatory coherence, and administrative capacity to expand effective coverage, particularly among informal and non standard workers, while safeguarding the sustainability and accountability of long term fund management. Policy efforts should therefore integrate employment based social security more explicitly into national development planning. Strengthening BPJS Ketenagakerjaan is not only a social policy priority, but a central strategy for transforming economic growth into resilient and inclusive development outcomes.

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