Impact of Employment on Economic Growth and Development

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Abstract: Employment is contract in which one person, the employee, agrees to perform work for another, the employer. The work is designed to accomplish the employer's goals and mission and in exchange for work performed, the employee receives compensation. While on the other hand Economic development usually refers to the adoption of new technologies, transition from agriculture-based to industry-based economy, and general improvement in living standards. Economic development is usually the focus of federal, state, and local governments to improve our standard of living through the creation of jobs, the support of innovation and new ideas, the creation of higher wealth, and the creation of an overall better quality of life. In fact, Economic growth is a fundamental requirement for the development of a country. Employment contributes to economic growth and development: Workers produce valuable goods and services, and in turn receive a wage, which they can spend on buying the goods produced. When employment is at full the economy is at “maximum”, meaning the economy is 100% efficient. In addition, Employment is important for economic development because it improves the quality of living standard of an employed person and this help to improve the business of his/her employer or improve the productivity of any company resulting in overall increase in economic growth and development of the country as a whole.

Keywords: Economic Development, Economic Growth, Employee, Employer, Employment.

1. Theoretical Framework
In recent times, the significance of employment has rightly been reflected more closely in the focus of economic development. Creating jobs (employment) and incomes is crucial for development. Empirical studies highlight that economic growth tends to be positively associated with job creation. A literature review by Basnett and Sen (2013) identifies an extensive body of evidence, which suggest that growth in manufacturing, and services have particularly positive impact on employment.

It will be good to note that approaching total employment means maximum productivity of human resource in an economy and this means maximum possible wealth creation. Due to chronic high
unemployment in most countries, it has become an important and imminent question in Economics how employment growth is affected by economic growth. Okun's law investigates the statistical relationship between a country's unemployment rate and the growth rate of its economy. The economics research arm of the Federal Reserve Bank of St. Louis explains that Okun's law "is intended to tell us how much of a country's gross domestic product (GDP) may be lost when the unemployment rate is above its natural rate.

At the global level, Kapsos (2005) finds that for every 1-percentage point of additional GDP growth, total employment has grown between 0.3 and 0.38 percentage points during the three periods between 1991 and 2003. Therefore, employment gives the purchasing power that eventually drives the demand for various goods and services and this makes logical sense as to why addressing unemployment and economic inequality are vital to wade through deflationary times. According to a 2004 study published in the South-western Economic Review, William Seyfried of Winthrop University examined findings seem to support the hypothesis that economic growth provides an impetus to employment, but employment may take on a momentum of its own, either positive or negative. In other words, weak employment generates weak employment, and vice versa. In his review, he indicated that economic growth has a definite impact on employment, but that it can take time for the impact to be felt.

Employment contributes to economic growth and high employment means a greater number of goods can be produced which will as well mean increase in output, which can result to economic growth and development. In addition, increased employee earnings leads to a higher rate of consumer spending, which benefits other businesses who depend on consumer sales to stay open and pay vendors. Hiring additional employees for your small business can achieve these effects on a small scale and increase the money circulating in the marketplace.

Overall, this is to say that an increased level of employment growth involves both a high economic performance, expressed mainly by the high level of work performance and especially the development and diversification of the services sector. Thus, the world needs to focus primarily on job creation because jobs are necessary to drive shared and sustainable economic development.

2. Literature Review
2.1 What Is Employment?

The Labour Force Survey (LFS) defines an employed person as anyone aged 16, or over, who has completed at least one hour of work in the period being measured, or are temporarily away from his or her job, such as being on holiday.

In a nutshell, employment is contract in which one person, the employee, agrees to perform work for another, the employer. Employment is a relationship between two parties, usually based on a contract where work is paid for, where one party, which may be a corporation, for profit, not-for-profit organization, co-operative or other entity is the employer and the other is the employee. (Wikipedia).

Therefore, employment is an agreement between an employer and an employee that the employee will do certain services of the job and the employer will pay the employee certain compensation.

However, the LFS uses four categories of employment in the UK, which are:

a. Employees
b. The self-employed
c. Unpaid family workers
d. Participants in government-funded training schemes

There are several types of employment, each one defined in terms of cause and severity.

a. Full-time and part-time employees: a full-time employee is, for a calendar month, an employee employed on average at least 30 - 40 hours of service per week, or 130 hours of service per month. They are also entitled to public holiday pay if the holiday falls on a day they would usually work. Full-time employees may be entitled to annual, personal, sick, and carer’s leave; bereavement or compassionate leave; parental leave; and long service leave. On the other hand, part-time employees usually work less than 30 hours per week and generally have regular hours.

They receive the same wages and conditions as full-time employees on a proportionate or pro-rata basis, according to the hours they work. However, the Fair Labour Standards Act (FLSA)
has no definition for part-time or full-time employment, and employers may determine their own definitions.

b. Casual employees: Casual employees are entitled to a higher pay rate than equivalent full-time or part-time employees. This is called a ‘casual loading’ and is paid because they do not get benefits such as sick or annual leave etc. It is good to note that casual employees are engaged on an irregular basis according to business demands and have no expectation of on-going work; no obligation to accept offers of work; a loading paid on top of their hourly rate of pay; no sick or annual leave pay; and no obligation to provide notice of ending their employment, unless this is a requirement of an award, employment contract or registered agreement. However, in some circumstances, casual employees may be eligible for long service leave and parental leave after being employed for 12 months.

c. Apprentices and trainees: An apprentice or trainee is a person contracted to an employer under a training contract for a nominal period. Apprentices and trainees may be suitable for your business. They are working towards a nationally recognised qualification and must be formally registered, usually through a contract between a registered training provider, the employee and you.

d. Fixed term and contract employees: A fixed-term contract is a contractual relationship between an employee and an employer that lasts for a specified period. You can employ someone on a fixed term or contract basis for an agreed length of time or to perform a specific task. For example, fixed term employees can work full or part-time and are entitled to the same leave entitlements as permanent staff but on a pro-rata basis, depending on the length of employment. Fixed Term Contracts are given by employers on the basis that the contract will terminate at a future date when a specific ‘term’ expires – e.g. the completion of a particular project or task, the occurrence or non-occurrence of a specific event (covering for an employee who is on sick or maternity leave, for example).

e. Commission and piece rate employees: Some employees can be paid piece rates or commission payments. Employees paid piece rates and commission payments are paid by results instead of getting an hourly or weekly pay rate. This means the amount the employee earns each week will vary depending on how much work they do.

2.2 What is Economic Growth and Development?

What is the difference between Economic Growth and Development? We will start by defining Economic growth and development. Having economic growth without economic development is possible.

Economic growth in an economy is demonstrated by an outward shift in its Production Possibility Curve (PPC). Another way to define growth is the increase in a country’s total output or Gross Domestic Product (GDP). It is the increase in a country’s production.

A country’s economic development is usually indicated by an increase in citizens’ quality of life. ‘Quality of life’ is often measured using the Human Development Index, which is an economic model that considers intrinsic personal factors not considered in economic growth, such as literacy rates, life expectancy and poverty rates.

We all fund economic development in one way or the other by purchasing something at the store and pay local or state sales tax. The school fees you pay, the necklace you buy, or the real estate taxes you may pay, all usually have a percentage of the sales going towards economic growth and development projects or initiatives.

2.2 Difference between Economic Growth and Economic Development

Economic Development is a broader concept than the Economic Growth. Economic Development refers to the increase of the Real National Income of the economic and socio-economic structure of any country over a long period. Economic Growth can be measured through an increase in the GDP, per capita income, etc.

Economic growth is the increase in goods and Services produced by an economy or nation, considered for a specific period. The rise in the country’s output of goods and services is steady and
constant and may be caused by an improvement in the quality of education, improvements in technology or in any way if there is a value addition in goods and services, which is produced by every sector of the economy.

It can be measured as a percentage increase in real gross domestic product. Where a gross domestic product (GDP) is adjusted by inflation. GDP is the market value of final goods and services, which is produced in an economy or nation.

Economic Development is the process focusing on both qualitative and quantitative growth of the economy. It measures all the aspects, which include people in a country, become wealthier, healthier, better educated, and have greater access to good quality housing. Economic Development can create more opportunities in the sectors of education, healthcare, employment and the conservation of the environment. It indicates an increase in the per capita income of every citizen.

In simple term, Economic Growth is simply an increase in a country’s output and on the other hand, Economic Development is an improvement in factors such as health, education, literacy rates, and a decline in poverty levels.

2.3 Concept of Economic Growth and Economic Development

<table>
<thead>
<tr>
<th>S/NO</th>
<th>Economic Development</th>
<th>Economic Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Economic development is much brother than Economic growth. (Economic development = Economic growth + Standard of living.)</td>
<td>Economic growth is a narrower concept than Economic development.</td>
</tr>
<tr>
<td>2.</td>
<td>Economic development is considered as a multidimensional phenomenon because it focuses on the income and standard of living of the people.</td>
<td>Economic development is considered as single multidimensional in nature as it focuses only on the income of the people.</td>
</tr>
<tr>
<td>4.</td>
<td>Both Qualitative and Quantitative terms: Human Development index (HDI), Gender related index, Human poverty index, infant mortality, Literacy rate etc.</td>
<td>Quantitative terms: Increase in real Gross Domestic Product (GDP)</td>
</tr>
<tr>
<td>5.</td>
<td>Economic development is related to Underdeveloped and Developing countries of the world.</td>
<td>Economic growth is related to Developed countries of the world.</td>
</tr>
<tr>
<td>6.</td>
<td>Qualitative and Quantitative impact of the economy: Improvement in life expectancy rate, Infant, Literacy rate, Poverty rate and mortality rate.</td>
<td>Brings a Quantitative impact on the economy: Increase in indicators like Per capita income and GDP etc.</td>
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<tr>
<td>7.</td>
<td>It is a continuous process.</td>
<td>It is in a certain period.</td>
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Thus, Economic Growth is a subset of Economic development, which means Economic Development is a bigger concept than Economic growth. In addition, Economic Development uses various indicators to measure the progress in an economy as a whole while Economic growth uses only specific indicators like the gross domestic product, individual income, etc. for the calculation.

2.4 Objectives of Economic Development

- Michael Todaro specified three objectives of development:
  a. Life sustaining goods and services: To increase the availability and widen the distribution of basic life-sustaining goods such as food, shelter, health and protection.
  b. Higher incomes: To raise levels of living, including, in addition to higher incomes, the provision of more jobs, better education, and greater attention to cultural and human values, all
of which will serve not only to enhance material well-being but also to generate greater individual and national self-esteem

- Freedom to make economic and social choices: To expand the range of economic and social choices available to individuals and nations by freeing them from servitude and dependence not only in relation to other people and nation-states but also to the forces of ignorance and human misery.

- Amartya Sen pursues the idea that development provides an opportunity to people to free themselves from deep suffering caused by
  - Early mortality
  - Persecution
  - Starvation / malnutrition
  - Illiteracy

For many, economic development should be about increasing political freedom, cultural and social freedom and not just about raising incomes.

- Finally, in this present modern contemporary times the following are the economic objectives of economic development:
  - To Reduce Poverty.
  - To Increase the Per Capita Income.
  - Development of Agricultural Sector.
  - Development of Industrial Sector.
  - To Reduce Unemployment.
  - To Enhance the Productivity Level.
  - To Correct the Balance of Payment.

Creating jobs—and making sure they are the right jobs—will be how we lift millions of people out of poverty and into the middle class, how we empower billions of women and young people, and how we develop a strong, secure, and robust 21st century global economy.

2.5 Employment and Economic Growth and Development

Although deficit reduction receives a lot of attention, job growth is more important. Thus, an economic recovery cannot happen unless companies begin hiring new employees for skilled jobs and careers. In addition, Economists suggest an unemployment rate of 3% is close to full employment; therefore lower unemployment will reduce government borrowing and help economic growth. If the unemployed gain work, they will increase spending, and this will cause a positive multiplier effect, which helps to increase economic growth.

When it comes to studying the economy, growth and Employment are two primary factors economists consider. There is a clear relationship between the two and many economists have framed the discussion by trying to study the relationship between economic growth and employment. Economist Arthur Okun first started tackling the discussion in the 1960s and his research on the subject has since become known as Okun's law.

Yale professor and economist, Arthur Okun, was born in November 1928 and died in March 1980 at the age of 51. He first published his findings on the subject in the early 1960s, which have since come to be known as his "law." Okun's law is, in essence, a rule of thumb to explain and analyse the relationship between Employment and growth. It is most important to note that Okun's law is a statistical relationship that relies on a regression of unemployment and economic growth. As such, running the regression can result in differing coefficients that are used to solve for the change in unemployment, based on how the economy grew. It all depends on the periods used and inputs, which are historical GDP and employment data. Below is an example of an Okun's law regression:
The law has indeed evolved over time to fit the current economic climate and employment trends. One version of Okun's law has stated very simply that when unemployment falls by 1%, GNP rises by 3%. Another version of Okun's law focuses on a relationship between unemployment and GDP, whereby a percentage increase in unemployment causes a 2% fall in GDP.

In fact, Economic growth and development is a fundamental requirement for the development of a country. Increased employee earnings leads to a higher rate of consumer spending, which benefits other businesses who depend on consumer sales to stay open and pay vendors. Hiring additional employees for your small business can achieve these effects on a small scale and increase the money circulating in the marketplace resulting to sustained growth which stimulates jobs and contributes to lower unemployment rates which is in turn helps to reduce income inequality.

Combination of employment growth and productivity growth results to an inevitable Economic growth and development. It is also good to note that due to chronic high unemployment in most countries, it has become as important and imminent question in Economics, how Employment growth is affected by Economic growth. Therefore, economists suggest that lower unemployment normally reduce government borrowing and helps in economic growth. In addition if the unemployed gain work, they will increase spending, and this will cause a positive multiplier effect, which help to increase economic growth and development.

Employment causes sustained growth and sustained growth stimulates jobs and contributes to lower unemployment rates which in turn reduces income inequality. Many researchers have opined that the in order for a country to achieve sustainable growth and development the world needs to focus first and foremost on job creation (Employment) because jobs are necessary to drive shared and sustainable economic growth and development.

President Barack Obama of United States of America made an opening statement during his news conference on Wednesday, November 14, 2012, in the East Room of the White House in Washington. He said, “Our top priority has to be jobs and growth. We have got to build on the progress that we have made because this nation succeeds when we have got a growing, thriving middle class.” His choice to rhetorically place jobs before growth should not be overlooked. The world needs to focus first and foremost on job creation because jobs are necessary to drive shared and sustainable economic growth.

Creating just jobs—the sort that come with good pay, good benefits, and good working conditions, including the right to freedom of association and collective bargaining—is the key to growing the global middle class and creating the aggregate demand that we need to power the world economy. Without good pay, workers cannot become powerful consumers. In addition, without the
rights they deserve, workers lack the economic stability they need before making big investments in themselves, their children, and their societies.

William Baumol, author of “Macroeconomics,” explains that the employment rate and economic growth are linked. This is because employment contributes to economic growth: Workers produce valuable goods and services, and in turn receive a wage, which they can spend on buying the goods produced. High employment means a greater number of goods can be produced as well which means increase in output and productivity and inversely leading to economic growth and development.

The U.S. government and Federal Reserve manage the employment rate by observing economic indicators, adjusting the interest rate and monitoring GDP all in a bid to achieve economic growth and development.

Finally, jobs are not only a driver of economic growth—they are also the vehicle through which economic growth is broadly shared to raise living standards worldwide. In committing to a domestic job creation agenda, the president must sign on to pushing an international one as well.

3. Research Methodology

Several methods are available for use in collecting data in a research work. Some of these methods are so linked that a full study or research cannot be carried out using only one method. There must then be a blending of with available facts.

This research work is specifically designed to study Economic Growth, Development and Employment. The research design is meant to guide the researcher in the use of the best method of collecting data in the course of the study. The research design used in this study is the simple method and approach. The researcher is only interested in knowing Economic Growth, Development and Employment with secondary sources of data collection, the researcher obtained data from textbooks and previous write-ups on the study, as well as journals and on the internet.

4. Conclusion

Due to chronic high unemployment in most countries, it has become as important and imminent question in Economics, how Employment growth is affected by Economic growth. Growth is not a means to an end: it is designed to serve people, promote development and reduce poverty. The result of econometric analysis shows that a positive and statistically significant relationship exists between employment level and economic growth.

Employment contributes to economic growth and development irrespective of countries economic and political policies. As stated earlier workers produce valuable goods and services, and in turn receive a wage, which they spend on buying the goods and services. High employment means a greater number of goods and services can be produced as well which will directly lead to economic growth.

Finally, Employment is important for the development of a country because it will reduce high cost of living, moderate prices of goods/services, reduce the number of vagabonds and improves the quality of living standard of citizen. In addition, Economic growth also creates higher tax revenues and this can help in reducing government borrowing, which will lead to play a role in reducing debt to GDP ratios.

5. Recommendation

The world needs to focus on job creation (Employment) because jobs are necessary to drive shared and sustainable economic growth. Although job creation and economic growth are related, too often people falsely assume that if you create economic growth, the jobs will follow.

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