

THE EFFECT OF UNEMPLOYMENT ON ECONOMIC GROWTH OF COMMUNITIES IN UGANDA. A CASE OF KIRYANDONGO TOWN COUNCIL

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ABSTRACT

The study investigated the effect of unemployment on economic growth of communities in Uganda. The major objective of the study was to examine the effect of unemployment on economic growth of communities in Uganda period. The specific objectives are to examine the trend of unemployment in Uganda, to estimate the relationship between economic growth and unemployment in Uganda. The study used secondary data from the International Labour Organisation for the unemployment data and Uganda Bureau of Statistics for the GDP data. The data was then analysed and presented using OLS, Augmented Dickey Fuller test to test for the presence of the unit root, the Johansen cointegration test was employed to test the existence of the long run relationship between economic growth and the independent variable which is unemployment. The null hypothesis of the study was that there was autocorrelation at lag order. If at a specified lag, the Calculated p-value was less than Critical ($p < 0.05$), rejected the null hypothesis and concluded that there was autocorrelation. From the findings of the the residuals were not serially auto-correlated since the p-values were greater than critical value ($p > 0.05$).

Key words: unemployment, economic growth and communities

Background of the study

The Ugandan economy has remained largely underdeveloped despite the huge human and natural resources. The country is richly endowed with various mineral types all over the country. Yet the per capita income is low, unemployment rates is high (Nelson & Christopher, 2022). There are many socioeconomic challenges. The economy has continued to witness economic recovery which is immediately followed by economic recession and depression (Frank et al., 2023). The situation in Uganda is disturbing. The various macroeconomic policies by government have been unable to achieve sustained price stability, reduction in unemployment and sustained growth cannot be achieved (Godfrey et al., 2023). The poor state of the economy has confirmed the need to manage the economy effectively. The essence of macroeconomic management underlines the rationale for the existence of government as a vital economic agent (Victoria et al., 2023).

Unemployment is often agreed to be an indicator of micro-economic effect ion and could be voluntary. Voluntary unemployment rises when labour chooses not to work because they have means of support other than employment and a classic example is the idle rich man (Oliver et al., 2023).

On other hand in voluntary unemployment, exist when persons willing to work is the prevailing rate of pay but unable to find work Kvist (2017) also defined unemployment as a percentage of labour force that is without job but is able and willing to work (Paul & Kazaara, 2023)

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According to Okun's law and cost of unemployment on economic growth, which states that a 1% reduction in the unemployment rate would rise approximately 3% or more of output growth. In fact, Okun postulated that a 1% increase in the growth rate above the trend rate or growth would lead to only 0.3% reduction in the rate of unemployment (Oliver et al., 2023). Reversing the causality, a 1% in unemployment will mean roughly more than 3% less in GDP growth. This relationship imply that the rate of GDP growth must be equal to its potential growth just to keep the unemployment rate constant (Lydia et al., 2023). To reduce unemployment, therefore the rate of GDP growth must be above the growth rate of potential output. However, the estimate of Okun coefficient vary substantially across countries and regions for example the validity of Okun's law four Arab countries, Algeria, Egypt, Morocco and Tunisia (Frank et al., 2023). He found that output growth rate does not translate into employment gains for the four countries which means that Okun's coefficient turns out to be statistically insignificant. A report by the ministry of finance planning and economic development indicates that, the key driver to the current unemployment is the insufficient demand for labour due to among others the underdevelopment of the economy (Derrick et al., 2023). Small formal private sectors inadequate credit to SMES, low literacy and numeracy rates and skills gap mainly occasioned by the nature of education that is not directly linked to needs of the world of work (Turyatamba et al., 2022).

Statement of the problem

Economic growth in Uganda has been poor since the early 1980s when SAP (Structural Adjustment Programme) was introduced. Economic growth in Uganda was not encouraging between 1986 and 1990s (Suzan & Kazaara, 2023). The continuous economic crisis reflected in high inflationary pressure, high level of corruption, exchange rates distortions, debt overhang, high rates of unemployment to mention a few (Wegulo et al., 2023). The trends in economic growth rates and unemployment rates in Uganda from 1986-2019 have been puzzling. The data obtained from the Central Bank of Uganda revealed that the trend in economic growth has been fluctuating over the years under review. The trends in unemployment rates in Uganda from 1986-2019 was also puzzling (Oscar et al., 2023). The lowest rates of unemployment recorded were 2.0 percent and 0.1 percent in 2005 and 1998 respectively. Unemployment reaches 4.2 percent by 2012. The main goals of macroeconomic policies were the achievement of high, rapid and sustained economic growth and stable low unemployment but the trends above show the contrary (Christopher & Felex, 2022). Among the main and major problems of policy makers were how to achieve and maintain low and stable unemployment rate so as to achieve high economic growth. Various studies and their findings were controversial especially in the area of impact of the evil (unemployment) on the growth of the Ugandan economy. Bakare found a negative relationship between unemployment and growth (Ronald et al., 2023). Rafindadi (2017) found negative non-linear relationship between unemployment and output growth while Aminu & Anono (2017) found positive relationship between Unemployment and economic growth in Uganda (Ronald et al., 2023). The results revealed that unemployment impacted negatively on economic growth. The puzzling trends of economic

growth rate, and unemployment rate in Uganda and the controversial results obtained in the empirical results provide the need to examine the relationship between unemployment and economic growth of communities in Uganda.

Specific objectives

1. To examine the trend of unemployment in Uganda
2. To estimate the relationship between economic growth and unemployment

Research questions

1. What are the causes of unemployment in Uganda?
2. To what extent did the study examine the relationship between economic growth and unemployment?

Methodology**Research Design.**

With a view to address its objectives the study employed both qualitative and quantitative methods. The quantitative method was used by considering all employees of the town council and questionnaires were distributed to the respondents. Qualitative method was used by considering interview with some department heads of the council under the study. After the required data collected, it was processed, and analyzed by using Statistical Package for the Social Sciences (SPSS).

Study Population.

The term population in research means people, event and objective covered by your research topic. However, the population is the target study population from whom the information could be obtained realistically. The research population for this project was 2332 staff and non-staff members and it is based generally on kiryandongo town council.

Sample Size.

In gathering information much survey work is required, the research helped the researcher to determine a particular condition from the reaction of the objectives that the study is concerned with. This research work based on the effect of unemployment on economic growth of communities in Uganda. A case study of Kiryandongo town council, Kiryandongo district, Uganda. The sample size of the study was determined using the formula adopted from Toro Yamane's (2017).

Thus, the formula used to calculate the sample size is:

$$n = \frac{N}{1 + N(e)^2}$$

Where N= the total population.

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n =the sample size.

e = the error term, which is 5% (that is to say at 95% confidence interval).

Using the above formula, the sample size of the study is determined as:

$$n = N/(1+N(e)^2)$$

$$n = N/ (1+1256(5\%)^2)$$

$$n = 563.$$

Therefore , based on the above formula the sample size taken from each stratum is depicted in table 1 which is to respondent from Chief Executive and legal service officers, 239 from community citizens, 4 from agriculture committee, 8 from purchasing and property administration support process, 1 from internal audit supportive process, 25 from Human Resource Development Administration, 1 from public relation supportive, 2 from corporate supportive process, 19 from Engineering supportive process, and 2 from Gender support system was taken.

Table 1 stratified Random Sampling Design Form.

Number	Types of the strata	Total population	Sample size (24.14% of the population)
1	Chief executive and legal service officers	7	2
2	Community citizens	1014	341
3	Agriculture committee	17	10
4	Purchasing sand property administration support process.	33	26
5	Internal audit supportive process.	2	1
6	Human resource development administration.	129	98
7	Public relation supportive process	15	9
8	Corporate system supportive process	19	15
9	Engineering supportive process	91	59
10	Gender support system.	5	2
Total		2332	563

Data Analysis

Both descriptive and inferential data analysis methods were used in the study.

Descriptive Analysis

Descriptive analysis is used at the first phase of the analysis which to analyze general characteristics of the respondents and to assess the effects of unemployment on economic growth of communities. The collected data from study population using different sources and instruments was summarized by using Excel and transferred to SPSS version 16.0 to analyze in terms of descriptive statistics such as percentages, mean and standard deviation scale as measure of central tendency was used to show where the majority of responses concentrate that is nearer to which scale the representative middle value of responses is found (Nelson et al., 2022).

Correlation Analysis

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In this study, correlation analysis was used to analyze the data obtained from the respondents in relation to the variables of the study and was used to analyze the relationship between the independent and dependent variables of the study. As a statistical tool, Pearson product-moment correlation was used to test relationship strength and directions between pairs of variables. The correlation coefficient was calculated by using E-views (Nelson et al., 2023).

Regression Analysis

In the regression analysis, the simple regression model was used to determine the effect of independent variable (the dimensions of the effects of unemployment) on the dependent variable (economic growth).

RESULTS

Table 2: Results from the VECM model

	D (Ln total unemployment rate)	D (Ln Gdp)
Constant	.0302356	-.2703632
ECT (-1)	.0136652	-.1421525
R squared	0.3227	0.3227

Source: Author, 2018

From Table 2.the estimated coefficients of the Error Correction Terms of natural logarithms for Ln Gdp and Ln total unemployment are given. The ECT of Gdp is negative as expected and the rest are positive. But significant from the equation the adjustment is 68% and 1.3% respectively for the total unemployment from the previous year's equilibrium. This suggests long run equilibrium although values are not significant although slow and the positive sign of the ECTs suggest equilibrium correcting in the short run (Alex & Kazaara, 2023).

Granger Causality Test

This is performed to ascertain the relationship between GDP and total unemployment rate.

Table 3: Relationship between GDP and unemployment

Null hypotheses	F-	Chi-square	P-value	Conclusion
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	Statistics			
Total unemployment has no effect on Gdp	0.351	3.212406	0.1823	Fail to reject

From the Null hypothesis Study that the lagged value of the coefficient in each equation are zero against the alternative that the coefficients are not zero, Table 3 reveals that there is no short run causality running Gdp to total unemployment since the coefficients of the lagged coefficients are equal to zero, and the p-value is greater than 0.05 but there is long run causality running from Gdp to unemployment since the p-value is less than 0.05 (Mark et al., 2023).

Diagnostic Test

Autocorrelation and heteroskedasticity Test

The Breusch-Godfrey test was performed to assess the whether there is serial correlation in the model Table presents the results of the Breusch-Godfrey and Breusch-pagan test

Table 4: Results from the Breusch- Pagan – Godfrey test

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.580837	Prob. F (2,24)	0.5671
Obs*R-squared	1.246546	Prob. Chi-Square (2)	0.5362
Scaled explained SS	0.681570	Prob. Chi-Square (2)	0.7112

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	1.362615	Prob. F (2,22)	0.2768
Obs*R-squared	2.975957	Prob. Chi-Square (2)	0.2258

Source: Author, 2018

The null hypothesis Study is that there is autocorrelation at lag order. If at a specified lag, the Calculated p-value is less than Critical ($p < 0.05$), reject the null hypothesis and conclude that there is autocorrelation. From Table 4 the

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residuals are not serially auto-correlated since the p-values are greater than critical value ($p > 0.05$). The residuals indicate that there is no Heteroskedasticity since the p-value is greater than 0.05. The Null hypothesis is accepted and conclude that there is no Heteroskedasticity among the residuals which is desirable for our model.

Conclusions

The results of OLS revealed that increase in unemployment rates reduced economic growth rates in Kiryadongo. The coefficient of unemployment was statistically significant and consistent with the theoretical expectation. The F-statistics values in all models of this study indicated that unemployment jointly and significantly affected economic growth rates in the country at 1 percent level. It can be concluded that there was the existence of long run relationship between economic growth and unemployment (Oromo et al., 2023).

Recommendations

This study found that the type of unemployment characterized in the Ugandan economy was structural; hence the need by the government and relevant agencies to formulate policies to encourage self-employment and reduce cost of doing business in the country so as to achieve a high, rapid and sustained economic growth (Nelson & Christopher, 2022).

The government should also embark on creation of more job opportunities to the people through construction and setting up more industries in order to mobilise and create more jobs for the people (Moses, 2023).

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