

# The impact of public sector employment on business strategies on economic growth

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## Keywords

Public Sector Employment, Business Growth, Human Capital Development, Autoregressive Distributed Lag, Economic Performance.

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## Abstract

*Public sector employment, which includes business strategies and economic development, is a complex issue in labour economics and public policy. Public sector employment often involves jobs in government agencies, state-owned enterprises, and other organisations funded by public revenue. The business model of public sector employment can significantly impact economic growth by enhancing human capital development. This business model fosters innovation and can create a skilled and adaptable workforce to meet the changing demands of the labour market and drive productivity. In this model, public sector employees are empowered with business strategies such as the effective allocation of resources and cost-effective budgets, ultimately contributing to the cultivation of a more innovative and capable human capital framework. This paper uses an autoregressive distributed lag methodology to examine the impact of the public sector employment business model on economic growth in South Africa. The results indicate that public sector employment has a positive and significant impact on economic growth. This comprehensive examination is essential due to its implications for employment dynamics and overall economic performance. The contributions adhere to the public sector employees being empowered with business skills for effective performance and boosting economic growth. It is recommended that policymakers consider how to leverage public sector employment to enhance economic productivity while mitigating potential downsides to create an environment conducive to sustainable growth. Policymakers can create a more integrated approach to public sector employment that not only enhances economic productivity but also fosters a sustainable growth environment conducive to the success of the public sector. A thorough analysis requires consideration of the nexus between public sector employment practices, the operational capacities of business enterprises, and the broader socio-economic context in which these interactions occur.*

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## Introduction

As explored within the domains of labour economics and public policy, the adoption of business strategies in public-sector employment plays a significant role in shaping economic growth and development (Abbasi, Shabbir, Abbas, & Tahir, 2021). The efficacy of public institutions is critical in enhancing human capital through innovation in the provision of education, healthcare, and transportation services, thereby augmenting overall productivity (Kravariti & Johnston, 2020; Mastromarco & Simar, 2021). Public sector employment predominantly encompasses roles within government agencies, state-owned enterprises, and other organizations that are financed by public revenue. Additionally, competitive salaries and benefits in public-sector jobs increase consumer spending, which can lead to growth in private-sector employment and entrepreneurship. However, challenges exist, such as the debates over efficiency. The relationship between public sector employment and business growth highlights the need for ongoing research to inform effective policies. Such policies are essential for sustainable economic growth and long-term viability (Osiobe, 2019).

Public sector employment involves various roles within government agencies and state-owned enterprises, which are essential for delivering services and maintaining public infrastructure (Barkhordari, Fattahi & Azimi, 2019). While it offers job security and stable benefits, it also faces challenges like bureaucratic constraints, limited funding, and political influences, which can impact hiring practices and employee morale. Also, diversity, equity, and inclusion are critical issues, as agencies must reflect the

demographics of the populations they serve to enhance service efficacy and build trust (Lupu & Nuță, 2023). Understanding these challenges is essential for developing effective public policies that improve recruitment, retention, and job satisfaction in the public sector.

The study emphasises the crucial role of public sector employment models in promoting economic growth through human capital development (Yeo & Lee, 2020). It argues that public sector jobs can cultivate a skilled and adaptable workforce, essential for meeting the demands of a changing labour market. The public sector enhances employees' knowledge and competencies by investing in specialised training and continuous professional development (Imandojemu & Babatunde, 2020). This, in turn, fosters collaboration across sectors and drives innovative solutions to societal challenges. As the labour market evolves due to technological advancements and globalisation, the flexibility gained through strategic public sector practices is vital for increasing productivity and ensuring sustainable economic development (Jaiswal, Arun & Varma, 2023). The study highlights the significance of strategic investments in human resources within the public sector to support a skilled workforce that drives innovation and productivity.

The paper explores how aligning public sector initiatives with business strategies can enhance resource allocation and amplify the impact of public programs in fostering innovation (Chandana, Adamu & Musa, 2024). The innovative business model can create a skilled and adaptable workforce to meet the changing demands of the labour market and drive productivity. In this model, public sector employees are empowered with business strategies such as the effective allocation of resources and cost-effective budgets, ultimately contributing to the cultivation of a more innovative and capable human capital framework (Jaiswal et al., 2023). Government initiatives like targeted training programs can improve workforce skills by understanding business needs and encouraging businesses to invest further (Mutonyi, Slåtten & Lien, 2020). This strategic alignment enhances adaptability in a changing economic landscape, promoting collaboration and shared insights between the public and private sectors. Hence, it is imperative to examine the impact of the public sector employment business model on economic growth in South Africa.

## Literature Review

### Theoretical Literature

This study employs the endogenous growth theory, which posits that human capital is a pivotal engine of growth, a framework extensively utilised in scholarly literature to evaluate the impacts of economic policy (Mastromarco & Simar, 2021). The study of business growth theories in public sector employment examines the complex relationship between government employment policies, growth in the economy, and the effectiveness of public service. Public sector employment is a fundamental determinant of economic structure, wielding considerable influence over overall business growth trajectory (Barkhordari et al., 2019; Kravariti & Johnston, 2020). Central to the endogenous growth theory is the assertion that investments in human capital, innovation, and knowledge generation contribute significantly to the acceleration of economic growth (Yeo & Lee, 2020).

### Empirical literature

Some studies on public sector employment focus on government policies that address worker empowerment and their effects on economic stability and social welfare (Lupu & Nuță, 2023; Chandana et al., 2024). For instance, the study of Silalahi and Walsh (2023) utilised a mixed-methods approach, combining quantitative labour market data analysis with qualitative insights from interviews to discover that the targeted workforce development and education programs can lower unemployment, while policies that enhance employee participation improve job satisfaction and well-being.

A well-functioning labour market is crucial in enhancing a country's economic competitiveness, as highlighted by Tamunomiebi and Oyibo (2020). The ability of the labour market to efficiently allocate workers to various sectors fosters productivity and drives innovation and growth. Furthermore, a significant connection exists between public-sector employment and overall economic growth. A robust public sector can create jobs, stimulating demand for goods and services, leading to a multiplier effect on the economy (Chandana et al., 2024). By investing in public sector employment, governments can enhance

workforce skills, improve public services, and ultimately contribute to a more dynamic economic landscape (Osiobe, 2019).

Government policies are essential in shaping the labour market by influencing labour resource allocation, mobility, wage flexibility, and job matching. Policies that promote labour mobility, like relocation assistance and training, can enhance market efficiency. At the same time, restrictive measures, such as strict licensing and zoning laws, can hinder this mobility and create mismatches (Imandojemu & Babatunde, 2020; Abbasi et al., 2021). Wage flexibility is similarly affected; policies that allow for quick wage adjustments can reduce unemployment during downturns, whereas poorly designed minimum wage laws might lead to higher unemployment rates. Therefore, effective government initiatives that improve the job matching process, such as public employment services, can decrease frictional unemployment and improve overall market performance. Hence, understanding the relationship between government interventions and labour market dynamics is crucial for creating effective policies that foster economic growth and stability.

Capacity building within the public sector is essential for developing a robust and productive workforce, significantly influencing economic growth (Kravariti & Johnston, 2020). As governments and public institutions invest in enhancing the skills and competencies of their employees, they create an environment that encourages innovation, efficiency, and adaptability. Training programs, mentorship opportunities, and professional development initiatives equip public sector workers with the tools to navigate complex challenges and implement effective solutions (Jaiswal et al., 2023). This helps individual employees grow in their careers and strengthens the entire public administration system, making it more responsive to the community's needs (Chandana et al., 2024).

When the public sector functions optimally, it can provide better services, fostering a more stable and attractive environment for private sector investments. A well-trained public workforce is better equipped to manage resources, streamline processes, and implement policies that can stimulate economic activity (Khando, Gao, Islam & Salman, 2021). Moreover, capacity building can improve governance by promoting transparency, accountability, and ethical behaviour among public servants. This, in turn, fosters public trust and encourages citizen engagement, creating a virtuous cycle of growth and development (Li, 2022). So, by prioritising capacity building within the public sector, societies not only enhance the skills of their workforce but also lay the groundwork for sustainable economic advancement. The positive ripple effects touch on various aspects of society, ultimately contributing to a more prosperous future for all (Silalahi & Walsh, 2023).

The public sector constitutes approximately one-third of the global paid workforce, rendering its wage structures and employment practices pivotal for overall income distribution and economic wage-setting mechanisms (Khado et al., 2021; Li, 2022). However, comprehensive empirical data comparing public sector employment and compensation with the private sector has been notably scarce. Among the notable contributions to this field is a paper introducing the “Worldwide Bureaucracy Indicators,” developed by the Bureaucracy Lab at the World Bank (Baig, Han, Hasnain & Rogger, 2021). This initiative aims to serve as a significant resource for policymakers and scholars, facilitating a deeper understanding of the governmental role as an employer. Furthermore, the paper addresses critical issues within the realm of public administration, including employee motivation and the scale of public employment. Additional data on public-sector employment is provided by the South African Reserve Bank, contributing to the broader discourse on public-sector dynamics (SARB, 2024).

## Methodology

The model used in this study is an econometric model, which runs multiple regression analyses between public sector employment (PSE) and economic growth (GDP). Government expenditure (GOVT) is a control variable in the model. The general model is specified as follows:

$$LGDP_t = \alpha_t + \beta_1 LPSE_t + \beta_2 LGOVT_t + \varepsilon_t$$

L indicates logged variables to standardise the variables. The study used quarterly secondary time series data from the South African Reserve Bank from 1960-2024. An autoregressive distributive lag (ARDL) was employed in this study to examine the impact of the public sector employment business model on economic growth in South Africa. The variables in the model were tested for stationarity, and

different orders of integration were portrayed at level [I (0)] and, at first, differencing [I (1)]; hence, the ARDL can be employed (Ncanywa, 2019).

The ARDL approach simultaneously captures the cointegration between a set of variables, the long-run and short-run estimates, and the speed of adjustment. The ARDL cointegration and bounds tests indicate whether the long-run relationship exists in the series. It is advantageous because it can generate valid and robust results (Imandojemu & Babatunde, 2020). The ARDL bounds test gives the lower bound critical value and the upper bound critical value. If the computed F-statistics lie above the upper critical bounds test, we reject the null hypothesis of no cointegration, indicating that cointegration exists. In the case where the computed F-statistic lies in between the two-bounds test, the cointegration becomes inconclusive. No cointegration exists when the F-statistics is below the lower bound (Lupu & Nuță, 2023).

## Results and Discussions

The Autoregressive Distributed Lag (ARDL) model effectively captured the simultaneous cointegration relationship between public sector employment and economic growth. This means that as public sector employment changes, it has a consistent and measurable impact on the overall economic growth of a country. Furthermore, the ARDL model provided long-term estimates that reflect how these two variables interact over time. By analysing this dynamic, the model not only highlights the immediate effects of changes in public sector employment on economic growth but also sheds light on the enduring relationship between the two, offering valuable insights for policymakers aiming to optimize employment strategies in the public sector to foster sustainable economic development. Table 1 displays the ARDL results.

**Table 1: ARDL results (1960-2024)**  
**Dependent variable: Economic Growth (GDP)**

F-Bounds Test		
Test Statistics Value	k	
186.2	2	
Significance	I (0)	I (1)
10%	2.63	3.35
5%	3.1	3.87
1%	4.13	5
Estimates: Economic Growth = f(PSE; GOVT)		
Variable	Coefficient	Probability
Public Sector Employment	0.044	0.000
Government Expenditure	-0.018	0.269
Constant	0.041	0.454

Source: Own Compilation from E-Views

Notes: PSE- Public Sector Employment, GOVT- Government Expenditure

Table 1 presents the comprehensive F-bound test results and estimates for the public sector employment-economic growth model, which are critical indicators of the dynamic interplay between government employment levels and economic performance. The F-test statistic at 186.2 significantly exceeds the upper bound I (1) across all relevant significant levels, including 1%, 5%, and 10%. This statistical outcome robustly suggests a cointegrating relationship, which implies a long-term association between public-sector employment and economic growth. Such findings are pivotal as they corroborate the hypotheses articulated in existing literature, notably by scholars such as Barkhordari et al. (2019) and Kravariti and Johnston (2020). These authors, among others, have emphasised the role of public sector employment as a fundamental determinant of the economic structure. Their research highlights that a well-functioning public workforce substantially influences economic growth, catalysing improved economic outcomes.

The long-run relationship found in this study is reinforced by the work of Khando et al. (2021) and Mastromarco & Simar (2021), who indicate that the effectiveness of a well-trained public sector workforce extends beyond mere employment figures. An adept public workforce can efficiently manage resources, optimise operational processes, and execute policies to stimulate economic activity (Baig et al., 2021). This

implies that investing in training and development for public sector employees can yield significant returns regarding enhanced productivity and economic growth (Imandojemu & Babatunde, 2020; Mutonyi et al., 2020).

Considering these insights, it becomes evident that fostering a skilled public sector is a matter of employment policy and a strategic imperative that can significantly shape the economic landscape. Governments can better align their operational capabilities with economic stability and growth goals by ensuring public sector employees have the necessary skills and knowledge (Tamunomiebi & Oyibo, 2020). Therefore, the evidence presented underscores the importance of sustaining and advancing public sector employment as a fundamental component of successful economic policy formulation and implementation (Abbasi et al., 2021).

Table 1 further displays the estimates of the public sector employment-economic growth model. Public sector employment has a strong positive impact on economic growth, significant at 1%. An increase of 1% in public-sector employment can increase economic growth by 4.4% in the long run. This suggests that fostering the professional development of public sector employees can significantly contribute to economic growth. The results align with the principles of endogenous growth theory, which posits that investments in human capital, innovation, and knowledge creation play a crucial role in fostering economic growth (Ncanywa, 2019; Yeo & Lee, 2020; Lupu & Nuță, 2023). Furthermore, these findings support existing literature that argues public-sector employment, characterised by skilled employees within an effectively functioning labour market and guided by well-considered policies, can enhance economic growth (Khado et al., 2021; Li, 2022; Silalahi & Walsh, 2023; Chandana et al., 2024).

### Conclusion and Recommendations

This study employs an autoregressive distributed lag (ARDL) methodology to investigate the impact of the public sector employment business model on economic growth within the South African context. Using the ARDL approach, the research captures both short-term and long-term dynamics, allowing for a comprehensive analysis of how public-sector employment impacts various economic indicators. The significance of this inquiry lies in understanding how employment strategies in the public sector contribute to macroeconomic performance, particularly in a developing economy like South Africa. Given the intricate relationship between government employment policies and economic vitality, the results of this analysis are expected to provide valuable insights for policymakers. Through empirical investigation, this study aims to elucidate how public sector employment influences economic growth trajectories, offering a nuanced perspective that could inform future employment strategies and economic reforms.

The findings of this study underscore the positive and significant impact that public sector employment has on economic growth. This relationship is particularly noteworthy, as it suggests that a robust public sector can catalyse enhanced economic performance. The contributions adhere to the public sector employees being empowered with business skills for effective performance and boosting economic growth. A comprehensive examination of this dynamic is essential for understanding the direct contributions of public sector jobs to economic output and exploring the broader implications for employment dynamics within the labour market.

Public sector employment often leads to increased consumer confidence and spending, which can stimulate demand for goods and services across various industries. Moreover, the stability provided by public sector jobs can enhance workforce participation and reduce unemployment rates, fostering a more resilient economy. Such employment also plays a critical role in providing essential services, thereby supporting the infrastructure necessary for economic activities to flourish. Furthermore, the implications of this research extend beyond mere employment numbers. By contributing to foundational public goods and services, the public sector can influence long-term economic trajectories and thereby shape the structural dynamics of the economy. Therefore, policymakers must consider the strategic development of public sector employment as a vital component of economic planning and growth strategies. In conclusion, this examination reveals that the relationship between public sector employment and economic growth is multifaceted and significant, warranting further investigation and consideration within broader economic policies and employment strategies. Policymakers have a pivotal role in navigating the complex landscape of public sector employment and its impact on economic growth.

Here are some practical recommendations:

- Allocate resources for training and upskilling public sector employees, ensuring they have the relevant skills to meet contemporary challenges and can effectively collaborate with private enterprises.
- Encourage innovation in public sector practices.
- Embrace technology by integrating digital tools that enhance the efficiency of public services, ultimately benefiting the broader economy. This could include process automation or digital platforms for better service delivery.
- Pilot innovative public policies that test the impact of flexible working arrangements and remote work practices on employee productivity and job satisfaction, assessing their effects on the overall workforce.
- Foster a Collaborative Socio-Economic Environment. Create forums for continuous dialogue among stakeholders, including local governments, business leaders, and community representatives, to discuss the socio-economic impacts of public sector employment strategies. Invest in community development programs that boost education, health, and social services to enhance the overall socio-economic context, leading to a more productive workforce.
- Monitor and Measure Outcomes. Establish clear metrics to assess the impact of changes in public-sector employment on economic productivity. This could involve regular surveys, economic indicators, and performance reviews. Utilise feedback mechanisms that allow employees to voice their concerns and suggestions regarding collaborative practices, ensuring a more transparent and adaptive policy framework.

By adopting these recommendations, policymakers can create a more integrated approach to public sector employment that not only enhances economic productivity but also fosters a sustainable growth environment conducive to the success of the public sector. The goal is to create a harmonious relationship that benefits the entire socio-economic landscape, focusing on collaboration, innovation, and strategic development. The generalised use of secondary data limits the paper. However, the methodology provided robust results. Areas of future research can include qualitative interviews to gain insights into how public sector employees perceive their contribution to economic growth.

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