



# An Investigation into the Relationship Between Employment and Economic Growth

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**Abstract:** This paper aims to explore the mutual relationship between employment and economic growth. By reviewing the current situation of related research at home and abroad, it explains the determining role of economic growth in employment and the reciprocal influence of employment on economic growth. Combining the actual situation of China, this paper analyzes the reasons for the current high growth and low employment, including government preference, technological progress and unreasonable industrial structure. Finally, it puts forward suggestions and countermeasures such as transforming government functions, choosing new technologies to promote employment, adjusting industrial structure, and vigorously developing the tertiary industry, in order to achieve synergistic growth of employment and the economy.

**Keywords:** employment; economic growth; mutual relationship; cause analysis; suggestions and countermeasures

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## 1. Research background and significance

Especially since the late 1990s, high economic growth has not been accompanied by corresponding high employment, and the pressure on employment has become increasingly heavy. Economic growth and full employment are the main goals of national macroeconomic policy. In the situation of "high growth, low employment" in China, how to promote employment and economic growth in tandem is an urgent real-world problem. Employment is the cornerstone of people's livelihood. Whether full employment can be achieved is closely related to the national economy and the long-term stability of the country. Therefore, studying the current employment and economic growth problems in China has important practical significance.

### 1.1 Foreign Research Status

Adam Smith in *The Wealth of Nations* pointed out that the annual labor of a nation's people is the source of providing them with the annual consumption necessities and conveniences[1]. David Ricardo also believed that the growth of social wealth depends on the expansion of labor and the improvement of labor productivity. He emphasized the distinction between the material form and value form of wealth. After the Great Depression of the 1930s in Western countries, many countries were plagued by employment problems for a long time. Keynesian macroeconomic analysis originated from the study of unemployment problems in capitalist countries at that time. Its mathematically-based employment and demand relationship is:  $L=D/R$ , where  $L$  is the total employment,  $D$  is total demand, and  $R$  is the average social demand required to accommodate one laborer, total demand covers consumption demand and investment demand[2]. Harold and Domar proposed a growth model with the same meaning in the late 1940s, transforming Keynes' static discussion into dynamic analysis, namely  $g=s/v$ , where  $g$  is the growth rate of economic growth,  $s$  is the savings rate, and  $v$  is the capital-output ratio. In equilibrium growth, total output must grow at the same rate as the labor force, i.e.  $g=gL=s$ . The analysis of Harold and Domar shows that to achieve full employment economic growth, there needs to be a certain incremental investment every year, which can expand production capacity and increase employment. The growth rate must be coordinated with the savings growth rate and the growth rate of the labor force (or population growth rate) [3]. American economist William Lewis published the "Economic Growth of Unlimited Labour Supply" paper in 1954, which was the first dual-economy development model in economics. The structural analysis method used in the paper opened up new research directions for development economics, assuming unlimited labor supply and correctly analyzing the transmission mechanism of capital accumulation on the dual structure transformation [4]. In the 1970s and 1980s, Anne Krueger conducted in-depth research on the relationship between trade strategies in developing countries and economic growth and employment growth. She believes that for developing countries, maintaining rapid growth of domestic employment and foreign trade is the two strategic themes in economic growth and development process, and the choice of trade patterns or strategies will directly or indirectly affect employment growth [5].

## 1.2 Current Research in China

In theoretical research, domestic scholars have been constantly exploring traditional economic theories and innovating and developing them based on China's actual situation. The study of Marxist economics has been deepened, emphasizing its guiding role in China's economic development in the present era. At the same time, Western economic theories and methods have been widely introduced and applied, and scholars have conducted in-depth research in microeconomics, macroeconomics, and industrial economics, providing diversified theoretical perspectives for understanding and solving economic problems in China. China's modern economy faced great changes in the late Qing Dynasty. With the development of the Westernization movement, modern enterprises began to rise, such as the ship Merchants and other civilian enterprises to a certain extent to promote the development of commerce and transportation industry. However, the economic development at that time was also restricted by many factors, such as the bondage of the feudal system, the shortage of funds and the dependence of technology on imports. For example, in the textile industry, although some new textile mills have been established, they still face great pressure when competing with foreign products due to their relatively backward technology and management level. At the same time, the rural economy is gradually marginalized in the process of modernization, and the traditional small peasant economic model is under attack, and farmers' livelihood is facing difficulties, which also has an impact on the stability of the entire social economy." [5] With the development of China's economy and institutional reform, the employment issue has gradually become prominent, and more and more scholars have begun to explore the relationship between China's economic growth and employment. After the mid-19th century, with the signing of a series of unequal treaties, China's traditional economic model was gradually broken. On the one hand, the treaty ports in the coastal areas have become important nodes of foreign trade, and a large number of foreign commodities have flooded in, impacting China's traditional handicraft industry. For example, the traditional textile industry has been greatly challenged by machine textile products from the West, and many handmade textile workshops have closed down. On the other hand, the entry of foreign capital also stimulated the rise of modern Chinese industry. Some people with insight began to introduce Western technology and equipment and set up modern factories, such as the Jiangnan Manufacturing General Bureau founded by Li Hongzhang, which promoted the development of China's modern economy to a certain extent. However, this development is uneven, the vast inland areas are still dominated by the traditional agricultural economy, the radiation range of modern industry is limited, and the modern Chinese economy shows a clear dual structure." [6]. For example, during the economic fluctuation upward periods of 1986-1988 and 1991-1992, the urban registered unemployment rate did not decrease but remained basically unchanged, regardless of the GDP growth rate; but during the economic fluctuation downturn periods, as the GDP growth rate decreased, the unemployment rate rose, such as 1988-1990 and 1992-1999. From the employment elasticity of China's economic growth since 1978, it has basically shown a downward trend, and the unemployment rate has also shown an upward trend. This seems to indicate that the employment absorption capacity brought about by economic growth is constantly declining, and to some extent, economic growth in the 1990s in China displaced employment.

## 2. Definition of Related Concepts

### 2.1 Employment

Employment refers to the economic activity in which individuals with labor capacity use productive resources to engage in legal social labor and receive corresponding labor remuneration or business income.

### 2.2 Economic Growth

Economic growth generally refers to the increase in the total quantity of products and services produced in a country or region over a longer period of time, which is usually measured by the growth rate of gross domestic product (GDP) or per capita GDP.

### 2.3 The Relationship Between Employment and Economic Growth

#### 2.3.1 The Determining Role of Economic Growth in Employment

Economic growth can create more employment opportunities. As the economy expands, businesses will increase production, thus requiring the hiring of more labor. Economic growth will also drive the development of related industries, further promoting the increase in employment.

#### 2.3.2 The Reciprocal Role of Employment in Economic Growth

Full employment can help raise the income level of laborers, thereby enhancing their consumption ability and expanding domestic demand, driving economic growth. At the same time, workers accumulate experience and skills through their work, improving labor productivity, which is also conducive to sustainable economic growth.

## **3. Analysis of the Causes of High Growth and Low Employment in China**

### **3.1 Government Preferences**

Some local governments may be too focused on economic growth speed, neglecting the importance of employment in policy making and resource allocation. For example, excessive pursuit of investment-driven economic growth may lead to investment being biased towards capital-intensive industries, which have relatively weak labor absorption capacity.

### **3.2 Technological Progress**

The rapid development of technology can improve production efficiency while also potentially leading to a reduction in employment in traditional industries. The application of automation, intelligence, etc. technologies has led to changes in the demand for labor in some enterprises, with some simple repetitive labor jobs being replaced by machines .

### **3.3 Unreasonable Industrial Structure**

The industrial structure of our country still has some inappropriate aspects. Some traditional industries have excess capacity, while the development of emerging industries is relatively lagging, leading to a weak linkage between economic growth and employment. The third industry is relatively underdeveloped, but it usually has a strong ability to absorb employment .

## **4. Suggestions and countermeasures for China's high growth and low employment situation**

### **4.1 Transforming government functions**

The government should have a correct concept of performance evaluation, and regard employment as one of the important policy objectives. When formulating economic development policies, fully consider the employment factor, and increase support for labor-intensive industries and small and medium-sized enterprises to promote employment growth.

### **4.2 Choosing employment-promoting new technologies**

While promoting technological progress, pay attention to choosing new technologies that can promote employment. Encourage enterprises to carry out technological innovation while strengthening training and re-education for workers to improve their ability to adapt to new technologies, so that technological progress can be coordinated with employment growth .

### **4.3 Adjusting industrial structure**

Accelerate the pace of industrial structure adjustment, promote the upgrading and transformation of traditional industries to enhance their employment absorption capacity. Vigorously develop emerging industries and cultivate new growth points to create more employment opportunities. Meanwhile, further promote the development of the tertiary industry, especially modern services such as finance, logistics, and information services, so as to fully play its role as an "employment reservoir".

## **5. Vigorously develop the tertiary industry**

The tertiary industry covers a wide range of fields, including wholesale and retail, accommodation and catering, transportation, education, medical care, cultural and entertainment, etc. These industries have a large demand for labor and have strong employment elasticity. The government can promote the development of the tertiary industry by issuing relevant policies and optimizing the development environment. It can also encourage and guide social capital to invest in the tertiary industry, thereby increasing the proportion of the tertiary industry in the national economy and driving employment growth.

## **6. Conclusion**

There is a close interdependence between employment and economic growth. In China, the current situation of high growth and low employment has arisen under the background of rapid economic growth. The main reasons for this include government bias, technological progress, and an unreasonable industrial structure. In order to achieve coordinated growth of employment and the economy, it is necessary to transform government functions, pay attention to employment issues; choose technologies beneficial to employment, strengthen training for workers; adjust the industrial structure, promote the upgrading of traditional industries and the development of new industries; and vigorously develop the tertiary industry, enhance its employment absorption capacity. Through these measures, it is hoped that the employment pressure can be alleviated and economic sustainable and healthy development can be promoted.

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