



Impact of Inflation on Work Performance

Ezek Martins U.

Department of Management Kampala International University Uganda

ABSTRACT

Inflation is an increase in general level of goods and services over a given period, resulting to a fall in the purchasing capacity of the fixed wages and income earners. The trade-off between inflation and performance is that, the increase in the prices of commodities reduces consumer's marginal propensity to save, which adversely affect the peoples' standard of living. Inflation in Nigeria, has led to the obvious devaluation of the naira and this has grossly reduced the value of fixed income earners. Inflation is anti-workers' economic growth and prosperity because it allows for arbitrary increase of prices of goods and services to the detriment of workers' fixed income even when it is glaring that their purchasing power is being reduced persistently and that eventually erodes their propensity to save. In other words, the purchasing power of a given amount of money will be smaller over time when there is inflation in the economy. Inflation at this instance can therefore be described as a cankerworm that eat up the income of fixed earners and as such affects drastically the standard of living of citizens. This, oftentimes brings about frustration and anger due to the inability to attend to family needs and cope with the high cost of transportation to work, buying of food items to feed, paying of electricity or medical bills, renewing of house rent and other issues of utmost importance among others. This paper therefore appraised the impact of inflation on workers performance.

Keywords: Inflation, Performance, Adverse, Economy, Standard of Living

INTRODUCTION

Inflation and economic crises are often characterized as periods of rising price, cost of living, unemployment as well as decreasing material well-being. Most recent economic crisis has accompanied considerable losses in life satisfaction, particularly in several developing countries [1] in which region unemployment rates rises as high as 35%. The negative relationship between unemployment and subjective well-being is well documented in the economic literature and is explained by income loss and by the psychic costs of joblessness related to identity problems, psychological distress and low self-esteem [2]. However, economic crises also tend to affect the subjective well-being of those who manage to keep their jobs [3]. As noted by [4], this phenomenon can be explained not only by the effect of economic crises on crime, public expenditures and income inequality but also by their effect on human resources development as employees are unable to proceed on training and development programmes. This situation has been seen to originate from increased inflation, reduced average cost of running firms [5], longer working hours without overtime compensation. Human resources training and development is in a critical aspect of the development of a knowledge-workforce [6]. The fundamental issues regarding human resources' lack of capabilities and intellectual abilities are said to be grounded in their levels of education and technical training. It has been reported that organisations are faced with a challenge in acquiring high caliber human resources with adequate levels of education [7, 8]. The lag between pay rises, staff development and inflation could have serious consequences for employers that want to remain competitive and reward performance. This is an issue responsible employers have to face because it affects their reward, performance and staff engagement policies, and means financial hardship is rising in their workforce. The gap between staff development and inflation may have serious consequences. Higher inflation will raise the cost of living as well as keep staff unskilled and redundant, impacting consequently on nominal wages and personnel motivation. Human relation managers must synergize with financial advisory services and employee assistance programmes to help employers provide support to staff who may be affected by lack of motivation and competence resulting from human resources development challenges caused by inflation.

The Concept of Unemployment

[9], defined unemployment as a situation where a worker or workers are involuntarily out of work. This means that workers are willing and able to work but could not find any work. Unemployment is often defined by the classical economists as the excess supply of labour over the demand for labour which is caused by adjustment in real wage. The Classical or real-wage unemployment occurs when real wages for job are set above the market-

clearing level, causing number of job-seekers to exceed the number of vacancies. Unemployment as defined by [10] is a state of joblessness which occurs when people are without jobs and they have actively sought work within the past four weeks. The unemployment is a measure of the prevalence of unemployment and it is calculated as a percentage by dividing the number of unemployed individuals by individuals currently in the labour force.

Types of Unemployment

Economists distinguish between various overlapping types of and theories of unemployment, including cyclical or Keynesian unemployment, frictional unemployment, structural unemployment and classical unemployment. Some additional types of unemployment that are occasionally mentioned are seasonal unemployment, hardcore unemployment, and hidden unemployment. Frictional unemployment is the time period between jobs when a worker is searching for or transitioning from one job to another. It is sometimes called search unemployment and can be voluntary based on the circumstances of the unemployed individual. Frictional unemployment is always present in an economy, so the level of involuntary unemployment is properly the unemployment rate minus the rate of frictional. Cyclical or Keynesian unemployment, also known as deficient-demand unemployment, occurs when there is not enough aggregate demand in the economy to provide jobs for everyone who wants to work. Structural unemployment occurs when a labour market is unable to provide jobs for everyone who wants one because there is a mismatch between the skills of the unemployed workers and the skills needed for the available jobs. Structural unemployment is hard to separate empirically from frictional unemployment, except to say that it lasts longer. Technological unemployment is due to the replacement of workers by machines, might be counted as structural. Alternatively, technological unemployment might refer to the way in which steady increases in labour productivity mean that fewer workers are needed to produce the same level of output every year. Hidden or covered unemployment is the unemployment of potential workers that is not reflected in official unemployment statistics, due to the way the statistics are collected. In many countries, only those who have no work but are actively looking for work (and qualifying for social security benefits) are counted as unemployed.

The Concept of Inflation

[9], conceives inflation as a situation of a rise in general price level of a broad spectrum of goods and services over a long period of time. It is measured as the rate of increase in the general price level over a specific period of time. To the neo-classical and their followers at the University of Chicago, inflation is fundamentally a monetary phenomenon. In the words of Friedman, "inflation is always and everywhere a monetary phenomenon and can be produced only by a more rapid increase in the quantity of money than output." Dernberg and McDougall are more explicit when they write that "the term inflation usually refers to a continuing rise in prices as measured by an index such as the consumer price index (CPI) or by implicit price deflator for gross national product." Keynes and his followers emphasise the increase in aggregate demand as the source of demand-pull inflation.

Types of Inflation

[11], says it is important or essential to understand that a sustained rise in prices may be of various magnitudes. Creeping inflation occurs when the rise in prices is very low and a sustained rise in prices of annual increase of less than three (3) percent per annum. Walking or trotting inflation occurs when prices rise moderately and the annual inflation rate is a single digit. In other words, the rate of rise in prices is in intermediate range of three (3) to seven (7) percent per annum or less than ten (10) percent. Running inflation occurs when prices rise rapidly like the running of a horse, a rate of speed of ten (10) to twenty (20) percent per annum. Hyper-inflation occur when prices rise very fast at double or triple digit rates from more than twenty (20) to one hundred (100) percent per annum or more. It is usually called runaway or galloping inflation. The most common types of inflation according to [9] are cost-push inflation which is caused by high or increase in cost of production leading to shortage of supply; and demand-pull inflation which is caused by increase in the aggregate demand for goods and services without a corresponding increase in supply.

Theoretical Framework

Philips Curve

Philips developed the concept of Philips curve in 1958. The curve shows a trade-off between the rate of unemployment and the prices of goods and services in an economy. Philips curve indicates that there exists an inverse relationship between unemployment and inflation. In a situation where the level of unemployment is lower, then it follows that the wages in the labour market must increase at a faster rate so as to win the available labour [12]. However, in a situation where the level of unemployment is high, it follows that there is an excess supply of labour, and hence, the labour market need not compete for labour. In such a situation, the wages increases slowly. Therefore, the general argument is that lower level of unemployment can only exist at the expense of higher inflation or vice versa. An economic question hence arises from this scenario, "Do we go for lower inflation and higher unemployment or higher inflation and lower unemployment?" However, Phelps and Friedman argued that it is not possible for the government to trade lower unemployment for higher inflation

permanently. The relevance of the concept of Philips curve is that it helps in the conceptualization of the relationship between the unemployment rate and the inflation. However, the concept of Philips does not always hold. The theory has its limitations especially due to the existence of the stagflation, which is a situation where the economy is faced with an increase in prices as well as an increase in the level of unemployment [13].

Empirical Framework

[14], used the conventional Phillips curve (unemployment rate) to investigate forecasts of U.S. inflation at the 12-month horizon. These authors focused on three questions. First, has the U.S. Phillips curve been stable? If not, what are the implications of the instability for forecasting future inflation? Second, would an alternative Phillips curve provide better forecasts of inflation than unemployment rate Phillips curve? Third, how does inflation forecasts from Phillips curve stack up against time series forecasts made using interest rate, money, and other series? They found that inflation forecasts produced by Phillips curve generally had been more accuracy than forecasts based on other macroeconomic variables, including interest rates, money and commodity prices but relying on it to the exclusion of other forecasts was a mistake. Forecasting relations based on other measures of aggregate activity could perform as well or better than those based on unemployment, and combining these forecasts would produce optimal forecasts. [15], examined price dynamics in the Dominican Republic by exploring the joint effects of distortions in the money and traded-goods markets on inflation, holding other potential influences constant. They captured the remarkable macroeconomic stability and growth for period 1991 to 2002. Using a parsimonious and empirically stable error-correction model, they found that the major determinants of inflation were changes in monetary aggregates, real output, foreign inflation, and the exchange rate. However, there was an incomplete pass-through of depreciation from the exchange rate to inflation. They also established a long-run relationship in the money and traded-goods markets, observing that inflation was influenced only by disequilibrium in the money market. [16], conducted a research on inflation and unemployment in the EU: comparative analysis of Phillips regularity through correlation analysis of unemployment and inflation in EU for the 1998-2007 periods and was found that the simple linear correlation coefficient between them is negative. They concluded that the relation between unemployment and inflation is moderate and inverse (negative). [17], conducted research on the relationship between inflation and economic growth in Azerbaijan. He used Threshold model and found that there is a nonlinear relationship between inflation and economic growth with the threshold level of 13%. [18], conducted a study on the relationship among Chinese unemployment rate, economic growth and inflation; they employed Granger causality test, unit root, co-integration, VAR and VEC model. The study revealed that unemployment impacted negatively on growth while inflation impacted positively on growth in China. The study also revealed no causation between unemployment and inflation, but there is causation between unemployment and growth, while two-way causation existed between inflation and growth.

[19], conducted a research on inflation-unemployment trade-off in less developed countries (LDCs); a case study of Nigeria. He used OLS model and found no trade-off between inflation and unemployment; the results revealed stagflation in Nigeria. He also found that there is causation between inflation and unemployment in Nigeria. [20], tested the relationship between money, inflation and output by employing cointegration and Granger-causality test analysis. The findings revealed no existence of a cointegrating vector in the series used. Money supply was seen to Granger cause both output and inflation. The results suggest that monetary policy can contribute towards price stability in Nigerian economy since the variation in price level is mainly caused by money supply.

[21], conducted a study on stabilization policy, unemployment crises and economic growth in Nigeria. He used OLS and found that the nexus between inflation, unemployment and economic growth in Nigeria were negative.

[22], conducted a study on the relationship between output and unemployment dynamics in Nigeria; he used OLS and Threshold model and found a negative nonlinear relationship between output and unemployment.

Inflation and Unemployment

Inflation is a general price increase of different commodities rather than a single commodity [23]. The trade-off between unemployment and inflation was reported first in 1958 by A.W Philips hence forming the origin of Philips Curve. The trade-off between the two variables is that, as the rate of unemployment declines, labourers are empowered to demand higher salaries and wages. In return, the producers or the employees transfer the added cost to the consumers by raising the prices of the goods. As a result, this increases the level of inflation in the economy. From Philips curve, policymakers can only solve one problem. A policy maker can only reduce unemployment and raise inflation or increase unemployment and reduce the inflation but not both. In the 1960s, Monetarists and the Keynesians differed in their view towards unemployment and inflation. Monetarists, on the one hand, emphasized low inflation while the Keynesians, on the contrary, emphasized on job creation; hence creating a predicament, [24]. [25], analyzed a real situation to relate unemployment and inflation. The finding was that the employees who anticipate an increase in the commodity prices demand that their wages be increased at the same rate hence, maintaining their purchasing power. [26], evaluated the empirical relationship between the inflation rate and the level of unemployment in Malaysia by an application of error correction model. It was

observed that there existed an equilibrium between the rate of inflation as well as the level of unemployment in Malaysia and hence the hypothesis of the Philips curve was supported in this economy. Contrary, to this finding, [27], investigated the impacts of the inflation rate on the GDP and the inflation rate in Pakistan using a longitudinal approach. It was reported that the rate of inflation had an insignificant effect on GDP as well as the rate of unemployment in the economy at 10% level of significance. The economy experienced a positive correlation between unemployment and the inflation rate hence failing to support the Philips curve concept. These studies were done in developed countries and gave contradicting findings, hence raising concerns on the nature of the relationship between such variables in the developing economies.

Inflation and Performance

Inflation is an increase in general level of goods and services over a given period across boards resulting to a fall in the purchasing capacity of the fixed wages and income earners [28]. The increase in the prices of commodities reduces consumer's marginal propensity to save, which adversely affect the peoples' standard of living. The uncertainty in prices of goods and services had craved in individual the desire to earn more income by getting engaged in more income generating jobs sometimes at the expense of their health in a bid to maintain a minimum standard of living [29]. [30], averred that, for households to maintain their standard of living or meet up their expenditures, which always increases during inflation, many households have resort to extra income generating activities, which is a sign of dip down in the leisure time, productivity, better social as well as their physical health. This explains the effect of inflation on the level of the living standard of citizens as it reduces the real income of households, thereby compelling them to cut down on their budget and avoid unnecessary expenditure while focusing more on how to increase their income to make ends meet in the challenging period. Inflation is the continuous fall in the purchasing value of money, in that, more money chases fewer goods and services, which adversely affects the economy and reduces the standard of living of the population [31]. Inflation in Nigeria, has led to the obvious devaluation of the naira and this has grossly reduced the value of fixed income earners. Inflation is anti-workers' economic growth and prosperity because it allows for arbitrary increase of prices of goods and services to the detriment of workers' fixed income even when it is glaring that their purchasing power is being reduced persistently and that eventually erodes their propensity to save. In other words, the purchasing power of a given amount of money will be smaller over time when there is inflation in the economy. Inflation at this instance can therefore be described as a cankerworm that eat up the income of fixed earners and as such affects drastically the standard of living of citizens. This, oftentimes brings about frustration and anger due to the inability to attend to family needs and cope with the high cost of transportation to work, buying of food items to feed, paying of electricity or medical bills, renewing of house rent and other issues of utmost importance among others. Inflation has been so pronounce since the beginning of 2023 in Nigeria. This has been so evidenced in the persistent increase in inflation in the last six (6) months between January to June 2023 as revealed by the Consumer Price Index and Inflation Report of the Bureau of Statistics 2023, stating that; in January 2023, the headline inflation rate rose to 21.82% compared to December 2022, headline inflation rate which was 21.34%. In February 2023, the headline inflation rate rose to 21.91% compared to January 2023, headline inflation rate which was 21.82%. In March 2023, the headline inflation rate rose to 22.04% compared to February 2023, headline inflation rate which was 21.91%. In April 2023, the headline inflation rate rose to 22.22% relative to March, which was 22.04%. In May 2023, the headline inflation rate increase to 22.41% relative to April 2023, headline inflation rate, which was 22.22%. In June 2023, the headline inflation rate increased to 22.79% relative to May 2023 relative to headline inflation rate, which was 22.41. (National Bureau of Statistics). To surmise, between January 2023 to June 2023, the inflation rate in Nigeria accelerated marginally for six consecutive times to a 17-year high of 22.79% [32]. This revelation, confirms that the rise in inflation had increased geometrically, and had reduced the standard of living.

CONCLUSION

The paper concludes that inflation poses significant challenges to workers' performance, economic growth, and overall well-being, particularly in the context of Nigeria's inflationary environment. It calls for proactive measures to mitigate the adverse effects of inflation and underscores the importance of sound economic policies in addressing inflationary pressures.

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