# Unemployment and Economic Growth: An Empirical Reflection of the Nigerian Experience

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## ABSTRACT

*The main objective of the study is to empirically investigate the relationship between unemployment and economic growth in Nigeria using data covering the period between 1985 and 2015. The Ordinary Least Squares and granger causality were used to analyze the results. The results indicate that unemployment has a negative and insignificant impact on the level of economic growth in Nigeria. The result shows further that Gross Fixed Capital Formation has a positive and insignificant impact on economic growth. Government expenditure on health has a significant and positive impact on economic growth in Nigeria. The result shows that government expenditure on education has an insignificant and negative impact in economic growth in Nigeria. The result recommends amongst others that government job creation efforts should focus more on the real sector of the economy.*

**Keywords:** Unemployment, Economic Growth, Granger causality, Gross Fixed Capital Formation

## INTRODUCTION

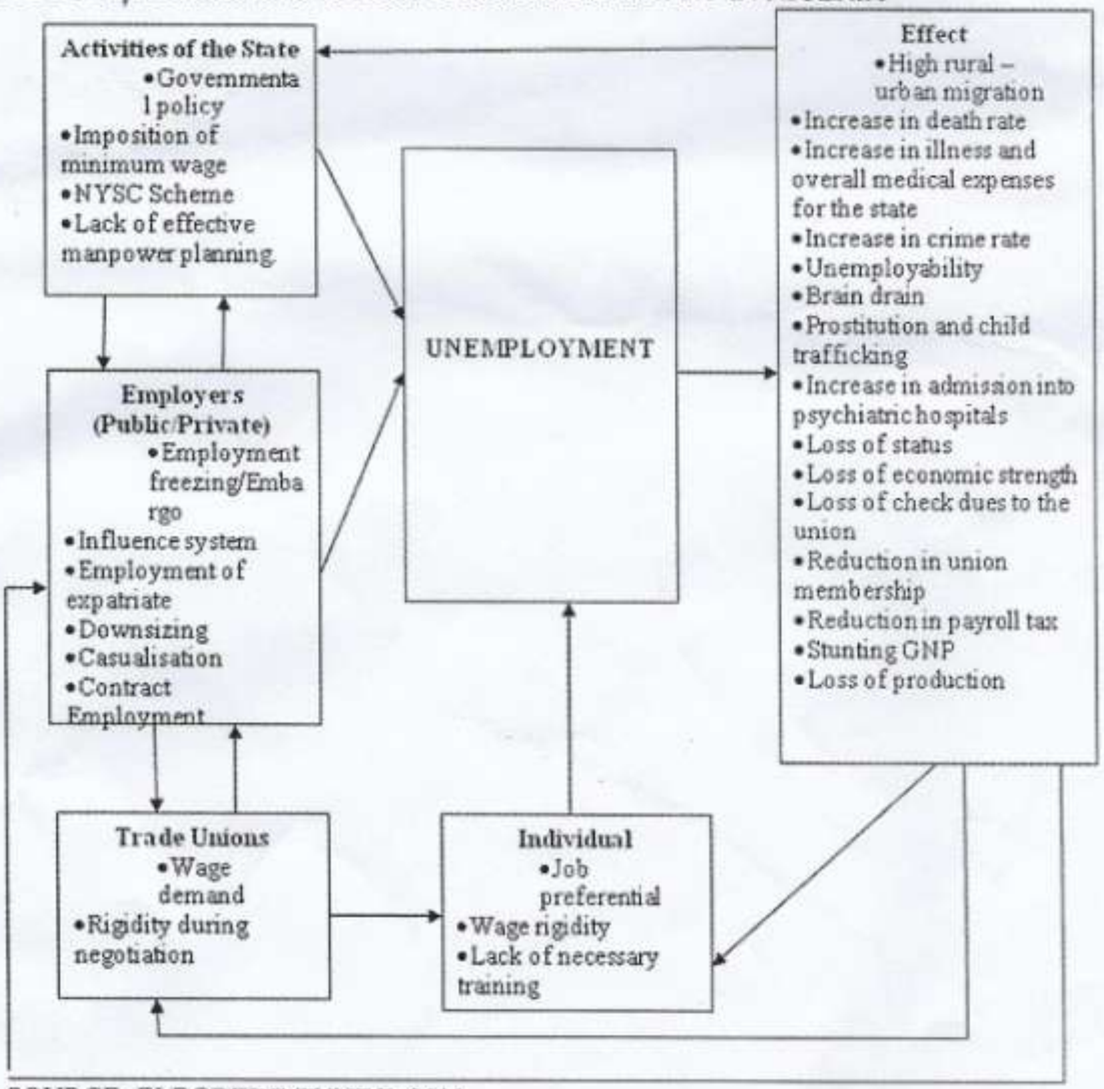
Unemployment is an economic phenomenon that represents instability in the level of economic progress (Mahmoud and Mohammed, (2012). Unemployment which is the condition of having no job or being out of job for those who are a actively seeking for such job (Akinmulegun (2014) arises results from insufficient and non-availability of jobs that corresponds with the growing population (Akiri, Okunakpo and Anebi-Atede, 2016). Although unemployment involves all factors of production if they are idle. Labour is the only passive factor of production and this makes it the focus of most research. The national Bureau of Statistics (NBS) thus sees unemployment as the proportion of the labour force that is ready to work but could not work for at least thirty nine (39) hours in the weak proceeding the period when the survey was conducted. Nigeria is endowed with natural and human resources but the inability to properly develop and utilize the nation's resources effectively has been the reason for the high level of unemployment in Nigeria. This is more in the rural areas than in the urban centers (Akiri, Okunakpo and Anebi-Atede, 2016). The high level of unemployment in Nigeria has led to decline in national income, increment in rural urban migration improper utilization and hence waste of human resources, high dependency ratio, low standard of living reflected in the low purchasing power (fall in aggregate demand), brain drain, social vices e.t.c. The high level of unemployment and underemployment in Nigeria have been also due to the high inflation rate, high exchange rate, high level of external debt, large public sector (Umaru, Donga and Musa, 2013). Thus, despite various programmes established by the government for job creation which included National Poverty Eradication Programme (NAPEP), National Directorate of Employment (NDE), Subsidy Re-investment and Empowerment Programs (SURE-P) (Danjos and Ali, 2014), the level of unemployment kept increasing.

Nigeria which is the largest black Africa country also hosts the largest number of unemployed and underemployed people. The level of unemployment rose from 12.3 percent in 2006 to 23.9 percent in 2011. This high level of unemployment has increased the level of poverty. The World Bank in 1996 report that 43 percent of the population lived below the poverty line of ₦395 in 1985 prices. This number increased to 65.6 percent in 1996 as noted by the National Bureau of Satistics. This has been aggravated by the wrong manpower planning, poor educational facilities and a good number of the labour force taking to jobs for which they are not properly trained (Oluseyi and Elegbede, 2012). Many others worked as contract staff with no job security. The increases in the nominal GDP prior to2016 despite the high rate of unemployment is symptomatic that this high GDP growth rate accrues to a smaller proportion of the population. The high level of unemployment has reduced the purchasing power of the citizens and this has reduced the level of aggregate demand. This has lowered the level of investment which has further reduced the the standard of living. The main objective of the research is thus to assess the nature of the relationship between unemployment and economic growth in Nigeria. This is important as it will guide policy makers in ameliorating the problem of unemployment and underemployment. The hypothesis is that there is no relationship between unemployment level and economic growth. The remaining part of the study is divided into six sections. The second is the conceptual framework and the third section is on the theoretical framework. The empirical literature constitutes the fourth section while the econometric procedure constitutes the fifth section. The sixth section is the results and findings while the seventh section concludes the paper.

## Conceptual Framework

Unemployment refers to be labour that is not engaged or labour that is not put into productive use Mundi (2013) thus defined unemployment as the percentage of the labour force that is without job. Unemployment is thus the total percentage of citizens who intend to work but the jobs are not available. Unemployment is closely related to poverty and deprivation as it has an indirect relationship with the standard of living. Any population is divided into two categories- economically active and economically inactive population (Aiyedogbon and Ohwofasa,; 2012). The economically active population labour force (working population) is the population that is willing and capable of working including those who are employed (actively engaged) and the unemployed (Njoku and Okezie 2011). The economically inactive population are citizens who are neither working nor looking for jobs.

FIGURE 1 CAUSES AND EFFECT OF UNEMPLOYMENT IN NIGERIA




SOURCE: ELEGBEDE TUNDE, 2011

## Theoretical Underpinning Classical Theory of Unemployment

Classical theory of unemployment views involuntary unemployment as a short term phenomenon caused by a divergence between the price level and the wage level. They believed that unemployment results from very high real wages. They believed that a reduction in the wage level would reduce unemployment. They believed that the activities of trade unions worsens the unemployment situation. They believed that the demand for high wages that does not correspond to productivity as demanded by unions worsens the unemployment situation.

## Keynesian Theory of Unemployment

The cyclical or Keynesian or demand deficient unemployment occurs when there is low level of aggregate demand. It varies with the business cycle, but like the great depression in the 1930, it could be persistent. Keynes opined that this form of unemployment results from inadequate effective demand.

## The Search Theory

This theory is of the view that unemployment results when workers quit their jobs to look for a new job with higher wage. The worker is unemployed during the process of searching for a new job.

## Empirical Literature

Makno and Azu (2015) investigated economic growth and unemployment in Fiji. The used data covering the period between 1980 and 2012. The cointegration technique was adopted. The result indicated the existence of long run association among unemployment, economic growth and investment. Poverty and youth unemployment in Nigeria was examined by Aiyedogbon and Ohwofasa (2012). The study revealed that unemployment had positive and significant impact on poverty. Akiri, Okunakpo and Arebi-Atede (2016) examined the impactof graduate unemployment on economic growth in Nigeria. The study which spare the period between 1980 and 2010 used the ordinary least squares estimation technique. The result showed that unemployment had a negative impact on Gross Domestic Product. Umaru and Zubain (2012) investigated the association between unemployment and inflation in Nigeria for the period between 1977 and 2009. The cointegration technique and the granger causality were adopted. The result showed that inflation had a negative impact on unemployment. Amassoma and Nwosa (2013) studied the impact of unemployment rate on productive using data from 1986 to 2010 and the Error correction modeling approach. The results revealed that unemployment rate had an insignificant impact on productivity growth both in the long run and short run. Unemployment and economic growth was investigated by Onwochukwu (2015). The study covered the period between 1985 and 2010. The OLS was used to analyze the data. The result revealed that unemployment did not have a significant impact on economic growth. Ogweze and Odim (2015) evaluated the cost of unemployment on economic growth in Nigeria. The study adopted the OLS technique. The results revealed that unemployment had a negative relationship with Real Gross Domestic Product in Nigeria. Oloni, (2013) assessed the impact of economic growth on employment in Nigeria. The study adopts the Johansen test and Vector Error Correction. The results showed that economic growth had a positive but insignificant relationship with employment. Asolka and Okezie (2011) focused their study on unemployment and economic growth in Nigeria between the period of 1985 to 2009. Using the descriptive statistic. The study revealed that agriculture made the highest contribution to GDP.

Umaru, Donga and Musa (2013) investigated on economic growth in Nigeria. The study spanned the period between 1986 and 2010. The study adopted the Johansen cointegration methodology. The results revealed a long run relationship among economic growth, unemployment and inflation. The result also showed that unemployment and inflation had a positive but insignificant impact on economic growth. Danjos and Yusufu (2014) investigated the implications of unemployment for sustainable development in Nigeria. Using the OLS and descriptive statistics, the results showed that the high rate of unemployment has been responsible for poverty and other social vices in Nigeria. Using the descriptive statistic, Akinmulegun (2014) assessed unemployment and poverty paradigm in Nigeria. The study which adopted the descriptive statistic found unemployment to be the major cause of poverty in Nigeria. Oluseyi and Elegbede examined the causes and effects of graduate unemployment in Nigeria. The study found that economic recession, government policy, employment of expatriates and trade unions wage demand increased the level of unemployment in Nigeria.

## Econometric Procedure

The model used in analyzing unemployment and economic growth is stated below:

$$RGDP = bo + b_1\ UNEM + b_2\ GEXH + b_3\ GEDU + b_4\ GFCF + Ut$$
$$b1<0,\ b_2\ b_3,\ b_4>o$$

Where:
RGDP= Real Gross Domestic Product.
UNEM = Unemployment
GEXH= Government Expenditure on Health.
GEDU=Government Expenditure on Education.
GFCF= Gross Fixed Capital Formation.
Ut= Error Term

The Ordinary Least Squares (OLS) and the granger causality were used to analyze the model. The OLS is a consistent and unbiased estimator. Granger causality will be used to assess which variable causes the change in another.

## Results and Findings

The result of the OLS is shown in the table below:

Table 1: Summary of OLS Result: Dependent variable: LRGDP

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| LUNEM | -0.240197 | 0.283884 | -0.846108 | 0.4052 |
| LGFCF | 0.281044 | 0.243278 | 1.155237 | 0.2585 |
| LGEXH | 0.807396 | 0.180387 | 4.475898 | 0.0001 |
| LGEDU | -0.231526 | 0.212669 | -1.088669 | 0.2863 |
| C | 4.076322 | 3.754114 | 1.085828 | 0.2875 |

$R^2 = 0.60$, $DW = 2.13$

The result shows that 6o percent of the total variation in economic growth has been explained by unemployment, government expenditure on health, government expenditure on education and Gross Fixed Capital Formation taken together. 40 percent of the changes was explained outside the model. The result shows that unemployment level in Nigeria has a negative and insignificant impact on the level of economic growth in Nigeria. This casts doubts on the various job creation policies and programmes of the government. This result is supported by the non significant of the Gross Fixed Capital formation. The result indicates that government expenditure on education is not satirically significant and is also negatively signed. This indicates that the huge budgetary allocation to the education sector has not produced the desired impact on the level of economic growth. The result indicates that government expenditure on health is however statistically significant. The result of the granger causality test is shown in the table below:

**Table 2: Granger Causality Test Result at Lag 2**

| Null Hypothesis: | Obs | F-Statistic | Prob. |
|---|---|---|---|
| LUNEM does not Granger Cause LRGDP | 29 | 0.05770 | 0.9441 |
| LRGDP does not Granger Cause LUNEM | | 1.09144 | 0.3518 |
| LGFCF does not Granger Cause LRGDP | 29 | 0.89822 | 0.4205 |
| LRGDP does not Granger Cause LGFCF | | 2.26496 | 0.1256 |
| LGEXH does not Granger Cause LRGDP | 29 | 0.12761 | 0.8808 |
| LRGDP does not Granger Cause LGEXH | | 4.56359 | 0.0209 |
| LGEDU does not Granger Cause LRGDP | 29 | 0.22908 | 0.7970 |
| LRGDP does not Granger Cause LGEDU | | 1.98603 | 0.1592 |
| LGFCF does not Granger Cause LUNEM | 29 | 0.29291 | 0.7487 |
| LUNEM does not Granger Cause LGFCF | | 2.84806 | 0.0776 |
| LGEXH does not Granger Cause LUNEM | 29 | 0.18341 | 0.8336 |
| LUNEM does not Granger Cause LGEXH | | 0.43508 | 0.6522 |
| LGEDU does not Granger Cause LUNEM | 29 | 0.77160 | 0.4734 |
| LUNEM does not Granger Cause LGEDU | | 6.36847 | 0.0060 |
| LGEXH does not Granger Cause LGFCF | 29 | 2.27611 | 0.1244 |
| LGFCF does not Granger Cause LGEXH | | 2.25469 | 0.1267 |
| LGEDU does not Granger Cause LGFCF | 29 | 1.71656 | 0.2010 |
| LGFCF does not Granger Cause LGEDU | | 5.66655 | 0.0096 |

| | | |
|---|---|---|
| LGEDU does not Granger Cause LGEXH | 29 | 2.133950.1403 |
| LGEXH does not Granger Cause LGEDU | | 1.724650.1996 |

The result shows that there is no causality between Gross Fixed Capital Formation and economic growth in Nigeria. The result of the granger causality test also revealed that a unilateral causality runs from economic growth to government expenditure on health. Also the result indicates no causality between government expenditure on education and the level of economic growth in Nigeria. The result of the granger causality revealed no causality between unemployment and economic growth. Also no causality exists between government expenditure on health and Gross Fixed Capital Formation. Also, a unilateral causality exists from unemployment to government expenditure on education. A unilateral causality also exists from Gross Fixed Capital Formation to government expenditure on education.

## CONCLUSION

This research investigated unemployment and economic growth in Nigeria. The research covered the period between 1985 and 2015. The Ordinary Least Squares and granger causality were used. The result concludes that government job creation programmes in Nigeria have not produced the desired results. This has led to a decline in the level of economic progress in Nigeria. This is because a jobless population is that with a lower purchasing power. A weak aggregate demand that results from low standard of living hinders investments this has been detrimental to the level of economic growth in Nigeria. The study recommends that government job creation efforts should focus more on the real sector of the economy which is more result oriented. The government should increase the budgetay allocation to the education sector and special attention should be focused on skill development.

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