

# UNEMPLOYMENT AND ECONOMIC GROWTH IN NIGERIA, (1990-2013).

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## Abstract

*The issue of unemployment has been a major challenge to most nations and it still remains on the front burner today. This study empirically assessed the impact of unemployment on economic growth in Nigeria from 1990-2013 Using the ordinary least squares estimation technique. The empirical analysis carried out shows that unemployment has a negative and non-significant relationship with gross domestic product. Also, the average capacity utilization rate and the government expenditure both have a positive and significant relationship with the gross domestic product, which is consistent with a-priori expectation. The coefficient of determination ( $R^2$ ) of 0.867 shows that about 87 percent of the variation in real gross domestic product was explained by variation in the independent variables. An important implication of the findings is that unemployment has far reaching negative consequences on the economic growth of Nigeria. Finally, this work suggests that in order to achieve sustainable economic growth which is a necessary condition for economic development, the Nigerian government should develop the private sector to be more vibrant and to venture into vital aspects of the economy (pumping the prime), such as, manufacturing, and mechanized agriculture. It was also recommended that the government should give more attention to vocational education to boost economic growth.*

**Key words:** Unemployment, Economic Growth, Real Gross Domestic Product, Unemployment Rate, Capacity Utilization Rate.

## INTRODUCTION

Employment is a vital factor that stimulates economic growth, and has a functional relationship with the rate of productivity, human capital formation, advancement in technology and poverty reduction (Okojie, 2005). Without employment there will be no growth in per capita income and inflation will be more difficult to curtail.

Unemployment implies a collateral limitation or waste of a nations manpower resources and it still remains one of the most dangerous impediments to social and economic progress. It generates welfare loss as a result of low output which leads to lower income and standard of living. On a general note unemployment causes a greater reliance on government assistance and this will result to an increase pressure on social welfare budget as well as tax payers.

In Nigeria unemployment is prevalent and widespread, and it still remains one of the most challenging economic problems facing the country. The situation in Nigeria is a paradox, with high population growth rates which is not accompanied by complementary job opportunities and as such the scourge of unemployment is eating deep into the fabrics of the system.

The various macroeconomic policies by the Nigerian government have not been able to address this monster-like problem. It is on record that, there is a strong correlation between increase in unemployment rate and crime rate (Oduola,2001), this is the current case of Nigeria, with unemployment rates as high as about 23.9% in 2013 with increasing crime rate and insurgency. There is a general axiom that “when less legal work is available more illegal work takes place”. The unemployment situation in Nigeria is chronic and inference from available statistics signals a potential threat to peace and security and have negative consequences for economic growth.

## **EMPIRICAL LITTERATURE**

Iyoha (2002), assessed empirically the effect of unemployment in Nigeria with respect to gross domestic product. He made use of time series data from 1970-1990 using the Ordinary Least Squares estimation technique. He discovered that a negative relationship exist between unemployment and gross domestic product growth rate.

Also, Obadan and Oduola (2005), examined empirically the relationship between employment and productivity in Nigeria. They found out using the Ordinary Least Squares technique that a positive correlation exist between productivity and employment, which will imply that a negative relationship exist between unemployment and productivity.

In light of the above, it is noticeable that over the years, several efforts made on studying the impact of unemployment on economic growth in Nigeria have not been able to efficiently solve the problem of unemployment in Nigeria.

## **THE CONCEPT OF UNEMPLOYMENT**

According to the International Labour Organization (ILO), the unemployed are the number of the economically active population, who are without work but available for and seeking work at the prevailing wage rate, including people who have lost their jobs and those who have voluntarily left work (world bank, 1998), the unemployment rate is expressed as a percentage of the total number of persons available for employment at any particular time.

## **TYPES OF UNEMPLOYMENT**

1. **Frictional unemployment:** This type of unemployment exist as a result of industrial friction i.e. changing jobs, ignorance of job opportunities, immobility of labour or lack of skill etc.
2. **Structural Unemployment:** This type of unemployment is due to lack of capital equipment which unemployed workers could use, it implies lack of skill among unemployed persons. This is common in less developed countries where investment has failed to keep pace with growth in the labour force.
3. **Cyclical Unemployment:** This type of unemployment is experienced during economic recession or business cycle, which will be expected to disappear during booms. It is as a result of deficient demand.

4. **Disguised Labour:** This refers to the mass unemployment and under-employment which prevail in the agricultural sector of an undeveloped or over populated country. It includes unused labour which does not appear as open unemployment.
5. **Seasonal Unemployment:** This type of unemployment is due to seasonal variations in the demand for labour.

#### **TRENDS OF UNEMPLOYMENT IN NIGERIA.**

In the 1960s and 1970s the Nigerian economy was able to provide jobs for almost all able and willing job seekers, and even absorbed considerable foreign labour (mainly from Ghana, India etc). The wage rate during this period was relatively standard on an international scale. In the 1970s as a result of the oil boom, there was mass migration of people (mostly youths) to urban centres seeking “better job”. Following the down-turn in the economy in the early 1980s, the problems of unemployment and inflation increased, leading to the introduction of the structural adjustment programme (SAP) by the Babangida regime (Aminu et al 2013).

#### **THEORETICAL FRAMEWORK**

On a general note economic theory holds that there is a causative relationship between the level of employment and output. And thus real gross domestic product will have a negative relationship with unemployment rate.

#### **THE CLASSICAL APPROACH**

The classical theory is based on say’s law of markets which states that “supply creates its own demand”. This law in its natural form applies to the barter system where goods are ultimately sold for goods (i.e. every good brought to the market in a barter economy is demanded by another good).

According to J.B say (1911), work is unpleasant and no person will work to make a product unless he intend to exchange it for another product which he desires, therefore to him the very act of supplying a product means a demand for them, and he assumes that there can never be over production because supply will not exceed demand as a whole.

The classical believe that the economy will in the long run tend toward full employment without inflation, if the government does not interfere. They believe that wages and prices are determined by the forces of demand and supply.

This theory has so many weaknesses and as a result it led to over-production and consequently the economic depression of the 1930s.

#### **THE KEYNESIAN APPROACH**

J.M Keynes (1936), strongly criticized the classical theory of employment in his book popularly called “The General Theory”. Keynes rejected the idea of full employment, and was of the view that so many persons who were willing and able to work at prevailing wage rate during the 1930’s could find few or no jobs, this according to him is because supply exceeds demand. To Keynes under employment equilibrium is a normal case, and full employment is accidental. Keynes believes on government intervention to regulate the activities of private profit maximizing units in the

economy. Keynes opined that the cause of unemployment is deficiency in aggregate demand and over production. Keynes believed that effective demand will lead to increase in output, which will result to increase in income and an increase in employment. He was of the view that employment can be increased by increasing effective demand (consumption) and investment in aggregative terms.

### **NIGERIA'S OVER DEPENDENCE ON OIL, THE NEGLECT OF THE AGRICULTURAL SECTOR AND DECREASING PASSION FOR VOCATIONAL EDUCATION.**

Nigeria's monocultural economy which is heavily reliant on crude oil exports, have significantly contributed to the hyper increase in the unemployment rate from the oil boom of the 1970s and continues to increase on a geometric scale. The agricultural sector which was hitherto the most vital to the economy was relegated to the background as a result of the commercialization of crude oil in Nigeria.

Consequently the lingering youth unemployment in the 1980s was as a result of the neglect of vocational education and the prevailing preference for academic certificates. Adebayo et al(2006) posit that the agricultural sector has great potential for employment generation in Nigeria, if the sector is managed efficiently. As Olaoye(1986) noted, government should make tremendous efforts towards generating employment through promotion of small and medium scale business and promoting vocational education.

### **ATTEMPTS BY THE NIGERIAN GOVERNMENT TO CURTAIL UNEMPLOYMENT**

Recently the Nigerian government has introduced a compulsory entrepreneurial course in all Nigerian universities and is compulsory for all undergraduates, this is aimed at arming the students or potential labour force with the knowledge needed to be self reliant.

Over the years government has enacted so many programmes to create employment and reduce poverty. These include, the Structural Adjustment Programme(1986), Family Economic Advancement Programme(1993), Green Revolution Programme(1979), to reduce food importation and increase local production. The National Poverty Eradication Programme(NAPEP), and the Graduate Internship Programme which was recently introduced by the Goodluck Jonathan regime.

### **CONSEQUENCES OF HIGH UNEMPLOYMENT**

There is a strong correlation between increase in unemployment rate and increase in crime rate (Adebayo, et al2006). On a general note countries with high unemployment rates tend to be those where youth restiveness, insecurity and high crime rates hold sway. And these has a negative multiplier effect on foreign direct investment. A high unemployment rate will result in general decrease in living standards (Human development index), pressure on social assistance programmes by government, low gross domestic product, underemployment and decrease in the psychological wellbeing of the unemployed.

**METHOD OF ANALYSIS:** The study made use of the ordinary least square regression analysis to show the extent of the relationship and influence between unemployment and economic growth.

**SOURCES OF DATA:** This research work relied basically on secondary data sourced from Central Bank of Nigeria publications and National Bureau of Statistics Report.

**DECISION RULE:** If the regression coefficient is positive and the calculated t-value is greater than the tabulated value, it is an indication that there is positive and significant relationship between the dependent and independent variables. The coefficient of determination ( $R^2$ ) was used to measure the rate at which the dependent variable is explained by independent variables. Finally, if the Durbin Watson test is approximately two (2), it shows the absence of autocorrelation.

**MODEL SPECIFICATION:** This study used real gross domestic product as the dependent variable, while unemployment rate, capacity utilization rate and government expenditure are used as independent variables. The model is therefore specified thus:

$$\ln \text{RGDP} = b_0 + b_1 \ln \text{UNPRT} + b_2 \ln \text{CUR} + b_3 \ln \text{GEXP} + U$$

Where:

UNPRT = Unemployment Rate

CUR = Capacity Utilization Rate

GEXP = Government Expenditure

U = Stochastic error term.

A priori expectation  $b_0$ ,  $b_2$ , and  $b_3$  are expected to have a positive value less than one, while  $b_1$  is expected to have a negative value less than one.

E-views (version 4.1) econometric software was used for the estimation

### INTERPRETATION OF ESTIMATED RESULT

The estimated model is obtained thus;

$$\text{RGDP} = 8.478042 - 0.007756 \text{UNPRT} + 0.668592 \text{CUR} + 0.168302$$

$$\text{S.E} = (0.767681) \quad (0.072541) \quad (0.181810) \quad (0.040675)$$

$$t\text{-stat} = (11.04370) \quad (-0.106924) \quad (3.677429) \quad (4.137724)$$

$$R^2 = 0.867005$$

$$\text{Durbin-Watson Statistic} = 0.363938$$

$$\text{F-Statistic} = 43.4047$$

### INTERPRETATION AND ANALYSIS OF ESTIMATED RESULT

The multiple linear regression analysis was employed to capture the effect of some important macroeconomic variables and unemployment rate that have been assumed to have some degree of influence on Nigeria's economic growth from the period 1990-2013. From the result it was observed that unemployment rate has a negative and non-significant relationship with real gross domestic product, which implies that it negatively affected the real gross domestic product within the period. The coefficient of the Average Capacity Utilization rate shows that it has a positive and significant relationship with Nigeria's real gross domestic product. Consequently government expenditure is positively related to real gross domestic product and is significant.

The coefficient of determination ( $R^2$ ) is 0.867 and shows that about 87% of the variation in real gross domestic product, was explained by variation in the independent variables. At 5 percent level of significance, the F-statistic shows that the model is useful in determining the influence of the independent variables on economic growth in Nigeria, as the computed F-statistic (43.46) is greater than the tabulated value (3.13). Also At 5 percent level of significance, the tabulated t-statistic which is 2.093 is greater than the calculated t-statistic (-0.106924) corresponding to unemployment-rate, which means that the negative relationship existing between unemployment and economic growth is statistically insignificant. The Durbin Watson statistic of (0.3639) shows the existence of serial autocorrelation because its value is not approximately 2.

### **POLICY IMPLICATION**

The empirical results show that there is a negative but statistically insignificant relationship between unemployment and economic growth in Nigeria within the period 1990-2013. This conforms to A-priori expectations that, an increase in unemployment rate will have inverse effect on economic growth due to the fact that unemployed persons will be unable to contribute positively to increase in gross domestic product.

### **CONCLUSION AND RECOMMENDATION**

The study investigates the effect of unemployment rate on economic growth in Nigeria. It was discovered that unemployment has a negative effect on economic growth. It was discovered that about 87% of changes in real gross domestic product is accounted for by changes in the independent variables.

Based on the findings, the following recommendations are suggested.

- The agricultural sector which is a key sector with great potentials for reducing unemployment in Nigeria, should be given the much needed priority. Government at all levels and all relevant agencies should put more efforts to improve mechanized agriculture.
- Government should develop the private sector through public-private partnership, this means government should venture into certain vital aspects of the economy like manufacturing to stimulate and make it work, and then hand it over to the private sector to manage so as to enhance optimality in the system. This will imply that government

creates the necessary environment for the private sector to be more vibrant and innovative. This is the case in most developed economies like the U.S Britain etc.

- Human capital development should be a major focus of the government. The unemployed should be assisted to acquire more skill that will make them more innovative and employable and more priority should be accorded vocational education.
- Unemployment can be reduced if the major factors on which the real sector is dependent are attended to i.e. power sector, health facilities, good road networks, population control etc.
- The introduction of a social security bill to legally compensate unemployed persons (educated youths), who will have access to government welfare package. This will limit youth restiveness and improve their living condition.

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## Appendix



Table 1: real gross domestic product, capacity utilization rate, government expenditure and unemployment rate in Nigeria from 1990-2013.

| YEAR | RGDP     | CUR   | GEXP     | UNPR T |
|------|----------|-------|----------|--------|
| 1990 | 328606.1 | 40.3  | 24048.6  | 3.5    |
| 1991 | 328644.5 | 42    | 28340.9  | 3.1    |
| 1992 | 337288.6 | 38.1  | 39763.3  | 3.5    |
| 1993 | 342540.5 | 37.2  | 54501.8  | 3.4    |
| 1994 | 345228.5 | 30.4  | 70918.3  | 3.2    |
| 1995 | 352646.2 | 29.29 | 121138.3 | 1.9    |
| 1996 | 367218.1 | 32.46 | 158678.3 | 2.8    |
| 1997 | 377830.8 | 30.4  | 269651.7 | 3.4    |
| 1998 | 388468.1 | 32.4  | 309015.6 | 3.5    |
| 1999 | 393107.2 | 34.6  | 498027.6 | 17.5   |
| 2000 | 412332   | 36.1  | 239450.9 | 18.1   |
| 2001 | 431783.2 | 42.7  | 438696.5 | 13.7   |
| 2002 | 451785.7 | 54.9  | 321378.1 | 12.2   |
| 2003 | 495007.2 | 56.5  | 241688.6 | 14.8   |
| 2004 | 527576   | 55.7  | 351259.9 | 11.8   |
| 2005 | 561931.4 | 54.8  | 519510   | 11.9   |
| 2006 | 595821.6 | 53.3  | 552385.8 | 12.3   |
| 2007 | 634251.1 | 53.28 | 759323   | 12.7   |
| 2008 | 672202.6 | 53.84 | 960900   | 14.7   |
| 2009 | 718977.3 | 55.14 | 1152797  | 19.7   |
| 2010 | 776332.2 | 56.22 | 883870   | 21.1   |
| 2011 | 834000.8 | 55.68 | 918500   | 23.9   |
| 2012 | 888893   | 55.9  | 874800   | 22.5   |
| 2013 | 878267.7 | 55.8  | 896650   | 23.9   |

Source: CBN Statistical Bulletin, 2013.  
National Bureau of Statistics Report, 2013.

| Statistic | Prob.     |
|-----------|-----------|
| 0.4370    | 0.0000    |
| 0.77429   | 0.0015    |
| 0.87724   | 0.0005    |
| 0.06924   | 0.9159    |
| 0.1310027 | 13.10027  |
| 0.0341935 | 0.341935  |
| -1.035063 | -1.035063 |
| -0.838721 | -0.838721 |
| 43.46047  | 43.46047  |
| 0.000000  | 0.000000  |

Source: Author's computation using E-views  
(Version 4.1)