Effect of Unemployment, Poverty and Government Expenditure on Economic Growth in Nigeria (1990 – 2017)

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Abstract

This study examined the effect of unemployment, poverty and government expenditure on Economic growth during 1990 – 2017.The specific objectives are to determine how Youth Unemployment, poverty and Government expenditure affects economic growth. The gross domestic growth rate was used to capture the extent of economic growth and data on the variables were sourced from Central Bank of Nigeria. The methods of data analysis include descriptive statistics, Augumented Dickey-Fuller test for unit root and Autoregressive Distributed Lag (ARDL) bound test for cointegration amongst others. The unit root result test showed that the dependent variables youth unemployment, poverty and Federal government capital expenditure were stationary at first difference, while the independent variable real gross domestic product was stationary at level. The ARDL estimation test indicates indicates that Federal government capital expenditure have significant positive influence on Economic growth (RGDP). A unit increase in Federal government capital expenditure will result in a 2.368 units increase in Economic growth at lag 1. This implies capital expenditure induces economic growth. Poverty negatively influenced economic growth implying that a unit decrease in poverty (since from A priori expectation poverty is negatively signed) will lead to 32.13 unit increase in economic growth (RGDP) at lag 1. A unit decrease in unemployment will lead to a 694.2 unit increase in economic growth at lag 1. The F-statistic (1800) with probability value of (0.000) indicates that taken together, the explanatory variables are significantly related to economic growth (RGDP). The recommendation proffered based on the findings is that Monetary Policy measures should be put in place to curb youth unemployment and poverty in the country, through the provision of easily accessible funds to enable youths engage in meaningful production activities.

I. Introduction

One of the greatest challenges facing the Nigerian economy is unemployment which has maintained a rising trend over the years. The total labor force in Nigeria is made up of all persons aged 15-64 years excluding students, home keepers, retired persons and stay-at-home to work or not interested persons. Achieving the macroeconomic goals of any country involves maintaining price stability, achieving full employment and attaining the highest level of growth and development. The second goal, which is achieving full employment means maintaining a

zero unemployment level. This is because full employment is the absence of unemployment of any kind. But it is a clear fact that zero unemployment cannot be achieved by any country, because there is always a level of voluntary unemployment (that is, people who are able to work but decide to be unemployed). Unemployment is an important determinant of the level of growth and development which a country can attain.

Unemployment is a situation whereby people who are physically fit, capable, qualified and ready to work at any time are without jobs. The issue of unemployment is one of the macro-economic problems of a nation. This is due to high level of corruption, mismanagement of public funds, among others over the years.

According to Seer (1969), a country cannot claim to be developing and yet experience a high level of poverty, unemployment and inequality. This shows the important role unemployment plays in the process of economic growth. Unemployment has been one of the greatest economic challenges faced by the Nigerian economy and over the years has maintained a rising trend despite several effort by the government. Nigeria's struggle to create jobs keeps getting worse.

The effect of unemployment on economic growth are humongous. Data published by Nigeria's National Bureau of Statistics (NBS) pegs the unemployment rate at 18.8% in the third quarter of 2017. The socio-economic effect of unemployment includes; fall in national output, increase in rural-urban migration, waste of human resources, high rate of dependency ratio, poverty, depression, increase in crime rate, frustration, immoral acts and behavior e.g. prostitution armed robbery.

Objective of the Study

The broad objective of the study is to examine the effect of unemployment, poverty and government expenditure on economic growth in Nigeria between1990 - 2017. The specific objectives include

(i) determine the effect of unemployment (Youth Unemployment) on economic growth in Nigeria.
(ii) examine the effect of Poverty on economic growth in Nigeria
(iii) analyze the effect of government expenditure on economic growth in Nigeria

Empirical Review

Feridum & Akindele (2006) identified unemployment as one of the major challenges confronting the Nigeria economy. The social impacts of unemployment are less prevalent in economies that are able to support unemployed class with subsidies and social security allowances.

Udabah (1999) noted that the main reason for low standard of living in underdeveloped countries is the relative inadequate and inefficient utilization of labor compared with advanced nations.

Osinubi (2006), argued that unemployment is as a result of the inability to develop and utilize the nations manpower resources effectively especially in the rural sector. Interestingly, every government regime comes with its own economic growth increase strategy, but none has been able to achieve the desired goal. Since the continuous increase in population begun, developing nations have been characterized by unemployment. The issue of unemployment brought about some social and economic consequences such as; increase in crime rate, loss of respect and

identity, reduction in purchasing power, psychological injuries, corruption among others.

Muhammed, Inuwa, and Oye (2011) submitted that unemployment constitutes a series of serious development problems and is increasingly more serious all over Nigeria. The government has sought to employ as many as possible through large scale recruitment exercises. However various programmes have been established to reduce rate of unemployment in the country. Such as the Youth Empowerment Programmes (YEP), National Economic Empowerment Development(NEED), Structural Adjustment Programmes (SAP), N power programmes, welfare to work scheme, tax reduction etc, were established to reduce rate of unemployment, but the issue of unemployment still remains unchanged. Unemployment is generally said to occur when a person actively searching for a Job and unable to find it.

Fadayomi (1992), Osinubi (2006) argued that unemployment is as a result of the inability to develop and utilize the nations man power resources effectively especially in the rural sector. Interestingly, every government regime comes with its own economic growth increase strategy, but none has been able to achieve the desired goal.

According to Walterskirchen (1999) the simple, but wrong argument is: there can be no negative relationship between economic growth and unemployment because GDP and unemployment are both rising in the long run. it is evident that employment will only increase if GDP is rising faster than productivity. Other things being equal, the greater the amount of goods and services produced, the greater the labor required for production; because economic growth and unemployment go hand in hand. But there is also the notion that higher productivity could mean fewer jobs.

II. Methodology

Research Design

A study design is the plan of action the researcher adopts for answering the research questions. The study used a descriptive research design. Orodho (2003) indicates that a descriptive survey is used to establish the relationship between the variables.

Sources of data

Secondary data was used in this study. Data were sourced mainly from the publications of Central Bank of Nigeria (CBN) namely; Statistical Bulletin, as well as data from National bureau for statistic (NBS). The variables for which data were sourced include: poverty rate, youth unemployment rate, federal government expenditure and growth rate of the economy.

Models specification

The model for the study which is drawn from Econometric theory is stated functionally below:

RGDP = f (FGCExp, POV, YUEMP)

This could be stated explicitly as

$RGDP = b_0 + b_1 FGCEXP - b_2 POV - b_3 YUEMP + Ut$

The variables to for this study are defined below:

RGDP = Real gross domestic product

FGCEXP=Federal government capital expenditure

POV = Poverty

YUEMP=Youth Unemployment

Ut =random variable

b_0 = constant parameter

b_1 - b_3 = estimated parameters of the independent variable

Technique of Data Analysis

The study used ARDL test and the Ordinary Least Squares (OLS), co-integration. The augmented dickey fuller test (ADF) was employed as test of stationarity of the time series. While, the OLS was employed to establish the relationship between the variables. Also, the correlation test was used to test for the long run affiliation among the variables in the model.

III. Result and Discussion

The data for each of the variables in the model over the study period are presented in Table 1

Table 1: Real Gross domestic product (GDP), Federal government Capital Expenditure (FGCExp), Poverty () and Youth Unemployment (YUEMP) from 1990-2017.

Year	RGDP	FGCExp(N"million)	poverty	YUEMP
1990	19305.63	24.05	44	4.17
1991	19199.06	28.34	43.5	5.94
1992	19620.19	39.76	42.7	6.19
1993	19927.99	54.5	49	6.20
1994	19979.12	70.92	54.7	6.21
1995	20353.20	121.14	60	6.25
1996	21177.92	212.93	65.6	6.87
1997	21789.10	269.65	65.5	4.63
1998	22332.87	309.02	69.5	5.24
1999	22449.41	498.03	72	5.93
2000	23688.28	239.45	74	6.70
2001	25267.54	438.7	83.1	6.78
2002	28957.71	321.38	88	6.85
2003	31709.45	241.69	78.6	6.93
2004	35020.55	351.25	54.4	7.01
2005	37474.95	519.47	62.2	7.06

2006	39995.50	552.39	65.3	7.10
2007	42922.41	759.28	67.5	7.15
2008	46012.52	960.89	71.3	7.19
2009	49856.10	1,152.80	76.46	7.24
2010	54612.26	883.87	69	7.29
2011	57511.04	918.55	70	7.33
2012	59929.89	874.7	70	7.60
2013	63218.72	1,108.39	67	7.10
2014	67152.79	783.12	46	4.80
2015	69023.93	818.35	61.33	4.28
2016	67931.24	634.79	58.11	5.01
2017	68490.98	1,163.20	55.15	5.21

Source: CBN, NBS and WDI (2017).

Diagnostic Tests

Unit Root Test

The variables were investigated for the presence or absence of stationarity, using the Phillips-Perron (PP) test.

Table 2Unit Root Test Result

Variables	PP	Critical Values	Order of Integration
RGDP	4.27	-1.95*	I(0)
YUEMP	-5.62	-3.59*	I(1)
POV	-6.84	-3.59*	I(1)
FGEXP	-6.41	-3.59*	I(1)

Note: * denotes 5% level

Source: Computed by the Author using E-views 9

The test for unit root preceded the estimation of the model due to its usefulness in exposing the time series properties of the variables. The tests results are displayed in Table 4.2 The table showed that the independent variables youth unemployment, poverty and Federal government capital expenditure were stationary at first difference, while the dependent variable real gross domestic product was stationary at level. This means there is no unit root.

Descriptive Statistics

The descriptive statistics for the series are summarized in Table 4.3

Table 3 Summary of the descriptive statistics for AGRQ, DMBL, INFL, MS and PLR

	FGEXP	POV	UNEMP	RGDP

Mean	512.5218	63.71250	6.295000	38389.66
Median	468.3650	65.55000	6.740000	33365.00
Maximum	1163.200	88.00000	7.600000	69023.93
Minimum	24.05000	42.70000	4.170000	19199.06
Std. Dev.	371.6025	11.89486	1.015365	18433.31
Jarque-Bera	2.093305	0.468438	3.295577	3.106826
Probability	0.351111	0.791189	0.192475	0.211525
Observations	28	28	28	28

Source: Computed by the Author using E-views 9

The summary statistics reported in Table 4.3 shows that Real GDP averaged 38389.66 billion while the average values of FGEXP is 512.5218 billion. Poverty and unemployment rate respectively averaged 63.71% and 6.29% over the sample period. The maximum values of the each of the series as reported in Table 4.2 are ₦69023.93 billion for Real GDP, ₦1163.200 billion for federal government capital Expenditure, 88.00% for Poverty and 7.60% for unemployment rate. The probability value of the Jarque-Bera output for the variables are all greater than 5% which means the variables are normally distributed.

ARDL Model Estimation

Table 4 Model Estimation Results: ARDL

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
RGDP(-1)	0.977316	0.027260	35.852 19	0.0000
FGEXP	0.426550	1.174946	0.363038	0.7206
FGEXP(-1)	2.368037	1.250192	1.894138	0.0735
POV	-20.40339	24.76688	-0.823817	0.4203
POV(-1)	32.13113	23.61889	1.360400	0.1896
UNEMP	114.7289	255.1993	0.449566	0.6581
UNEMP(-1)	694.4507	247.9677	2.800569	0.0114
C	-4588.952	2018.930	-2.272962	0.0348

R-squared	0.998495	Mean dependent var	39096.47
Adjusted R-squared	0.997941	S.D. dependent var	18393.72
S.E. of regression	834.7146	Akaike info criterion	16.53325
Sum squared resid	13238221	Schwarz criterion	16.91720
Log likelihood	-215.1989	Hannan-Quinn criter.	16.64742
F-statistic	1800.879	Durbin-Watson stat	1.891587
Prob(F-statistic)	0.000000		

ARDL Model Estimation Interpretation

The static regression result in Table 4 indicates that Federal government capital expenditure have significant positive influence on Economic growth (RGDP). A unit increase in Federal government capital expenditure will result in a 2.368 units increase in Economic growth at lag 1. This implies capital expenditure induces economic growth. Poverty negatively influenced

economic growth implying that a unit decrease in poverty (since from A priori expectation poverty is negatively signed) will lead to 32.13 unit increase in economic growth (RGDP) at lag 1. A unit decrease in unemployment will lead to a 694.2 unit increase in economic growth at lag 1. The F-statistic (1800) with probability value of (0.000) indicates that taken together, the explanatory variables are significantly related to economic growth (RGDP). This result is in agreement with the R-squared value (0.9979), indicating the model is a good fit. Which means that 99.79 percent variations in economic growth (RGDP) are collectively explained by changes in the explanatory variables (regressors). The Durbin- Watson statistic test shows that there is no auto correlation at 1.89 as it is in the neighborhood of 2.0

IV. Conclusion

This study empirically analyzed how youth unemployment, poverty and government expenditure affect economic growth in Nigeria using ARDL regression model. Emphasis was placed on the Effects of youth unemployment, poverty and also in cooperating federal government capital expenditure on economic growth (RGDP) over the study period. The ARDL model revealed that reduction in poverty and unemployment will significantly boost economic growth, while increase in capital expenditure will bring about increase in economic growth. The conclusion drawn from the findings is that reduction in youth unemployment and poverty levels will significantly bring about tremendous economic growth.

Based on the findings of this study, the following recommendations are hereby made:

1. Monetary Policy measures should be put in place to curb youth unemployment in the country, through the provision of easily accessible funds to enable youths engage in meaningful production activities.
2. The government should reduce poverty levels through reduction in taxable income and also increase the income of workers, to increase their savings and as such increase investment in the economy, thus increasing economic growth.
3. The government should also increase funding for capital expenditure and ensure they are properly utilized.

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