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# A Microscopic View of the Exotic Influence of Fiscal Policy on Some Selected Macroeconomic Variables in Nigeria Past. Dr. Abomaye-Nimenibo<sup>1</sup> and Williams Aminadokiari Samuel<sup>2</sup> <sup>1</sup> OBONG UNIVERSITY Received: 13 December 2019 Accepted: 4 January 2020 Published: 15 January 2020

#### 7 Abstract

The paper examines the impact of fiscal policy on certain macroeconomic variables in Nigeria 8 from 1980 to 2015. We used Government Expenditure, Total tax revenue, Unemployment rate 9 and Gross Domestic Product (GDP) variables data from CBN statistical bulletins. Our 10 econometric analysis used was the Ordinary Least Square (OLS) and cointegration. The OLS 11 result revealed that there is a significant relationship between government expenditure and 12 unemployment rate, as well as economic growth in Nigeria, but there was no substantial 13 relationship between government tax revenue and unemployment in Nigeria, as well as no 14 serious relationship existed between the government tax revenue and economic growth in 15 Nigeria. The results of the co- integration text revealed a long-run relationship among the 16 variables; and the study suggests that government should implement appropriate fiscal policies 17 to stimulate the economy and also find answers to reduce the unemployment rate, use 18 necessary financial policy tools to fine-tune the economy in terms of government spending and 19 taxation to enhance the economic growth of Nigeria. 20

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22 Index terms— macroeconomic variables, government expenditure, government spending, total tax revenue

#### <sup>23</sup> 1 Introduction a) Background of the Study

iscal policy refers to government policy regarding the raising of revenue through the use of taxation and persuasion 24 to deciding on the level and pattern of expenditure for the sole reason of influencing economic activities to attain 25 some desirable macroeconomics goals. Fiscal policy is that tool used by the government of any nation to fine-tune 26 and adjust its spending levels and that of its tax rates to monitor and influence its economy. In essence, it is 27 the management of the economy by the government using its power to generate income and spend the same to 28 achieve certain desirable macroeconomic goals of the economy of full employment. Tom-Ekine (2013) stated that 29 Fiscal policy is concerned with the action of the government to collect money in taxes and spend the same, to 30 influence the condition of the county's economy. 31 The main objectives of fiscal policy include attainment of full employment, price stability, accelerating the 32

rate of economic development, optimum allocation of resources, equitable distribution of income and wealth, economic stability, and growth, capital formation, and investment, etc. Akpakpan (1999) stated that one of the primary objectives of fiscal policy is to smooth out the fluctuations in economic activities that often cause unemployment and inflation. Specifically, a crucial role of fiscal policy is to stabilize the economy. In the light of the above, over the years the various governments in Nigeria have enunciated and implemented a myriad of macroeconomic policy options especially fiscal policy in an attempt to tackle the problem of unemployment in Nigeria (Abomaye-Nimenibo & Inimino, 2016).

Achieving these objectives means generating significant revenues, diversification of revenue sources besides crude oil revenue through the reduction in the tax burden on individuals and corporate bodies, maintenance of economic equilibrium to curtail inflationary pressures, accelerate economically growth, reduce the balance of

payments deficits and generate an increase in employment, guaranteeing actual protection of domestic industries, 43 promotion of selfreliant development, substantial progressive reduction and elimination of government budget 44 deficits cost recovering of social services and public enterprises, including the streamlining of the process of 45 deregulation, integration of the internal sector of the economy into the mainstream, improving the effective 46 control and efficiency in government fiscal operations. Proper management of public finances require transparency, 47 accountability, financing, fighting the twin issues of low productivity in agriculture and low capacity utilization 48 in manufacturing, reduction of the heavy burden of both external and internal debts, correction of the distorted 49 patterns of both domestic consumption and production and minimization of existing inequalities in wealth, income 50 and consumption standards which tend to undermine production efficiency, offend a sense of social justice and 51 endanger political stability (Antai, 2003). 52

The Central Bank of Nigeria uses Fiscal and monetary policies to fine-tune the economy and to influence 53 the supply of money in a nation. The two strategies, when used efficiently will enhance macroeconomic goals 54 in a country. These goals to be achieved include price stability, full employment, reduction of poverty levels, 55 sustainable economic growth, a favourable balance of payment and reduction of a nation's debt. Nigeria's has 56 potency to grow economically and reduce poverty level, but the full realization of these is yet to be grasped. A 57 key constraint has been the way macroeconomics policies especially those of fiscal and monetary policies are being 58 59 handled; leading to rising inflation and a decline in real income. To curb the menace of unemployment, inflation 60 and increase real income then the economy has to contend with the volatility of revenue and expenditure. 61 Odewunmi (2012) has observed that there has been widespread lack of fiscal discipline which was further exacerbated by poor co-ordination of economic policy among the three tiers of government; and this was as 62 a result of weak revenue base arising from high marginal tax rate having a very narrow tax base, that results in 63 low tax compliance. Hence, these and other factors have caused grave macroeconomic imbalances in Nigeria. 64

Some macroeconomic indices show that inflation accelerated to double-digit levels from 6.94 in 2000 to ??8.87 in 2001 ??8.87 in , (IMF, 2001 report) report). This doubledigit inflation continued up to 2005 and decreased to a single digit in 2006 and 2007, which inflation rate reverted to 11.58 in 2008 and continued to increase to 13.72% in 2013 ??IMF, 2013).

Unemployment has been a major political and economic problem in most countries. Nigeria is endowed with 69 diverse and huge in human and material resources are expected not to have issues in economic growth, but the 70 reverse is the case. She is bedevilled with systemic corruption for so many years; civil war, military rule, and 71 72 mismanagement were found to have hindered the growth of the economy. Nigeria has had years of negligence, 73 adverse economic policies, underutilization of her resources (Economic Watch, 2010), which contributed to the rising unemployment rate, even 13.1% in 2000 and 21.1% in 2013 (Nigerian Bureau of Statistics, 2013; CBN, 2013). 74 Poverty reduction or alleviation has been a foremost monster to fight against by various governments of Nigeria, 75 and as such different programmes have been launched. In 1986, the Babangida administration brought in the 76 National Directorate of Employment (NDE), which aimed at creating jobs for the unemployed youths in search of 77 gainful employment, with the intent to reducing the incidence of unemployment in the country. National Poverty 78 Eradication Programme (NAPEP) came into existence in 2001. Others include the Agricultural Development 79 Programme (ADP), Family Support Programme and empowerment programme (SURE-P). 80

With all these programmes set in place, but no meaningful development has been seen as the unemployment 81 rate in Nigeria keeps on increasing. The president of NLC, Abdulwaheed Omar on Thursday, July 16, 2013, in the 82 Guardian newspaper reported that "Nigeria faced a monumental unemployment problem, with an unemployment 83 time bomb awaiting explosion as per capita income, which is the chief index for measuring the poverty level is 84 showing any sign of improvement in the standard of living. Since 2000, the per capita income has been on steady 85 increase as it rose from N39, 657 to N71, 131 in the year 2013, ??IMF, 2013). This increase in per capita income 86 has not led to an upsurge in the standard of living of the citizens because of the increasing cost of goods and 87 services. Nigeria's indebtedness is a source of concern to the Public Finance Management. Nwankwo (2010) 88 and Okwo (2010) stated that Nigeria's debt profile was \$32.5 billion i.e., N5.2 trillion as of September 2010. In 89 the year 2000, the total outstanding debt of Nigeria was N3.995 trillion, and there continued to be an upward 90 trend until in 2006 when it came down to N3.177 trillion as a result of some debt cancellation agreement between 91 Nigeria and the Paris Club. After that, the debt profile rose and reached N5.241 trillion by the end of 2010 92 ??CBN 2013). Also, the expenditure pattern of Nigeria has been on the increase. 93

At the moment Nigeria is faced with the challenge of reducing the high rate of crime, prostitution, corruption, political thuggery, religious riots, communal clashes, insurgency/terrorism, among others which to some extent are traceable to youth unemployment. Hence, the most disturbing thing in the country is the menace of unemployment.

However, the Studies by Okowa (1997), Gbosi (2002), Agiobenebo (2003) and ??edee & Nenbee (2011) indicate that Nigeria's economy is still married by prolonged unemployment, high rate of inflation, reliance on foreign technology, monoculture foreign exchange earnings from crude oil, and more; meaning that the Nigerian economic environment has been relatively unstable. Precisely, the economy has since been experiencing a rising rate of unemployment.

In 2007, Nigeria's unemployment rate stood at 12.7 percent. The situation worsened again in 2008 when the nation's unemployment rate rose to 14.3 percent. The unemployment rate in 2009 was 19.7 percent, and by 2010, it has climbed to an unprecedented high rate of 21.1 percent, and 21.6 percent in 2012 (National Bureau

of Statistics, Labour Force Survey, Dec. 2012). Since then, there has not been any remarkable improvement 106 despite all the laudable efforts of the government at addressing the trouble of unemployment; it remains a real 107 problem in Nigeria. The reasons for this and likely remedies have not been adequately explored. Hence, there 108 is a need to empirically examine the impact of fiscal policy on unemployment in Nigeria. This study, therefore, 109 stands out to X-ray the relationship that exists between fiscal policy and unemployment in Nigeria. Specifically, 110 the purpose of this paper is to examine fiscal policy (proxy by government expenditure on capital projects, its 111 recurrent expenditure, and total tax revenue) and how it has impacted on unemployment in Nigeria using a figure 112 from 1980 to 2015. 113

# <sup>114</sup> 2 b) Statement of the Problem

The problem of unemployment and inflation is becoming chronic and without any solution in sight. The concern 115 of unemployment and inflation has been apprehensive due to the prevalent unbridled rural-urban migration, the 116 global economic meltdown, retrenchments, among others. To check the impact of fiscal policy on Unemployment 117 and Economic growth in Nigeria becomes our focus. Generally, an increase in government expenditure should 118 lead to reduced unemployment rate, but in Nigeria, the reverse is the case, i.e., as total expenditure increases, 119 the amount of unemployment rises correspondingly, because a greater percentage of the total expenditure is 120 channelled to recurrent expenditure, and the proportion is worsening. In 2000, the percentage of the total 121 recurrent expenditure was 66% and increased to 79% in 2010; meaning that less percentage of the total spending 122 is on capital projects, which should create jobs in the economy. Nigeria's 2012 budget is dwindled toward 123 recurrent expenditure, and the government proposed more spending on running the administration rather than 124 in the badly needed infrastructural projects to create jobs and boost growth in the continent's second-largest 125 economy (Olajide and Adekova, 2012). 126

The Nigerian economy has been plagued with several challenges over the years. Researchers have identified 127 some of these challenges as gross mismanagement/misappropriation of public funds (Okemini and Uranta, 2008), 128 lack of integration of macroeconomic plans, and the absence of harmonious coordination of fiscal policies (Onoh, 129 2007); policies that are inappropriate and ineffective (Anyanwu, 2007), corruption and ineffective economic 130 policies (Gbosi, 2007); Imprudent public spending and weak sectoral linkages and other socio-economic maladies 131 constitute the bane of rapid economic growth and development (Amadi, 2006). The greatest problem Nigeria 132 is facing today is that of inability in managing her enormous human capital and material endowment amongst 133 others. 134

# <sup>135</sup> 3 c) Objectives of the Study

The basic aim of this study is to examine the influence of fiscal policy on selected macroeconomic variables in Nigeria from 1980 to 2015. Other goals are as follows: i. To examine the relationship between government expenditure and the unemployment rate in Nigeria;

ii. To examine the relationship between total tax revenue and the unemployment rate in Nigeria; iii. To
examine the relationship between government expenditure and economic growth in Nigeria; and iv. To examine
the relationship between total tax revenue and economic growth in Nigeria.

#### <sup>142</sup> 4 d) Research Hypotheses

143 This study made use of the following null hypotheses as our guide:

Ho1: There is no significant relationship between government expenditure and the unemployment rate in
Nigeria; Ho2: There is no significant relationship between total tax revenue and the unemployment rate in
Nigeria; Ho3: There is no significant relationship between government expenditure and economic growth in
Nigeria; and Ho4: There is no significant relationship between total tax revenue and economic growth in Nigeria.

# <sup>148</sup> 5 e) Definition of Terms

149 Fiscal Policy: Refers to practice of using the financial instruments of taxation, government spending and the

<sup>150</sup> budget deficit by the government to achieve its economic objectives. Unemployment: Unemployment is a state <sup>151</sup> in which some people who are of the working population, capable and willing to work are unable to gain befitting

152 job to do at the prevailing wage rate.

153 Inflation: Refers to the continual increase in the general price level of goods and services.

#### <sup>154</sup> 6 Macro-economic variables:

There are indicators of the overall state of a country's economy. Taxation is the method by which governments finance their spending by levying charges on their citizens and business entities to generate revenue. Taxation is involuntary and failure to pay any due tax (es) can result in imprisonment. The government often use taxation to encourage or discourage some economic decisions (Abomaye-Nimenibo, 2017a).

Recurrent Expenditure is the expenditure made that does not result in the creation or acquisition of fixed assets, but on wages, salaries and supplement, purchase of goods and services and consumption of fixed capital,

161 i.e., depreciation expenses.

Capital Expenditure is the expenditure made by business units or organizations to acquire and maintain fixed assets, such as land, building, and equipment upgrade physical assets such as property, industrial buildings or projects or investments over a period.

#### 165 **7** II.

#### <sup>166</sup> 8 Literature Review and Theoretical Framework

Our literature review covers the following: the conceptual framework in which the concepts of fiscal policy, economic growth, and the concept of unemployment is discussed. Secondly, the theoretical framework in which some theories of economic growth and unemployment are discussed. Thirdly, the empirical literature in which several works which were carried out by different people on this same topic are deliberated, and lastly the summary of the literature reviewed.

#### <sup>172</sup> 9 i. The Concept of Fiscal Policy

Fiscal policy is the technique used by the government to adjust its spending levels and tax rates to monitor and influence a nation's economy. It is defined as how a government adjusts its level of spending to observe and affect a nation's economy (Reem (2009).

176 It is the strategy adopted to fine-tune monetary policy through which Central bank influences a nation's money 177 supply. These two policies are used in various combinations to direct a country's economic goals. We look at 178 how fiscal policy works, and how it is supervised, and its implementation affect different categories of people in 179 an economy. Fiscal policy is undoubtedly one of the most essential tools used by the government to achieve the 180 macroeconomic stability of the economy (Siyan and Adebayo, 2005).

The laissez-faire approach of the government towards the running of the economy came to an end in the late 1930s, and a new approach to regulate the economy through unemployment, business cycles, inflation and the cost of the money came into existence whereby a mixture of monetary and fiscal policies was used.

The use of the fiscal policy centres on the theories of British economist John Maynard Keynes whose theory states that governments can influence macroeconomic productivity levels by increasing or decreasing tax levels and public spending. This influence, in turn, curbs inflation (generally considered to be healthy when it is between 2-3%), increases employment, and maintains a strong value of money. From that time of this theory onward, the use of both monetary and fiscal policies to fine-tune the economy began. There are two types of fiscal policy that is, the expansionary and contractionary policies.

190 The objective of expansionary fiscal policy is to reduce unemployment. Thus, an increase in government spending and decrease in taxes will bring better GDP and reduced unemployment. The use of expansionary 191 192 policies can cause some inflation to the economy, whereas, on the other hand, the independent usage of contractionary fiscal policy is also capable of reducing inflation. Therefore, a decrease in government spending 193 194 and an increase in taxes when implemented lead to decreasing inflation, and can also trigger some unemployment. Again, fiscal policy makes aggregate demand increase directly as government spending increases is referred to as 195 expansionary or loose policy. In contrast, fiscal policy is considered contractionary or tight if it reduces demand 196 by lowering spending. 197

The objectives of fiscal policy vary with time and in enforcement. In the short run, government pay attention 198 to macroeconomic stabilization with sole purposes of stimulating a sickly economy, fighting rising inflation, or 199 facilitating the reduction of external vulnerabilities. In the long run, the goal is to bring about a sustainable 200 201 growth or alleviate poverty with deliberate actions on the supply side to develop the infrastructural base of the nation with quality educational standard. These objectives are the same among countries, but their relative 202 importance depends on the country's circumstances, which priorities may reflect the business cycle response to a 203 natural disaster, and bring about development while improving on the demographics and resource endowments. 204 The macroeconomic effects of fiscal policy have been in two dimensions of reduced expenditure (less spending) 205

and the condensed revenue (fewer taxes). The lessened expenditure will have a little effect on GDP and do not 206 impact significantly on private consumption. Although they do hurt private investment, a varied outcome on 207 housing prices, which will lead to a quick fall in stock prices and depreciation of the real effective exchange rate. 208 On the other hand, reduced taxes have the inverse outcomes as they do have positive (although lagged) effects on 209 GDP and private investment, which always have a positive consequence on both housing and stock prices; and 210 211 as well lead to an appreciation of the real effective exchange rate. Fiscal policy is a powerful tool that is used to 212 keep the economy in balance, and putting them into practice is quite a difficult task because of various reasons. 213 Government spending levels are not easily changed. A greater part of government spending is on health care,

social service, and veterans' benefits and such as expenditures. Thus, changes in government expenditure are usually of a small fraction of the budget that is an unrestricted spending, meaning that the government has a less freedom to increase or decrease spending.

Another constraining factor the government faces is that it works with estimations instead of exact amount. Lawmakers decide on fiscal policies based on the past behaviours of individuals. This way of judgment is risky because prediction based on the current response to a tax cut today will not be the same response in the future. Despite the fact that fiscal policy affects the economy over time, because policy adjustment takes time to materialize, and the economy might be moving in the opposite direction. So, fiscal policy would only add to the new trend, instead of correcting the original problem.

The pressure that people in authority experienced, of pleasing the citizens hinders fiscal policy as well. Expansionary fiscal policy (reduced taxes) is a popular choice, but it can't be applied in every situation, and thus, puts the authorities in a predicament when the contractionary policy has to be applied and instils fear into the minds of the executioners as a backlash from the voters. Furthermore, the execution of fiscal policy requires a coordinated effort from multiple receptacles of the government, and to be operative, the fiscal policy has to be in coordination with the monetary policies of the Central Bank.

#### <sup>229</sup> 10 ii. Long-Run Relationship between Fiscal Policy

Measurements and Economic Growth in Nigeria Fiscal policy in Nigeria has been generally procyclical, which makes it a most important source of macroeconomic instability in the country. For example, while the average GDP growth rate was 8.1 percent in 2004-2008, the prime fiscal deficit excluding grants was at 6.6 percent of GDP, and the overall deficit without grants was 9.3 percent; in 2011. Nigeria's budget deficit rose to 12.7 percent of GDP, with an overall public sector deficit of 18.6 percent of GDP.

Fiscal stability was realized since the mid-1990s that requires efforts in strengthening fiscal discipline and reformation of the tax system for increase in tax revenue with less dependence on foreign aids to sustain the stability of the economy in the future.

The economic classification of expenditures between 2009 and 2011 revealed that 61 percent of the total expenditure was on Military Expenditures, Compensation of Employees, Pensions, and Debt Servicing, while the corresponding expenditure of 2006-2008 was about 58 percent of the total budget. There was budget increase from 20 percent of total spending in 2006 to 26 percent in 2011 (World Bank, 2012). It is noteworthy to say that Debt servicing and pensions for accrued rights which are contractually binding on the nation to honour and cannot be easily changed.

Similarly, expenditure on salaries and compensations are recurrent and entails a difficult process to implement or change because of political cost involved, welfare loss it will generate, capital spending and subsidies, which are categories of spending that can be reversed easily, amounted to 25 percent of the total amount spent in 2009-2011, as against 28 percent in 2006-2008, while the capital spending dropped to 16 percent of the total spent in 2011 from 21 percent in 2006 despite the increase in subsidy share.

#### <sup>249</sup> 11 iii. Influence of Fiscal Policy on Economic Growth in Nigeria

Fiscal policy as earlier stated is the practise of taxation and public expending to influence the level of economic activities, and its implementation through the government's budget. The budget is an action plan which the government uses to guide itself in the administration of the government sector. The budget is the pictures of the country's economy, and it is a public document used as a tool in the management of a nation's economy (Omitogun and Ayinla, 2007).

Fiscal policy is the government's deliberate actions in spending money and levying taxes to influence macroeconomic variables in the desired direction to achieve sustainable economic growth, high employment creation, and low inflation ??Microsoft Corporation, 2004). Consequently, fiscal policy aims at stabilizing the economy, so that increase in government spending and the reduction in taxes pulls the economy out of a recession; while reduced spending or increased taxes slow down a boom (Dornbusch and Fischer, 1990).

260 Fiscal policy is the use of government spending, taxation and borrowing to implement her economic activities 261 to achieve the level of growth in aggregate demand, output, and employment. The fiscal policy entails the government's management of the economy through the manipulation of its income and spending power to 262 achieve certain desired macroeconomic objectives amongst which is economic growth (Medee and Nembee, 2011). 263 ??lawunmi and Tajudeen (2007) orate that fiscal policy has conventionally been associated with the use of taxation 264 and public expenditure to influence the level of economic activities. They further said that the implementation of 265 fiscal policy is fundamentally routed in the government's budget. Fiscal policy aims at achieving macroeconomic 266 policies; reconcile the changes which the government modifies in taxation and expenditure, to regulate the full 267 employment, price stability, and increase in total demand to be used through instruments such as government 268 expenditures, taxation and debt management (Hottz-Eakin, Lovely and Tosin, 2009). Anyanwu (1993) noted 269 that the objectives of fiscal policy are to promote economic conditions that will bring the conducive environment 270 271 for business growth while ensuring that any such government actions are consistent with economic stability.

From the preceding, it is clear that if fiscal policy is circumspectly used, and synchronized with other measures, brings about business cycles leading to economic growth and stability.

Fiscal dominance occurs when fiscal policy is independently set against monetary policy where government debt is pegged, and the budget constraint must be satisfied; so that fiscal deficits would be magnetized sooner or later. The Central Bank at such a time has to fascinate the deficits as so that the size of the financial system to be equal with the size of the fiscal deficits. Thus, monetary policies have to be applied to bring the shallow financial systems up for it to equate with the level of the deficit to play an accommodative role. In such low-income countries, government securities markets are underdeveloped, and the Central Bank does not hold sufficient amounts of tangible securities and lacks suitable and adequate instruments of monetary control to

reduce which the Central Bank can independently handle which may not necessarily bring about an independent

#### 282 monetary policy (Oyejide, 2003).

#### <sup>283</sup> 12 iv. Taxation as a Tool of Fiscal Policy and Economic

Growth in Nigeria In early 1992, the government of Nigeria issued a fresh policy to deal with the same lingering recession that occurred in the United States. By executive order, the amount of income taxes that were being withdrawn from spenders' pay checks was reduced, but the command did not reduce the amount of taxes owed; but rather payment was delayed. The higher take-home pay that spenders received during 1992 was offset by higher tax payments, or smaller tax refunds, when income taxes were due in April 1993. The question that borders the mind of the people was-what effect has this policy had?

The Barro-Ramsey or Diamond-Samuelson model of fiscal policy, clarifies things by saying that consumers 290 whose lifetime resources were not changed should realize and save the extra take-home pay in readiness to meet 291 the upcoming tax liability. The President claimed that his policy of lower tax rate would provide "money people 292 can use to help pay for clothing, college, or to get a new car" which policy was believed to stimulate consumers to 293 spend their extra income, thereby stimulating aggregate demand and help the economy recover from the recession, 294 which worked out. Matthew Shapiro and Joel Slemrod (1995) after the announcement of the policy conducted a 295 survey by asked people what they would do with their extra income. Fifty-seven percent of the respondents said 296 they would save it, use it to repay debts, or adjust their withholding tax to reverse the effect of the president's 297 executive order, while the remaining forty-three percent would just spend the extra cash. The survey revealed 298 that the assumptions of the Standard theory were satisfied as most people planned to save and use it to repay 299 debts rather than just spend the surplus. 300

#### <sup>301</sup> 13 v. The Concept of Economic Growth

Economic Growth is the increase in the inflation-adjusted market value of the goods and services produced by the economy over a year, and it is measured as the percent rate of increase in real gross domestic product (GDP) in per capita terms.

Growth is usually calculated in real terms, i.e., inflation-adjusted terms to eliminate the distorting effect of inflation on the price of goods produced. The National Income Accounting method is one of the tools of measurement of economic growth.

The rate of economic growth is the regular annual growth rate in GDP between the first and the last year of operation meaning that, it is the movement in the average level of GDP over the epoch, which implicitly ignores the fluctuations in the GDP around the trend. An increase in economic growth is the more efficient use of inputs such as labour productivity, physical capital, energy, or materials, which is intensive growth. The GDP growth caused only by an increase in the number of inputs available for use (increased population, new territory) is called extensive growth.

Economic growth has been well-defined in two ways, the first as the sustained annual increases in an economy's 314 real national income over a long period, and the second being the rising trend of net national product at constant 315 prices which was criticized as inadequate and unsatisfactory because, while the total national income may be 316 increasing, the standard of living may be decreasing, and the population growing at a faster rate than the total 317 national income. This is so, if national income (NI) is rising by 1% per year and the population is increasing at 318 2% per year, the standard of living of the people will tend to fall, since, the population increases faster than the 319 national income, and the per capita income will keep on declining. In a normal situation, the per capita income 320 321 will rise as the national income surges up faster than the populace. We demonstrate this graphically as follows: Therefore, the third and better way of defining economic growth is to do so in terms of per capita income 322 which view means that the annual increase in real per capita income of a country is over a long period. Defining 323 economic growth in terms of per capita income or output is better because it is out to raise the standard of living 324

of the people.
Another point that is worth mentioning about the definition of economic growth is that the increase in national
income or more correctly increase in per capita income or output must be a 'sustained increase' if it is to be
called economic growth. By a sustained increase in per capita income, we mean the upward or rising trend in
per capita income over a long time. A mere short-occurs over a business cycle, cannot be validly called economic
growth.

The rate of economic growth is measured both in terms of an increase in overall Gross National Product (GNP) or Net National Product (NNP) and that of an increase in per capita income i.e. how much real goods and services is produced in the country. The Gross National Product (GNP) measures the total output of goods and services produced, which an average person of the community will have for consumption and investment, that is, an average level of living of a citizen of a country.

Thus, the World Bank and IMF have employed both measures of economic growth in their comparism of growth and standard of living of developed and undeveloped countries which has been published in the annual World Development Report. The Indian Central Statistical Organization (CSO) and the Reserve Bank of India has been measuring economic growth based on both overall GNP or NNP and per capita income. Their study reveals a remarkable feature that economic growth achieved in recent years is higher in developing countries than in developed countries. However, in the past decades to the present, it was observable that developed countries documented higher growth rates than the developing countries, which remained static for a lengthy period. So, per capita income, and living standard of the people of the developed countries are higher than the developing countries.

However, the growth rate of the economy is calculated using data on GDP, which is usually estimated by each 345 country's statistical agencies. The percentage of growth of GDP/capita is calculated using data on GDP and 346 people for the initial and final periods included in the analysis. In national income accounting, per capita output 347 is calculated using the following factors: output per unit of labour input (i.e., labour productivity), hours worked 348 (intensity), the percentage of the working-age population (participation rate) and the proportion of the working-349 age population to the total population (demography), and the rate of change of GDP/population being the sum 350 of the rates of change of the four variables including their cross products. Increases in labour productivity (the 351 ratio of the value of output to labour input) have historically been the most important source of real per capita 352 economic growth. Professor Robert Solow stated that technological progress has accounted for 80 percent of the 353 long-term rise in the U.S. per capita income, with increased investment in capital which explained the remaining 354 20 percent." 355

There are various measures of productivity i.e. the broad measure of productivity. By contrast, total factor productivity (TFP) growth measures are the change in total output relative to the change in capital and labour inputs.

### <sup>359</sup> 14 vi. The Concept of Unemployment

Unemployment according to International Labour Organization (ILO) is the proportion of the labour force that was available for work but where not engaged for at least one hour in the week preceding the survey period. The Nigerian National Bureau of Statistics (N.B.S) defines unemployment as the proportion of the labour force that is available for work but did not work for at least thirty-nine (39) hours in the week preceding survey period.

Unemployment is a situation in which some people who fall within the ages of the working population, capable and willing to work are unable to obtain befitting work to do at the prevailing wage rate. Unemployment refers to the number of the economically active population who are without work but available for and seeing work, including people who have lost their jobs and those who have voluntarily left work ??World Bank 1998).

When a person is able and willing to work and is available for work (i.e. actively looking for employment) but does not have work is an unemployed person.

Gbosi (1997) stated that unemployment is a situation whereby people who are eager and able to work at a prevailing wage rate but are unable to find jobs. Pigou classified a person as unemployed if the following two conditions exist. First, he must not be employed, and secondly, he must desire to work. The above definitions are similar although in Pigou's explanation the second condition expressing the desire to be employed was based on three assumptions as stated below: i. Standard hours of work per day. ii. The individuals are healthy enough to work. iii. The individual wages are paid regularly.

376 On the other hand, there is a situation in which a worker is employed, but not in the desired capacity, i.e., in terms of compensation of hour's work etc. is called underemployment. Non-Accelerated Inflation Rate of 377 Unemployment (NAIRU) is an economics jargon for establishing a level of unemployment such that reducing the 378 level would create a shortage of available labour causing upward pressure on wages and potentially generating 379 inflation. Balogun (1999) quoting Anyanwu (1997) stated that unemployment is in various poverty degree and 380 the types include absolute, relative, chronic/structural, conjectural/transitory, spatial/location and generalized 381 382 kind or case-specific poverty. Unemployment, on the other hand, has been grouped into frictional, structural, 383 cyclical, demand deficient and classical unemployment. Jhingan (1996) defines unemployment as involuntary idleness of a person willing to work at a prevailing rate of pay but unable to find it, implying that voluntarily 384 unemployed people, who do not want to work and those who are not prepared to work at the prevailing wage 385 rate is not to be regarded as unemployed. 386

In a general, unemployment is a situation in which those who are able and willing to work at the prevailing 387 wage rate do not find a job. International Labour Organization (ILO) categorized the working age to be 15 388 to 65 years. Unemployment is the gap between the potential, full employment and the number of employed 389 persons. Briggs (1973) defined unemployment as the difference between the amount of labour at the current 390 wage rate and working conditions and the amount of labour not hired at these levels. Nicholas (2000) says that 391 a person is unemployed if he or she is eligible for work but does not have a job. Volkova (1986) and Jelilov et 392 393 al. (2016) maintained that an unemployment situation is in other words called mass unemployment when the 394 number of qualified workforce which is unemployed is considerably enough or outnumber that of those in gainful 395 employment. ??eynes (1935) defined unemployment as all persons without work, but it has come to have a more 396 specific meaning in the contemporary realization of social and economic policy. To Aguene (1991), unemployment is the number of people in the population who are willing and offer themselves for employment but could not 397 be employed because there are no vacancies to absorb them. Fajana (2000) and Standing (1983) were of the 398 view that unemployment is that state of wordlessness experienced by persons who are members of the labour 399 force who perceived themselves and are perceived by others as capable of working. ??adayomi (1992), Osinubi 400 (2006), and Jelilov (2016) perceived unemployment to be the result of the inability to develop and utilize the 401

nation's workforce effectively, especially in the rural sector. Thirlwall (1983) referred to the concept of disguised 402 unemployment as the Gap between the actual numbers of workers available for employment and the level of 403 employment at which the marginal product is below the institutional or subsistence wage. William (1976) talks 404 of work to mean paid engagement, which is the result of the development of capitalist productive relations. 405 Fajana (2002) has stated that the concept of work has partly shifted from productive effort to principal social 406 relationships, where the services of a woman is no regarded as no work for running a house and bringing up 407 children (Hayes and Nutman, 1981). Keynesian economics offers that the "natural rate" of unemployment should 408 be allowed to operate in selecting the skill labourers for the positions available for them under the best economic 409 conditions. Neoclassical economics says that the labour market is proficient if not the various interventions, such 410 as minimum wage laws and unionization, has put supply and demand out of balance (Jelilov et al. 2015). This 411 study focuses on university graduates as first job seekers in line with Jelilov, Gylych, Musa, and Muhammad 412 (2016).413

414 In Nigeria, there are different types of unemployment, such as:

## 415 15 1) Frictional

Unemployment: By frictional unemployment, we mean that type of unemployment which occurs when workers 416 spend time searching for new jobs. For example, a worker in Port Harcourt may leave his present work to Lagos 417 418 with the expectation of getting a higher paid employment. During this period, that the worker is out of job, he is frictionally unemployed. It is also as a result of when people are temporarily out of work because they are 419 changing jobs. It is important to note that several factors are responsible for frictional unemployment. One such 420 factor is the imperfect flow of information in the labour market about existing vacancies and available workforce. 421 2) Seasonal unemployment: This is said to occur in a situation in which people are laid off seasonally, due 422 to the nature of the job they do, e.g., agriculture workers in developing countries are laid off during the crop 423 growing season. 424

425 3) Structural unemployment occurs when an economy is at full employment where the existence of the level 426 of aggregate demand and actual supply at real wage rate equates, and for those companies that could not afford 427 to pay the prevailing wage rate has to decline due to the natural employment rate, resulting in changes in the

428 labour market institutions, demographic shifts, etc.

#### 429 16 4)

Cyclical Unemployment: This occurs as a result of fluctuations around the natural employment rate, caused by changes in aggregate demand. In every market economy, producers produce goods in anticipation of demand. If aggregate demand in any economy is deficient, unemployment will arise because factory workers will be unemployed, which may lead to depression. According to Keynes, the great depression of the 1930s was caused by deficient aggregate demand.

#### <sup>435</sup> 17 b. Measurement of Unemployment

Unemployment is a considered situation of labour not having enough white and blue collar jobs for the labour force 436 and not making full use of the skills and ability of a labourer. Unemployment is measured by the number of hours 437 a person worked in a week. There are different ways in which national statistical agencies measure unemployment. 438 There are differences in measurement of unemployment, and to some degree, these variances remain in spite of 439 the definition of unemployment given by the International Labour Organization. Some organizations such as the 440 OECD, Eurostat, and International Labour Comparisons As defined by the International Labour Organization, 441 "unemployed workers" are those who are currently not working but are willing and able to work for pay, available 442 to work, and have actively searched for work. Any person actively seeking for job placement must make a 443 concerted effort to be in contact with an employer, contact job placement agencies, send out resumes, respond to 444 advertisements, or some other means of active job searching, submit applications, and ready to attend interview 445 within the prior four weeks. Any one not responding to advertisement is not counted as an active job seeker. It 446 is not all unemployment that is "open" and counted by government agencies, and so unemployment statistics in 447 Nigeria is not accurate. Similarly, the unemployment rate statistics in the US does not take into consideration 448 those individuals who are not actively looking for employment, and those still attending college. 449

#### <sup>450</sup> 18 c. Causes of Unemployment in Nigeria

451 There are several causes of unemployment in Nigeria as follows:

452 ii. Money held for Non-Investment: ??eynes (1935) wrote in his book titled "The general theory of employment,
453 interest, and money" that the number of money industrialists and businessmen tried to hold out from investment
454 causes unemployment. Jelilov (2015) went on to say that instead of industrialists expanding their industries with
455 the acquired profit to create employment opportunities, they lavish the money on nonessentials.

456 iii. The Neglect of Indigenous Technology: There has been no preference for indigenous technology. Nigeria
457 keep on importing foreign technology ad disregard the indigenous technology that is peculiar to our geographical
458 terrain, and lack of patronage of local industries.

iv. Poor Management of Public Industries: Teriba (1977), pointed out that the poor management of our
public industries and the unpatriotic attitude of Nigerians towards work and public property was a great factor
causing unemployment problems. He maintained that Nigeria's employment situation started when Nigerian
industrialists rely much on purchasing and processing much of the raw materials abroad.

v. Lack of Patriotism: Achebe (1983), in his comparative analysis, stated in his book "The Trouble with 463 Nigeria" that the lack of patriotism among Nigerians has contributed to Nigeria's unemployment problem. He 464 went on to say that history has created evidence of unpatriotic act of most Nigerians in public industries towards 465 public properties and their consideration of "self-first," and the looting of the treasury and the carting of public 466 property worsened Nigeria's unemployment situation. vi. Psychological Blindness of our Economic Planners: 467 Ojukwu (1989), while analysing the cause of unemployment in Nigeria in his book, "I am involved" concluded that 468 the production of many graduates was not responsible for the unemployment situation in the country; rather, the 469 social inverse proportional pattern of education and economic advancement as a result of the economic planners' 470 psychological blindness during the days of oil boom. 471

vii. Bad Educational Planning: The production of higher education institutions issuing higher education
degrees for white-collar jobs is the main cause of the problem. This problem is akin to the problem of mismatch
between educational planning and economic planning. Specifically, the rate of graduates turns out rises faster
than the expansion of job opportunities (Abomaye-Nimenibo & Inimino, 2016).

viii. Bad Economic Policies: Various Nigerian Governments had adopted and implemented several economic policies over the years, and some of them did not create new jobs. For example, the SAP adopted since 1986 and is in continual implementation has worsened Nigeria's unemployment problems. A great number of these (2000), the social consequences of unemployment for those who are out of work include a higher incidence of poverty, ill-health, and death, which demoralized and strained family relationships. For society as a whole, they include the failure to realize the social investment in human capital made through the education system, and a loss of tax revenue.

#### <sup>483</sup> 19 o) Broken Marriages:

The evil effects of unemployment of heads of families have disintegrated some families in the country, leading to 484 broken marriages of once happily married couples. Awake magazine of ??uly 22, 1984, supported this fact when it 485 stated that families have broken up and the future of their children bleak owing to unemployment. Graham (1992) 486 stated that some of the unemployed people, and their families, passes through nervousness, misery, frustration and 487 488 despairing unhappiness. They also, experiences psychological trauma and others suffer stress, all culminating to a waste of human workforce. Any increase in the size of the unemployed population causes a coinciding 489 490 increase in the burden of "liability" of the society on how to manage the paltry finance of the workers, and by 491 extension, implies that a grossly lowered standard of dissatisfaction and insecurity. ??sen (1978) stated that the 492 unemployed are psychologically exhausted and famished. There are many more consequences of unemployment, such as deprived housing, lowly clothing, lack of medical care, unaffordable transportation, and so on. These ad 493 494 others vices will continue to plague Nigeria should our leaders not alive to their responsibilities. J. M. Keynes had challenged the classical view that private enterprise economy automatically brings full employment. He argued 495 that employment depends on effective demand and there is no guarantee that there will always be adequate, 496 and actual demand to generate full employment. The suggestion that CBN should float public finance whenever 497 there is unemployment problems in a country, which opinion is challenged to be of no validation (Dewett and 498 Navalur, 2012). 499

500 The Keynesian theory of fiscal policy suggests that government intervention in the working of the economy 501 as a counter-cyclical measure is necessary since the equilibrating tendencies of market forces alone could not work in isolation, and that, if left to themselves, the market forces will lead the economy to a stable level of 502 under-employment (Tyagi, 2013). The Keynesian charter argued further that the aggregate demand function of 503 employment does not automatically regulate itself to the level of aggregate supply function of employment, just in 504 the same way the demand and supply of output cannot adjust itself to achieve a positive and dynamic operation 505 of fiscal policy. Therefore, the government has to play the constructive role of regulating and controlling the 506 economy through taxation and expenditure. 507

Abu and Abdullahi (2010) affirmed that in the Keynesian model, the use of fiscal policy by the government to regulate the economy to achieve full employment through was necessary to bring higher economic growth, and to keep an equilibrium between effective demand and supply of goods and services.

Dewett and Navalur (2012) asserted that if depression occurs in an economy, the government's use of fiscal policy by spending more on public works which creates employment should be able to keep up demand to induce supply (output). The government can increase its spending on subsidies to producers of mass consumption commodities to increase consumer outlay. On the other hand, the government do lower its tax rates (budget deficit) to stimulate consumption and investment during depression as a progressive means of fighting unemployment and stimulating output growth.

517 It will be wise we look at some growth models as we progress.

i. Solow's Model Solow's model explains the growth in an economy by breaking down the aggregate output (Y or GDP) into contributions of growth inputs (labour, capital and technology). That is, the model explains how much of the growth in an economy is explained by changes in the amount of labour or by changes in the amount of output as per the general model which states that:  $Y(t) = A(t) \times K(t)$ ?  $\times L(t)$  1-?

Where, Y is the aggregate output of the economy in a year (t) usually measured by GDP, A is an index of 522 the level of technology, K is the stock of capital in the economy, L is the amount of labour in the economy 523 usually measured by hours worked by an index of labour efficiency and ? is the contribution of capital to 524 aggregate output Y. These variables were observed by looking at the economic indices of each country except A 525 (technology). Therefore; we can solve in the equation for A and find the contribution technology improvements 526 of the economy. ?, (alpha) is the share of output paid to owners of capital in the form of rents. Capital includes 527 machinery, equipment, land, and natural resources. Whereas the remainder 1-? is the share of output paid to 528 workers as wages. A is also known as Total Factor Productivity (TFP) and includes changes in the level of 529 technology, presence of strong institutions, and regulatory environment. The equation above is a production 530 function that is applicable to an individual business. 531

#### <sup>532</sup> 20 a. The Harrod-Domar Exogenous Growth Model

The Harrod-Domar growth theory was developed based on the works of two authors named Harrod, and Domar. These two scholars developed their models independently, but the assumptions and results are, nevertheless, basically the same. They built their theory in the late 1930s and mid-1940s when the memory of industrialized countries was plunged into deep recessions, with a high unemployment rate and a sharp decline of the gross domestic product due to the prevalent depression in 1929 and 1930. Harrod and Domar based their hypothesizing on the famous works by Keynes, who explained the failure of markets to bring full employment.

As earlier mentioned in the introductory part, that the early classical writers, believed in Say's law, that 539 says supply creates its own demand which belief was founded on the assumption of the efficient working of factor 540 markets, and on the speedy adjustment of prices by the forces of demand and supply to bring about an equilibrium. 541 Keynes does not see reasons with frictionless functioning of the market forces and asserted that unemployment 542 of factors of production is even more probable in an economy than full employment. But his emphasis was on 543 short-run implications of the theory which underlines the income effect resulting from additional investment, for 544 example, the capacity effect, resulting from increases in the capital stock. It was this latter effect that Harrod 545 and Domar incorporated into their work, thus forming a Keynesian theory of economic growth. 546

The Harrod-Domar model ruminates on a closed economy with only one homogenous good Y that is produced, and is either used as an investment good (I), or as a consumption good (C) depending on the economic agent. Households consume and save, whereas firms produce and invest. All variables are real, and the money market is absent.

b. Keynesian Growth Theory The Keynesian theory does not assume that any supply will meet its demand if only prices are flexible enough, but rather, argued that where constraints to expansion exist, such are likely to raise inequalities since the economic system is unable to spawn ample demand to fully engage labour and possibly other resources.

Hence, 'microeconomic' policies such as income redistribution, credit regulation, industrial activism etc. are required to reinvigorate and enforce, the functioning of a capitalist economy by generating enough aggregate demand to recover output and employment in times of crisis occurs to achieve full employment goal.

Keynes in his book titled General Theory of Unemployment, Interest and Money ??1964 & 1936) identified with the classical (marginalist) thought, and developed a working theory of the economy.

c. Classical Growth Theory Classical growth theory clashes with the exploding population and limited resources theories that eventually bring economic growth to an end. The Malthusian philosophy is another name for classical growth theory named after Thomas Robert Malthus. The Classical growth theory developed the following assumptions:

1. The Basic Idea: Economic growth raises GDP per person but induces a population explosion, which eventually ends the prosperity. 2. Classical Theory of Population Growth says that population will grow as real income exceeds the subsistence income. Growth in population decreases the amount of capital per hour of labour and that labour productivity and real GDP per person will also decrease.

#### <sup>568</sup> 21 Productivity Curve Illustration:

An increase in capital per hour creates a movement along the productivity curve to higher real GDP per hour of labour and technological advancement shifts the productivity curve upward to a higher level of real GDP per hour of labour. However, when population growth increases, there is a downward movement along the productivity curve to the level of real GDP per hour of manpower.

#### 573 22 d. Neoclassical Growth Theory

Neoclassical growth theory is the theory that says, real GDP per person will increase as long as technology keeps advancing.

1. Population growth: The historical population trends was to contradict the view of the classical economists

over the crucial economic influences of the opportunity cost of a housewife's time spent on having children and

nurturing them. The more children families choose to have, the more population growth and verse versa. 2. As

regards technological change, the neoclassical theory accentuates that such changes inspire the rate of economic growth but not otherwise. 3. The third idea was that of basic idea of advancing technology so that high real GDP per person will be achieved to propel economic growth in real GDP per person. 4. A problem with neoclassical growth theory is that the model fails to explain the determinant of technological change. e. New Growth Theory

583 New growth theory is the theory that says, our unlimited wants will lead us to ever larger productivity and

584 perpetual economic growth.

# 585 23 Choices and Innovation

a. Human capital grows because of choices. b. Discoveries are results from choices. c. Findings bring profit and
 competition, which eventually destroys the gains created. d. Innovations are used by everyone. e. Manufacture
 activities can be replicated so that identical firms can each produce the same quantity of an item.

# 589 24 Perpetual motion

Economic growth is motivated by limitless wants, which lead people to pursue profit by working and to invent new and better products mean that old firms who do not meet up to produce the new demands of the populace will go out of business; and in their place, new firms will spring up, who are able to create new and better jobs; thereby leading to higher consumption and leisure. The growth cycle continues to revolve as insatiable wants keep on evolving all over again.

# <sup>595</sup> 25 Productivity Curve and New Growth Theory says

that productivity curve will constantly shift upward to cause an unending growth as capital keep on increases and technology also advances.

f. Natural Rate of Growth According to Prof. Harrod, Natural growth rate which is the maximum rate of growth allowed by the increase of variables like population growth, technological improvement & growth in natural resources. Although, the natural growth rate will be the highest which would bring about the fullest possible employment of resources in the economy.

g. Unified Growth Theory Oded Galor et.al. propounded the Unified growth theory to address the area where
 the endogenous growth theory failed to explain the empirical regularities in the growth processes of individual
 economies. So, Unified growth theories are endogenous growth theories that are consistent with the development
 and transition from the period of Malthusian stagnation to the contemporary era of sustained economic growth.

# 606 26 h. The Big Push Growth Theory

The Big Push theory was propounded in the 1940s, saying that countries needed to jump from one stage of development to another through a virtuous cycle, in which considerable investments be done in infrastructure, education, and private investments, which would move the economy to a more productive point. In the late 1980s, Kevin Murphy, Andrei Shleifer, and Robert Vishny expounded and revived the model.

# 611 27 i. Schumpeterian Growth Theory

Austrian economist Joseph Schumpeter developed the Schumpeterian growth theory in the 20th century to explain the growth theory as a consequence of innovation and a process of ingenious obliteration that captures the twofold nature of technological progress in terms of creation of entrepreneurs introduced processes in the hope of enjoying temporary monopoly-like profits as they capture markets with new products; thereby making old technologies and products obsolete, and "...destroys the rents generated by previous innovations" Aguene, (1991). Schumpeterian growth theory is well explained by the Aghion-Howitt model.

# <sup>618</sup> 28 j. Classical Theory of Unemployment

The views of most economists always go with their thinking at that particular time. The Classical was of 619 the school of thought that emphasized the role of money in explaining short term changes in national income. 620 Traditionally, this theory has an aggregate view in which involuntary unemployment was regarded in a short term 621 622 phenomenon showing the differences between the wage and the price levels; whereby high real wage bring about 623 unemployment. There are also periods when the wage level in the classical view would be reduced, and leading to 624 unemployment except for frictional unemployment produced by the time of delay between quitting one job and 625 starting another. This school posits that urban unemployment was as a result of workers and trade union's power tussle, and insists that urban unemployment is a factor of low labour supply. The Classical school further argued 626 that the demand for too high wages by workers without a corresponding increase in productivity renders product 627 costly, thereby discouraging competitiveness among local and foreign industries. The implication of this trend is 628 the reduction of sales, which further leads to the mass retrenchment of workers resulting in unemployment. This 629 believed strongly believe in the theory of demand and supply of workforce. 630

#### <sup>631</sup> 29 k. The Keynesian Theory of Unemployment

The British economist, John Maynard Keynes in 1930s revolutionized thinking in several areas of macroeconomics 632 including unemployment, money supply, and inflation as the general theory of unemployment, interest, and money. 633 The Keynesian unemployment, also known as Cyclical or demand deficient unemployment occurs soon as 634 aggregate demand falls. It gets its name as from the swing of business cycle, and it can also be persistent as it 635 happened during the great depression of the 1930s. Cyclical unemployment escalates during economic downturns. 636 Keynes argued that this type of unemployment exists due to inadequate demand. As demand for most goods 637 and services fall, production also fall, but wages do not fall to meet the equilibrium level resulting to serious 638 unemployment. 639

The Keynesian theory of unemployment was examined by Grill and Zanalda (1995), Hussian and Nadol (1997). 640 and Thirlwal (1979), saying that increase in employment, capital stock, and technological change is principally 641 endogenous. Increase in demand for goods and services calls for additional employment leading to long term 642 growth of output, which also influence the growth of further engagement. In the Keynesian theory, engagement 643 depends upon active request for workers, which results in increased output that creates income, and provide 644 corresponding employment. This School of Thought regarded service as a function of income, and active demand 645 is a function of aggregate supply and demand. The cumulative supply function depends on physical or technical 646 conditions that do not change in the short run, and remains stable. Keynes resolutely stick to the aggregate 647 demand function as a tool to fight depression and unemployment. Hence, employment depends on aggregate 648 demand, which in turn are determined by consumption and investment demands. Furthermore, Keynes stated 649 that increasing consumption (C) as a result of improved income (Y) because of rising propensity to consume, and 650 improved investment (I) ushers in employment and savings (S). When the propensity of consume is stimulated, 651 there is going to be realization of more revenue which will call forth more investment that will compel business 652 to employ more workers but the psychology of the people (taste, habit, etc.), which are also constant in the 653 short run. Therefore, the propensity to consume is stable, and employment depends on investment capabilities 654 655 (Obayori, 2016).

#### <sup>656</sup> 30 l. Marxian Theory of Unemployment

This theory is of the view that nature of the capitalist mode of production exist to overwork some workers 657 but keeps the others as a reserve army of unemployed people. The Marxists also share the Keynesian view of 658 the relationship between economic demand and employment, but with the warning that the market system's 659 propensity to slash wages and reduce labour participation on an enterprise-level causes a decrease in aggregate 660 demand in the economy, thereby causing crises of unemployment with low economic activity that will call forth 661 another cycle of increased investment (capital accumulation). Karl Marx went on to say, that unemployment is 662 an integral part of the unbalanced capitalist system, which must have periodic mass unemployment. He went 663 on to say that the proletariat (public) within the capitalist system provides a "reserve army of labour" that 664 665 generates descending pressure on wages. This theory divides the proletariat into two groups of surplus-labour (employees) and underemployment (unemployed labour). These reserve armies of labour fight among themselves 666 for scarce jobs at lower wages. Karl Marx goes to state that, the only way to lastingly eradicate joblessness would 667 be to end capitalism and the structure of involuntary rivalry for earnings and formerly shift to a communist or 668 socialist economic system. For modern-day Marxists, the existence of dogged unemployment is a resilient fact of 669 the capitalism's inability to guarantee full employment. 670

#### <sup>671</sup> 31 m. Efficiency Wage Theory of Unemployment

This theory is a macro-economic approach to explain unemployment. The theory assumes that worker differs in quality, abilities (where some are lazier than others), and are less likely to work harder; and requires costly monitoring, i.e. if you are to monitor the workers closely. An employer cares about the wage rate which depends upon the productivity of the workers so as to minimize the wage, and to do this, you can increase productivity by increasing wages. Secondly, you can fire any worker being lazy and employ others serious one to replace such persons dismissed. The reason for this is that as wages increases, the cost shrinking becomes it is more imperative for you to continue to work with higher pay than to be fired.

## <sup>679</sup> **32** c) Empirical Literature

This section presents the review of empirical kinds of literature on studies related to the theme of this study. An evaluation of cross country experimental pieces of works is outlaid before constricting it to the Nigerian situation. A summary of foremost conclusions from the experimental writings appraisal is offered. Some experiments have carried out on the relationship that existed between fiscal policy and some selected macroeconomic variables.

The connexion amongst economic growth and tax revenues has been a subject of debate for a lengthy period in living history. The discussion on the two variables has exhibited contentions from academicians and policymakers, with one school holding on the view that taxation is bad for the economy. In contrast, the other school believed that taxation is upright for the economy. Appreciated empirical writings exists that studies the association between economic growth and tax revenues which analyses the variables at the crosscountry level. However, not much writings exist bringing to fore the relationship that existed between the two variables at each specific

country. This study was carried out to fill in the gap in country-specific study by exploring the relationship 690 between economic growth and tax revenues in Nigeria and also determining causation between the variables. 691 We use three methods in our analysis, the first is the Classical linear regression model using the OLS estimation 692 693 method; the second being the co-integration test while the third was the granger causality test of all the variables. Our results, as vividly outlined in section four, discovered a progressive relationship between economic growth 694 and tax revenues. All the tax variants of income tax, excise duties, import duties and sales tax/VAT displayed 695 positive influence on GDP with income tax positing the highest effect and closely trailed by sales tax/VAT, then 696 excise duties and finally import duties showing the least consequence. The cointegration result revealed that there 697 is at most one co-integrating equivalence while the Granger Causality test showed a bi-directional association 698 between economic growth and excise duties. The income tax and economic growth has a unidirectional connection, 699 and that of economic growth and sales tax, with that of VAT, and there exist no causation between economic 700 growth and import duties. These results propose that the government should employ a better tax structure 701 that will improve the tax base, than concentrating on growing tax revenues by amassing tax levels. Besides, 702 the government should utilize the positive relationship that exist between tax and economic growth to realize 703 efficient government investment expenditure that spurs growth, and in turn, boost the revenue levels. Finally, 704 the government should principally target income taxes, excise taxes, and sales tax/VAT to generate revenues by 705 706 improving the tax collection system, closing windows of fraud, check tax evasion, and nib corruption at the bud. 707 Abubakar (2016) investigated the impact of government spending on the economic growth of Nigeria by

<sup>707</sup> Abubakar (2016) investigated the impact of government spending on the economic growth of Nigeria by
 <sup>708</sup> employing the VECM methodology. The findings of his study disclosed that public expenditure has a mixed
 <sup>709</sup> consequence on the economic growth. Some components of government spending exerted a negative influence,
 <sup>710</sup> while other variables had a positive impact.

711 Obayori (2016) surveyed the effect of fiscal policy on unemployment in Nigeria by employing the Error 712 Correction Model (ECM) to analyse his results which revealed that both capital and recurrent expenditure 713 wielded a negative effect on unemployment in Nigeria.

Abdulrauf (2015) examined the short-run and long-run controls of fiscal policy on Nigeria's economic development by commissioning the Vector Error Correction Model (VECM) with annual series data from 1981 to 2013, which findings displayed government recurrent expenditure and investment as having a positive impact on economic development. In contrast, capital outflow only had a short run positive effect. Tax revenue have a negative relationship with the economic development of Nigeria both in the short and long run.

719 Osinwo (2015) also examined the effect of fiscal policy on sectoral growth in Nigeria by engaging the ARDL and ECM methods in analysing his data for the period 1970-2013. The results of his study establish total monetary 720 expenditure to have a positive control on the output of all sectors except the Agricultural sector. Arnelyn et al. 721 (2014) empirical examined the relationship between fiscal policy and economic growth in unindustrialized Asian 722 counties. The study observed that, in comparing the overall level of government expenditure and revenue with 723 those of advanced economies, revealing a significant effect on economic growth. Property taxes also exerted a 724 more benevolent impact on economic growth directly than educational spending which have a sizable positive 725 impact on economic growth. 726

Benanaya et al. (??014) applied the dynamic panel data analysis to examine the impact of fiscal policy on the economic growth of MENA countries. The results of the study showed a long-run relationship existed between financial policy and economic growth, while the correlation pattern of the GDP and budgetary revenue exposed the presence of optimistic causality amongst economic development and fiscal incomes. The effects of taxation were hard to segregate empirically.

Alex and Ebieri (2014) also studied the influence of fiscal policy on the economic growth of Nigeria by employing 732 the ARDL methodology. The study found Volume XX Issue VII Version I higher, meaning that staff has to work 733 even harder since evidence of a long-run equilibrium relationship between fiscal policy and economic growth in 734 Nigeria. Government capital and recurrent expenditures have a significant positive relationship on economic 735 growth. In contrast, non-oil tax and total government debt have no significant impact on real GDP. Only capital 736 expenditure has a short run association with economic growth. Anthanasios (2013) in his study engaged the SVAR 737 method to find the relationship between unemployment, growth, and fiscal policy in Greece. The results showed 738 the effect of cuts in government purchases, and consumption on unemployment and output, while the outcome 739 of government investment is to a lesser extent. Tax hikes are to reduce production and increase unemployment. 740

Nathan (2012) also carried out a study of the impact of fiscal policy on the Nigerian economy by appraising the causal connection between money supply, fiscal deficits, exports, and economic growth of Nigeria for the period 1970 to 2010. He used the error correction model (ECM), and his findings revealed that there exists a significant relationship between the variables and economic growth. The study suggested the use of fiscal policy as an ideal tool for guaranteeing the economic growth of Nigeria.

Sikiru and Umaru (2012) employed the Engle-Granger two-step cointegration model to evaluate the relationship
between fiscal policy and economic growth in Nigeria, using annual series data of 1977 to 2009. The result of the
study revealed that productive expenditure has a positive bearing on economic growth.

Ogbole et al. (2011) wrote on fiscal policy and its impact on economic growth in Nigeria from 1970-2006. The study was a comparative analysis of the impact of fiscal policy on economic growth in Nigeria during regulation and deregulation periods. Econometric analysis of time series data from the Central Bank of Nigeria was used. The results showed that there is a difference in the effectiveness of fiscal policy in stimulating economic growth during and after the regulation period. Appropriate policy mix, prudent public spending, setting achievable fiscal policy targets, and diversification of the nation's economic base, etc. were recommended.

Adeoye (2011) analysed the impact of fiscal policy on economic growth in Nigeria from 1970-2002. The finding revealed that public investment negatively affected output growth, implying that public expenditure has a crowding-out effect on private investment.

Mueller (2011) investigated economic, political and institutional constraints to fiscal policy implementation in sub-Saharan Africa. The study found that planned fiscal adjustments or expansions are less likely to be implemented, and the larger the modifications, the more inaccurate the growth forecasts. The finding supports on-going efforts in the region to improve the quality and timeliness of economic data, enhance forecasting capacity, adopt realistic fiscal plans, and strengthen governance, budgetary institutions, and public financial management procedures.

Abu and Abdullahi (2010) in their findings show total capital, total recurrent and government expenditure on education hurt economic growth, while overheads on health, transport, and communication have a positive impact on economic growth.

Chuku (2010) explore the monetary and fiscal policy interactions in Nigeria between 1970 and 2008 and used quarterly data. The study examined the nature of financial policies in Nigeria using Vector Auto-Regression (VAR) model. The findings indicated that monetary and fiscal policies in Nigeria have interacted in a counteractive manner for most of the samples for the period 1980 to 1994, while at other times, no symmetric pattern of interaction between the two policy variables was observed.

Adefeso and Mobalaji (2010) carried out a study to re-estimate and re-examine the relative effectiveness of fiscal and monetary policies on economic growth in Nigeria using annual data from 1970-2007. The Error Correction Mechanism (ECM) and Co-integration technique are the analytical tools. The result showed that the effect of monetary policy is much stronger than fiscal policy. The study suggested that there should be more emphasis and reliance on monetary policy for economic stabilization in Nigeria.

Similarly, Hussain et al. (2009) applied a dynamic panel analysis to examine the impact of fiscal policy variables on the economic growth of Asian economies using data obtained from 1985 to 2001. The analysed result revealed that Health and education expenditure, aggregate expenditure and other fiscal variables were found to have a positive impact on economic growth, while the defence budget, distortionary taxation, and the budget balance shows a significant relationship with real per capita economic growth.

Anerbach (2009) in his study suggested that discretionary fiscal policy be practised on a large scale, and 782 attention has to be paid to policy design. ??alle (2007) employed a panel data analysis involving fifty-two (52) 783 countries spanning through the period 1971 to 1980. He examined the effect of fiscal policy on economic growth 784 both in the short and long runs. The results of the study show that fiscal policy cannot have a remarkable 785 impact on the economy in the short course. However, its effect is confirmed in the long run, but the expansionary 786 fiscal policy does not benefit the economy. Komain and Brahmasrene (2007) examine the relationship between 787 government expenditure and economic growth in Thailand, using the Granger causality test. The result found 788 a unidirectional affiliation, and causality runs from government expenditure to economic growth, indicating a 789 significant positive effect of government expenditure with economic growth. 790

Olawunmi and Ayinka (2007) examined the contribution of fiscal policy in the achievement of sustainable 791 economic growth in Nigeria using Solow's growth model estimated with the use of the ordinary least square 792 method. The study established that fiscal policy has not been operative in the area of sustainable economic 793 growth in Nigeria. The factors of wasteful spending, poor policy implementation and lack of feedback mechanism 794 for implementation is evident in Nigeria which is indeed capable of hampering the effectiveness of fiscal policy 795 which had made it impossible to come up with such a conclusion. Michele (2005) studied the dynamic effects 796 of fiscal policy shocks on government employees in the U.S economy. The findings show that where government 797 consumption expenditure consists solely of purchases of final goods, then the fiscal shock leads to a negative and 798 significant wealth; while households reduce consumption and increase labour supply. His findings further revealed 799 that the jolt in government employment is negative for private output and a positive impulse for government 800 output because the productivity is reallocated from private to government sector. ??avis, Ossowski, and Fedelino 801 (2003) observed fiscal policy design and implementation in oil-producing countries. The study showed that 802 resource-dependent economies tend to grow more slowly than non-resource dependent ones at comparable levels 803 of development. 804

Poverty is still widespread in many oil-producing countries. The study concluded that a pattern of fluctuating 805 fiscal expenditures associated with oil volatility had entailed high economic and social costs for several oil 806 producers. Huang and Padilla (2002) writing on fiscal policy design and implementation of the Walsh Contract 807 for Central Bankers, developed a simple macroeconomic model where the time variation of optimum regulatory 808 policy to show tax distortions; and concluded that effecting the optimal policy fusion necessitates the Central 809 Bank to have sole control or dominance over the fiscal authority, or the policy execution be divulged to an 810 independent authority. Amin (1998) in his analysis of the relationship that exist between public and private 811 investment, stated that the crowding in and out of private investment by public expenditures in Cameroon 812 have positive effects on growth. At the same time, those of the investment model shows the crowding in of 813 infrastructures and the social sector. The study concluded by recommending the allocation of more resources to 814

productive sectors, and increasing and sustaining of spending on those productive sectors or those components of public expenditures that crowded-in the private sector.

Antonio and Ilian (1998) using the VAR method to investigate the dynamic effects of fiscal policy on 817 macroeconomic variables found that positive innovations in government spending brought about virile and 818 persistent increases in consumption and employment. Devarajan and Vinaya (1993) also observed the link 819 between public expenditure and growth, by deriving conditions under which a change in the composition of 820 spending leads to a higher steady-state of growth rate of the economy. Eric and Jonathan (1992) in their study of 821 107 countries for the period 1970 to 1985 examined the impact of fiscal policy on economic growth. The findings 822 of the study show that a balanced budget upsurge in government spending and taxation has the capability of 823 824 reducing output growth rates.

By the same token, Erkin (1988) examined the relationship between government expenditure and economic growth and proposed a new charter for New Zealand. His empirical results showed that higher government expenditure does not upset consumption but in its place raises private investment that, in turn, accelerates economic growth.

Numerous researchers have embarked on different studies about fiscal policy relating to macroeconomic 829 productivity levels, but the ones that have direct bearing of public expenditure on the economy have shown 830 831 positive relationships are those carried out by Ram (1996); ??arro (1991) Komain and Brahmasrene (2007), 832 Devarajan and Vinaya (1993), and Erkin (1988) found public expenditure as having a positive relationship with 833 economic growth, while studies by Abubakar (2016), Abdulrauf (2015) and Erick and Jonathan (1992), found some components of public expenditure as hurting economic growth. On the other hand, Anthansios (2013), 834 Erick and Jonathan (1992) establish taxation as impairing economic growth. However, Obayori (2016), Anthonio 835 and Ilian (1998) establish fiscal policy as hurting unemployment. 836

#### <sup>837</sup> 33 d) Summary of the Literature Reviewed

838 The review was on the conceptual framework of essential variables used in this work by defining each of them, i.e., Fiscal policy, Inflation, and Unemployment. Fiscal policy was said to be the use of taxation and government 839 spending to stimulate the economy. Unemployment is that state whereby those who are Volume XX Issue VII 840 Version I The Exogenous Growth model of Harrod-Domar considers a closed economy in which one homogenous 841 good is produced, that will either be used as an investment or consumption good, which use, depends on the 842 843 customer agent. The Keynesian Growth theory by assumption stated that supply will not be able to meet up its demand if prices are flexible enough. It argued that where constraints to expansion exist they are most likely 844 to arise because the economic system is unable to generate sufficient demand to offer full employment to labour, 845 and other potential resources. The classical growth theory states that the clash between an exploding population 846 and limited resources will eventually bring economic growth to an end. The Neoclassical growth theory states 847 that the real GDP per person will upsurge as long as technology keeps advancing. The new growth theory 848 states that our unlimited wants will lead us to ever greater productivity and perpetual economic growth. The 849 long-run relationship that exists between fiscal policy measurement and economic growth in Nigeria, and some 850 other theories like the natural rate of growth, unified growth theory, the big push theory, and the Schumpeterian 851 growth theory were contrary to the Keynesian growth rate. 852

However, empirical evidence is comprehensive, as long as the studies carried out by such Scholars as Abdulrauf 853 (2015) Erkin (1988) establish that public expenditure have positive relationship with economic growth, and 854 others such as Abubakar (2016), Abdulrauf (2015), and Erick and Jonathan (1992), maintained that some 855 components of public expenditure have harming economic growth. In another vein, Anthansios (2013), Erick 856 and Jonathan (1992) revealed in their findings that taxation has negative economic growth. Howbeit, Obayori 857 (2016), Anthonio and Ilian (1998) maintained that fiscal policy hurts unemployment. Other scholars such as 858 Nworji (2012), Wu (2010); Cooray (2009); Ranjan and Sharma (2008); Komain (2007); Ram ??1996); Easterly 859 and Rebelo (1993); ??arro (1991); Otaniand Villanvera (1990) opined positive relationship between government 860 expenditure and economic growth; while others like Abu-Bader and Abu-Qarn (2003); Laudau (1986) averred a 861 negative correlation. In contrast, Kormendi and Megure (1995) could not find any association. 862

The above state of affairs raised some pertinent questions such as; what is the relationship between government expenditure and economic growth in Nigeria? What is the relationship between total tax revenue and economic growth in Nigeria? What is the relationship between government expenditure and unemployment in Nigeria? What is the relationship between total tax revenue and unemployment in Nigeria? Answers to these questions are the main concern of this research work.

#### 868 **34** III.

#### <sup>869</sup> 35 Method of Study

The methods employed are defined as research design, model specification, Model variable explanations, data required, data collection and sources, and method of data analysis.

#### <sup>872</sup> 36 a) Research Design

Research design is the set of procedures used in collecting and analysing the variables specified in the research problem. It is the overall strategy chosen to integrate the different components of the study in a coherent and logical form, thereby ensuring that the research problem is well addressed, which constitutes the design for the collection, measurement, and analysis of data. The type of research design employed in this study is descriptive research. This study is explanatory in nature and focuses on the relationship of fiscal policy that impacted on the selected macroeconomic variables. The researcher uses time-series data that includes GDP. Total Tax Revenue.

Government Expenditure and Unemployment for the period 1980-2015. The multiple regression model of the

880 Ordinary Least Square (OLS) method was employed.

## <sup>881</sup> 37 b) Model Specification

 $884 + a 2 TTR + \mu 1t - - - - (1)$ 

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886 (1c) Model Two GDP = f (GEX, TTR) - - - - - (2a) GDP = b o + b 1 GEX + b 2 TTR +  $\mu$  2t - - - - (2b) 887 Model two in log form To know the level of contribution of government fiscal policy towards economic 888 growth in Nigeria, we examined the growth effects of public income and spending via budget surplus or deficit. 889 We also examined the contribution of government revenue and expenditure to economic growth in Nigeria, 890 and disaggregation of the public spending into the different components and for a thorough examination of 891 each component growth rate and the share of each one in total expenditure to see their correlation with 892 economic growth (GDP), and the unemployment rate. Regression analysis carried out was to show the 893 contribution of government fiscal policy to economic growth, and the unemployment rate, by using OLS in 894 multiple forms to ascertain the relationship between economic growth and government expenditure after ensuring 895 stationarity.LogGDP = logb o + b 1 logGEX + b 2 logTTR +  $\mu$  2t - - - (2c) 896

#### <sup>897</sup> 38 i. Explanation of Variables in the Model

The study employed an annual data series on some relevant macroeconomic variables selected for the period 1980 to 2015. Data on Government Expenditure and Total Tax Revenue as fiscal policy variables are used, while data on Gross Domestic Product (GDP) and Unemployment Rates are the variables considered for this study were obtained from the CBN Statistical Bulletins of various years, and the monetary value of goods and services produced in Nigeria during the period irrespective of the nationality of the individuals were the Naira. The calculated GDP was without making deductions for depreciation at current basic prices where nominal GDP equals GDP less indirect taxes net of subsidies **??**CBN, 2007).

The Gross Domestic Product is widely acknowledged as the measure of economic growth and is a proxy for Nigerian economic growth. Unemployment, on the other hand, is seen as a situation whereby those who are willing and able to work cannot find jobs at the prevailing wage rate. The unemployment rate is a measure of the prevalence of unemployment, and is calculated as a percentage by dividing the number of unemployed individuals by all individuals currently in the work force.

The total tax revenue is the revenue collected from taxes on income and profits, social security contributions; taxes levied on goods and services, payroll taxes, taxes on the ownership and transfer of property, and other taxes. Total tax revenue is express as a percentage of GDP, which indicates the share of a country's output that is collected by the government through taxes.

Government expenditure refers to all government consumption, investment, and transfer payments. In National 914 Income Accounting, the acquisition of goods and services by the government for the current satisfaction of the 915 citizenry or the collective needs of the community, and is classed as government final consumption expenditure. 916 Government acquisition of goods and services to create future benefits or for further production, such as 917 infrastructure investment or research spending, is classed as government investment (i.e., government gross capital 918 formation). There are two types of government spending, on final consumption and on gross capital formation, 919 which together constitute one of the key components of Gross Domestic Product. BEA's National Accounting 920 measures government spending in three ways: Government consumption expenditures and gross investment, 921 922 which are incorporated in GDP. Therefore, the total outflow excludes the consumption of fixed capital (CFC), 923 which is a noncash charge. Government spending is funded through government borrowing, seigniorage, or taxes. 924 So, a change in government spending is a chief component of fiscal policy used in stabilizing the macroeconomic 925 business cycle.

The subscript t in our models represents the period, and U t is an error term as earlier explained. We investigated the time series to determine their stationary properties before the first stage of the model using the Augmented Dickey-Fuller (ADF) unit root test to guard against spurious regression results. The expected signs of the independent variables, Government Expenditure and Total Tax Revenue coefficients are to either be positive or negative. The data are time series with an annual observation that covers the period 1980-2015. The bound of the testing procedure is the Ordinary Least Square (OLS). The test is carried out in two stages. First, we test for data stationarity, and secondly for relationships and magnitude using other econometrics determinants.

# <sup>933</sup> 39 c) Data Required

Secondary data on GDP, Unemployment rate, Total Tax Revenue, and Government Expenditure from 1980-2015
 was obtained for analysis.

# <sup>936</sup> 40 d) Data Collection and Sources

The data used was sourced from various annual reports of Central Bank of Nigeria (CBN) for the period 1980-2015.

## <sup>939</sup> 41 e) Method of Data Analysis

940 We use the Ordinary Least Square Method (OLS), and cointegration methods of econometrics.

#### 941 42 IV.

## <sup>942</sup> 43 Data Presentation, Analysis, and Discussion

<sup>943</sup> The data collected for this study was presented for the short and long-run regression analysis.

#### <sup>944</sup> 44 a) Data Presentation

The macroeconomic effects of fiscal policy have been in two dimensions of reduced expenditure (less spending) and revenue (fewer taxes). The results of lessened expenditure have a little effect on GDP and do not impact significantly on private consumption. Although they do hurt private investment, a varied outcome on housing prices will lead to a quick fall in stock prices and depreciation of the real effective exchange rate. Reduced taxes have the inverse outcomes as they have positive (although lagged) effects on GDP and private investment, which have a positive result on both housing and stock prices; and lead to an appreciation of the real effective exchange rate.

Growth and unemployment models are created for the Nigerian economy, namely, the Gross Domestic Product (GDP) and unemployment (UNEM) as the dependent variables while government expenditure (GEX) and government tax revenue (GTR) are the independent variables. The analysed data are attached as appendixes.

# <sup>955</sup> 45 b) Results and Discussion for Model One

# 956 46 UNEM= f (GEX and GTR)

Unit Root Test for Stationarity (Augmented Dickey-Fuller) Granger and Newbold (1974), ??ranger (1986), have 957 958 both demonstrated that if time series variables are non-stationary, all regression findings with these timeseries will be at variance from the conventional theory of regression with stationary series, meaning that regression 959 coefficients with non-stationary variables will be spurious and, therefore, deceptive. So, we test for stationarity 960 of the time series using the Conventional Method of Augmented Dickey-Fuller (ADF) test to investigate whether 961 variables used in this study have a unit root or not. The results of the unit root test are as shown below. The 962 stationarity test result presented in the above table 4.1 revealed that at various levels of significance (1%, 5%)963 and 10%), the variables were all stationary. 964

965 However, one of the variables (unemployment) was not stationary with other at the same levels. However, the variables were differenced. Thus, UNEM, GEX, and GTR became stationary at the first difference (integrated 966 of order one). Hence, the entire variables in this study are stationary, and the longrun relationship among the 967 variables was tested using the Johansen co-integration framework as per Table 4.2. Table 4.2 above shows that 968 there are three cointegrating equations at a 5% level of significance, as the Trace Statistic is greater than critical 969 values. There is a strong evidence from the unit root test, to show that all the variables were stationary at first 970 difference, which is a strong indication that there, exists a long-run relationship or equilibrium among the variables 971 (i.e., GEX, GTR and UNEM). The short-run result in table 4.3 shows that the coefficient of determination R 972 2 is 0.74, i.e., 74%, which indicated that the variation in unemployment (UNEM) is explained by government 973 expenditure (GEX) and Government tax revenue (GTR); meaning that, the explanatory power of the model is 974 975 74 percent.

976 More so, the coefficient of government expenditure (GEX) appeared with the wrong sign (i.e., positive instead 977 of negative), implying a positive relationship between government expenditure and unemployment. From the 978 result, we observe that a percentage increase in government expenditure (GEX) will increase the unemployment rate (UNEM) by 1.02 percent. This evidence does not conform to the apriori expectation as a result of 979 mismanagement, corruption, and embezzlement of public funds that took place in the country during the period 980 of study. Meanwhile, government expenditure is statistically significant, as the t-calculated value of 3.657313 981 is bigger than the t-table value of 2.032. Therefore, the null hypothesis is rejected and the alternate accepted 982 which says there is a significant relationship between government expenditure and the unemployment rate in 983

Nigeria. This means that government expenditure (GEX) has an impact on unemployment in Nigeria during the
 period of study. This relationship means that government expenditure can reduce unemployment in the country
 if properly managed.

Also, the coefficient of government tax revenue (GTR) is with the right sign (i.e., negative) implying a negative relationship between government tax revenue (GTR) and unemployment (UNEM), which means that a percentage increase in government tax revenue will reduce unemployment (UNEM) by 0.15 percent. This finding conforms to the apriori expectation. In the interim, the absolute value of the t-statistic for the slope coefficient is not significant, as the t-calculated of 0.505507 is less than the t-table of 2.032. Thus, we accept the null hypothesis stating that there is no significant relationship between government tax revenue and unemployment (UNEM) in Nigeria; although government tax revenue (GTR) impacts on unemployment in Nigeria but not significantly.

The entire regression model is significant given the f-value of 45.90017 with the probability (F-stat=0.000000). The Durbin Watson value of 1.401074 also confirms the presence of serial autocorrelation.

# <sup>996</sup> 47 c) Results and Discussion for Model Two: GDP = f (GEX <sup>997</sup> and GTR)

The stationarity test result presented in table 4.4 above shows that at various levels of significance (1%, 5%) and 998 10%), the variables were stationary, although none of the variables was stationary at level 1(0). However, the 999 variables were differenced; thus, GDP, GEX and GTR became stationary at the first difference (integrated of 1000 order one). Hence, the entire variables in this study are stationary. Having established stationarity, the long-run 1001 relationship among the variables was conducted using the Johansen co-integration framework as posited at table 1002 4.5 below. The short-run result as reported in table 4.6 above shows that the coefficient of determination R 2 1003 1004 is 0.78, indicating that the variation in the gross domestic product (GDP) explained by government expenditure 1005 (GEX), and government tax revenue (GTR) is 78 percent, meaning that, the explanatory power of the model of 1006 estimation is good.

More so, the coefficient of government expenditure (GEX) appeared with the right sign (i.e., positive) implying 1007 a positive relationship between government expenditure (GEX) and economic growth; so that a percentage 1008 increase in government expenditure (GEX) will increase economic growth (GDP) by 0.172340 percent. The 1009 result is consistent with the apriori expectation. Moreover, the absolute value of the t-statistic for the slope 1010 of the coefficient is significant because the t-calculated value of 2.767130 is greater than the t-table assessment 1011 figure of 2.032. Thus, the study rejects the null hypothesis and accepts the alternative, which states that "there 1012 is a significant relationship between government expenditure and economic growth in Nigeria" meaning that if 1013 fiscal policy regarding government expenditure is managed well, it will increase economic growth in Nigeria. The 1014 significant relationship between government expenditure and economic growth also reflects the potency of the 1015 variable (i.e., GEX) as an imperative conductor in transmitting fiscal policy impulses to the aggregate economy, 1016 thereby increasing economic growth. 1017

Moreover, the coefficient of government tax revenue (GTR) variable appeared with the right sign (i.e., positive) 1018 implying a constructive relationship between government tax revenue (GTR) and economic growth (GDP), 1019 meaning that, a percentage increase in government tax revenue (GTR) will increase GDP by 0.056266 percent 1020 which is in consonant with the apriori expectation. Moreover, the absolute value of the t-statistic for the slope 1021 of the coefficient is not significant, because the t-calculated value of 0.828453 is less the t-table value of 2.032. 1022 Thus, we accept the null hypothesis which states that "there is no significant relationship between government 1023 tax revenue and economic growth in Nigeria. The implication is that government tax revenue does impact on 1024 economic growth in Nigeria, but not significantly. 1025

The entire regression model is significant given the f-value of 38.51284 with the probability F-stat of 0.000000. The Durbin Watson value of 1.429601 illustrates the presence of serial autocorrelation a result of the nonstationarity of time series data that are used for the study. V.

#### <sup>1030</sup> 48 Summary, Conclusion and Recommendations a) Summary

1031 This study empirically examined the exotic influence of fiscal policy on selected macro-economic variables in 1032 Nigeria from 1980-2015.

The study also examined the Solow's model, the exogenous growth models, the Harrod-Domar growth model, Keynesian growth theory, the classical growth theory, neoclassical growth theory, new growth theory, the natural rate of growth, unified growth theory, the big push theory, Schumpeterian growth theory, classical theory of unemployment, Keynesian theory of unemployment, the Marxian theory of unemployment, and efficiency wage theory of unemployment.

Furthermore, to achieve our objectives, we utilized data on GDP, the unemployment rate, Government Expenditure, and Total Tax Revenue collected from a secondary source, principally the CBN Statistical Bulletin. The study applied the Ordinary Least Square (OLS) and Co-integration methods of econometrics to analyse the data and vitrify the relationship that exists among the variables. The main findings in the study are: i. There is a significant relationship between government expenditure and the unemployment rate in Nigeria. ii. There is no significant relationship between government tax revenue and unemployment in Nigeria. iii. is a significant relationship between government expenditure and economic growth in Nigeria. iv. There is no
 significant relationship between government tax revenue and economic growth in Nigeria.

v. Our findings further revealed that there are going to be policy implications as the government expenditure policy was to reduce the unemployment rate and enhanced or increase the GDP of the country. Government expenditure has the potential to stabilize Nigeria's GDP if the governments spend more on productive sectors of the economy. vi. The total tax revenue policy has not contributed significantly to unemployment and also to advance the economic growth of Nigeria from 1980 to 2015 since Total tax revenue alone cannot enhance the economic growth of Nigeria.

#### 1052 **49** b) Conclusion

From our regression results we find that there is a significant relationship between government expenditure and the unemployment rate in Nigeria. There is insignificant relationship between government tax revenue and unemployment in Nigeria. There is a significant relationship between government expenditure and economic growth in Nigeria. There is no significant relationship between government tax revenue and economic growth in Nigeria. There is no significant relationship between government tax revenue and economic growth in Nigeria. The study, therefore, concludes that suitable or appropriate fiscal policies should be maintained. There should be a balance combination and coordination of both monetary and fiscal policies to achieve stable economic growth in Nigeria.

#### 1060 50 c) Recommendations

1061 It is necessary to provide a set of policy recommendations that would apply to the economy of Nigeria.

i. The government should adopt an appropriate fiscal policy to stimulate economic growth and also reduce 1062 the unemployment rate. ii. The government have a duty to guarantee that there is a co-operation between 1063 fiscal policy tool of government spending' and taxation to enhance the economic growth of Nigeria. iii. For 1064 the fiscal policy to be effective in ensuring stability in the economy of Nigeria, it should be augmented with 1065 monetary policy. iv. Conscientious efforts should be made by the government to perfect the various fiscal policies 1066 to provide an enabling environment to increase Economic growth (GDP) and reduce unemployment in Nigeria. 1067 v. The government should increase her capital expenditure and ensure that a well-balanced combination and 1068 coordination of both fiscal and monetary policies are adopted at all times to enhance the economic growth of 1069 Nigeria and to also reduce unemployment to the barest minimum. vi. The government should not be increasing 1070 tax levels, rather, put standard tax structure that guarantees



Figure 1: A

1071

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economic reforms have led to rising interest and exchange rates, thereby causing many private enterprises to cut down on their workforce. These policies have also succeeded in increasing the frequency of reduction of workforce in both the public and private sectors of the Nigerian economy They affirmed that any economy where adequate attention is paid to agriculture; Volume almost everybody is self-employed and that the number of unemployed is easy XX to control. According to Lampman (1974) report gave reasons for the cause Isof unemployment in Nigeria, saying that agriculture is the taproot of our sue economy, and warned that any attempt to give agricultural activities a secondary VII attention in any nation would sooner or later create an unemployment situation. Ver-(Abomaye-Nimenibo & Inimino, 2016). ix. Global Economic Crisis: The global sion economic and financial crisis of the world also contributed to Nigeria's current I unemployment problem. For example, the U.S Great recession of 2008 adversely 9 affected all sectors of the Nigerian economy. The U.S recession led to a decline in ( the demand for Nigeria's crude oil thereby reducing foreign exchange earnings Η and government revenue. This unpleasant development eventually worsened ) Global Nigeria's unemployment problem (Abomaye-Nimenibo & Inimino, 2016). Those enterprises that could not afford the increase in costs to the productive capacity Jourhad no other option than reduce their workforce or fold up. This development nal eventually led to a fall in employment and the nation's unemployment situation of is worsened again (Abomaye-Nimenibo & Inimino, 2016). xi. Rapid Population Hu-Growth: In recent years, Nigeria's population is on the increase. But the growth man of the economy cannot catch up with rapid population growth. Consequently, Sothe swelling of the population, especially in the cities had led to high levels cial of unemployment in Nigeria which is akin to rural-urban drift or migration Sci-(Abomaye-Nimenibo 2015, 2018 & 2020; Abomaye-Nimenibo & Inimino, 2016; ence and Abomaye-Nimenibo et al. 2017). xii. Imperfect Flow of Labour Market Information: A market is a place where the exchange takes place. It is where Year demand and supply work themselves out. In every market, there are buyers 2020 and sellers. The labour market is no exception, but there are imperfections in the labour market, which eventually creates the natural rate of unemployment due to imperfections and frictions Unemployment widens the inequality gap, impoverishes the masses, and lowers their standard of living. i) The high wave of Crime, Robbery: Unemployment of youths has resulted in crimes of various dimensions. Princewill, in Vanguard (June 25, 2002) observed that since 1999, this country has experienced an unprecedented rise in a crime wave, armed robbery, political assassinations, religious riots, inter-ethnic and intra-ethnic clashes, communal clashes due to the increasing unemployment rate. According to Osi (2001), on the research on the consequences of unemployment maintained the fact that autonomous consumption is inevitable, which makes some feebleminded ones indulge in the robbery. k) Prostitution among Young Girls: Recently, researchers have noticed an unprecedented increase in prostitution among young girls. Jajere (2016) investigated 184 brothels and hostels in some urban areas in Nigeria, and some of these prostitutes openly confessed resorting to fate because of the scourge of unemployment. 1) Examination Malpractices are carry out by some jobless school leavers, who must make ends, meet. These teach the younger society negative options in the labour market. xiii. COVID 19: Finally, the greatest unemployment causing factors in Nigeria are Corruption, Oppression, Violence, Ineptitude, Developmental imbalance, and the general failure of leadership of the 1900 years, although the list seems endless. d. Consequences of Unemployment Eveny economy detests unemployment as undesirable, because it causes economic, social and political vices in societies. It consequences to society are numerous. The effects of unemployment in Nigeria are copious but we may quickly look at a few of them: a) Brain drain:

41

	ADF Test	Critical Value		Order of integration	
Variables		1% critical value $5%$ critical value $10%$ critic al		value	
UNEM	-7.082013	-2.636901	-	-1.610747	1(1)
			1.951332		
GEX	5.384104	-3.639407	-	-2.614300	1(1)
			2.951125		
GTR	-4.632883	-3.661661	-	-2.619160	1(1)
			2.960411		

Figure 3: Table 4 . 1 :

#### $\mathbf{4}$

		2: Johansen Co-Integ	gration Test	
Eigenvalue	Trace	5% critical value	Prob. **	The hypothesis
	Statistic			of $CE(s)$
0.753647	74.47626	42.91525	0.0000	None *
0.391216	29.64453	25.87211	0.0161	At most 1 $*$
0.349556	13.76318	12.51798	0.0308	At most 2 $*$
			Source: Compu	ted Result Using (E-Views 8)

Figure 4: Table 4 .

#### **43**

Variable	Coefficient	t-Statistic	Prob.
С	-2.415160	-1.779455	0.0844
LOG(GEX)	1.020619	3.657313	0.0009
LOG(GTR)	-0.153834	-0.505507	0.6166
R 2 =0.735578, F-Statistic=45.900	017, DW = 1.401	1074, Prob. (F-stat=0.000000)	
		Source: Authors' Computed F	Result from (E-view 8)

Figure 5: Table 4 . 3 :

#### $\mathbf{45}$

Eigenvalue	Trace Statis-	5% critical	Prob. **	The hypothesis
	tic	value		of $CE(s)$
0.517683	46.65003	29.79707	0.0003	None *
0.451193	22.58795	15.49471	0.0036	At most 1 $*$
0.081005	2.787672	3.841466	0.0950	At most 2
			Source: Computed Resu	It Using (E-Views 8)

Figure 6: Table 4 . 5 :

#### $\mathbf{4}$

X and GTR) Eco	onomic Growth (GDP	) on Selected
Macroeconomic	variables.	
Coefficient	t-Statistic	Prob.
9.802775	32.36194	0
0.17234	2.76713	0.0092
0.056266	0.828453	0.4134
1.078546, Prob.(	F-stat=0.000000)	
	Source: Authors' Cor	mputed Result from (E-vi
	X and GTR) Eco Macroeconomic Coefficient 9.802775 0.17234 0.056266 1.078546, Prob.(	X and GTR) Economic Growth (GDP Macroeconomic variables. Coefficient t-Statistic 9.802775 32.36194 0.17234 2.76713 0.056266 0.828453 1.078546, Prob.(F-stat=0.000000) Source: Authors' Con

Figure 7: Table 4 .

**44** 

Variab	leADF Test		Critical Value		Order of integra- tion	
		1% critical value	5% critical value	10%critical value		
GDP	-6.374925	-3.639407	-2.951125	-2.614300	1(1)	
GEX	-5.384104	-3.639407	-2.951125	-2.614300	1(1)	
GTR	-4.632883	-3.661661	-2.960411	-2.619160	1(1)	
			Source: Authors' Computed Result from (E-views 8)			

Figure 8: Table 4 . 4 :

Yeavii. The government should exploit the positive relationship that exist between 2020ax and economic growth to bring about effectual investment expenditure that spurs growth, and in turn, boost the revenue levels. viii. The government ( H should improve on income taxes, sales tax/VAT and excise taxes collection system eliminate fraud, evasion, and corruption (Abomaye-Nimenibo et al., ) Globalla). ix. Proper Attitude to Work: Most government workers don't like Jouworking hard. They always believe in the slogan. "After all, government work is nal not my father's own". These ideas or belief at the back of their minds, therefore, of makes them handle the work with all amounts of triviality and carelessness. Hu-In a company or establishment where we have this type of workers, there used matto be a high rate of labour turn over. The management in its bid to stop So-this type of behaviour resorts to frequent infringement on the fringe benefits cial of the workers who attempted to breed obnoxious behaviours. Common sense, Sci-therefore, will even indicate to us that where the number of those employed encare reduced and unemployed is increased to obtain from advocating for proper attribute to work, people should regard the work from which they earn a living Yeaby being punctual to work to avoid unnecessary embarrassment and lay off of 2020abour by their employers. x. Reorganizing the Education System: To combat any unemployment, the educational system should completely be restructured Η in such a way that employment is assured on completion of school. This reorganization can be realized through proper and adequate training coupled with ) Globat involvement of well experienced and qualified personnel. The students are Jouroached and given entrepreneurial development training to make fit for whitenal collar jobs and be self-sufficient also. xi. Expansion of Agricultural Sector: of Double attention be given to the agricultural sector which is the bedrock of Hu-the nation, and the government should build good roads, good communication mametwork, pipe-borne water and electricity in the rural areas that accommodate So- almost 75% of people of Nigerians, thereby making them perpetual local dwellers cial and farmers in line with these and other recommendations made by Abomaye-Sci-Nimenibo et al. (2019). xii. Government to curtail unemployment in the nation encoshould invest and also encourage investors to invest in rural areas by giving them tax waivers and other incentives. xiii. Mechanized farming be intro-Yeaduced to the rural farmers by proving tractors, ploughs, harvester, cash crops, 2020 wilding agriculture estates like A Microscopic View of the Exotic Influence of Fiscal Policy on Some Selected Macroeconomic Variables cassava, banana, Η cocoa plantation and also in Nigeria Dependent Variable: GDP Method: Least Squares Date: 08/08/19 Time: 10:49 Sample: 1980 2015 Included observations: ) GloB6lVariable Coefficient Std. Error t-Statistic Prob. A Microscopic View of the JouExotic Influence of Fiscal Policy on Some Selected Macroeconomic Variables nal in Nigeria Appendix IV: Unit Root Test GDP @ Level GDP @ LEVEL Null of Hypothesis: GDP has a unit root Exogenous: Constant Lag Length: 1 (Auto-Hu-matic -based on SIC, maxlag=9) t-Statistic Prob.\* A Microscopic View of the marExotic Influence of Fiscal Policy on Some Selected Macroeconomic Variables in So-Nigeria Augmented Dickey-Fuller Test Equation Dependent Variable: D(GDP,2) cialMethod: Least Squares Date: 08/08/19 Time: 10:51 Sample (adjusted): 1982 Sci-2015 Included observations: 34 after adjustments Variable Coefficient Std. Error ence-Statistic Prob. A Microscopic View of the Exotic Influence of Fiscal Policy on Some Selected Macroeconomic Variables in Nigeria GEX @ 1 ST DIFF. Null Hypothesis: D(GEX) has a unit root Exogenous: Constant Lag Length: ( 0 (Automatic -based on SIC, maxlag=9) t-Statistic Prob.\* Augmented Dickey-Η Fuller test statistic -5.384104 0.0001 Augmented Dickey-Fuller Test Equation ) GloDedpendent Variable: D(GTR) Method: Least Squares Date: 08/08/19 Time: Jour 10:54 Sample (adjusted): 1985 2015 Ingluded observations: 31 after adjustments nal Variable Coefficient Std. Error t-Statistic Prob. A Microscopic View of the of Exotic Influence of Fiscal Policy on Some Selected Macroeconomic Variables Hu-in Nigeria R-squared 0.866180 Mean dependent var 26380.05 Adjusted R-

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