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Domestic Savings in Bangladesh

Inequality in a Post-Covid World

Highlights

Effect of Foreign Exchange Rate

Enhancing Economic Growth in Kenya

Discovering Thoughts, Inventing Future

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Transforming Financialization and Inequality in a Post-Covid World

By John M. Balder

Introduction- During the past decade, income and wealth inequality reached peak levels not witnessed since the eve of the Great Depression in 1928. Much of the blame for this two-tier society is placed at the feet of technological change and globalization. However, two important contributors are often ignored: first, the financialization of the U.S. economy, which has heightened the role of speculative trading and capital gains, which primarily benefit the top 10% of U.S. households, and second, the suppression of wages. It is troubling that in a country as wealthy as the United States, even before the pandemic, nearly 40% of all U.S. households could not handle a one-time expense of $400 without either selling something or borrowing. The Biden administration has been doing an admirable job at elevating awareness of these issues; however, reversing them will require long-term structural changes that will require broad participation of civil society to enhance productive activity and the creation of value.

Given the enormity of current challenges, policies that were adopted during the Great Depression provide a helpful historical reference point. One important feature of the New Deal was the focus on job creation, productivity growth, and wages.

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Transforming Financialization and Inequality in a Post-Covid World

John M. Balder

I. Introduction

During the past decade, income and wealth inequality reached peak levels not witnessed since the eve of the Great Depression in 1928. Much of the blame for this two-tier society is placed at the feet of technological change and globalization. However, two important contributors are often ignored: first, the financialization of the U.S. economy, which has heightened the role of speculative trading and capital gains, which primarily benefit the top 10% of U.S. households, and second, the suppression of wages. It is troubling that in a country as wealthy as the United States, even before the pandemic, nearly 40% of all U.S. households could not handle a one-time expense of $400 without either selling something or borrowing. The Biden administration has been doing an admirable job at elevating awareness of these issues; however, reversing them will require long-term structural changes that will require broad participation of civil society to enhance productive activity and the creation of value.

Given the enormity of current challenges, policies that were adopted during the Great Depression provide a helpful historical reference point. One important feature of the New Deal was the focus on job creation, productivity growth, and wages. The macroeconomic policies put in place after the Second World War linked wage increases with productivity growth (see chart below). This ensured that workers were fairly compensated for their contributions. However, beginning in the 1970s, productivity growth (orange line) diverged sharply from increases in hourly compensation (blue line). Wages and salaries, as a share of income have plummeted over the past forty years (grey line).



Source: Economic Policy Institute, FRED, Author

Figure 1

What prompted this shift? The postwar compromise worked well so long as growth remained robust. However, as real growth slowed, inflation rose and corporate profits fell, supporters of neoliberalism (Friedrich Hayek and Milton Friedman) argued that a shift in ideology and policy was needed. The new ideology or political program (neoliberalism) meant that "markets are in particular to be preferred over states and politics, which are at best inefficient and at worst threats to freedom."[1] Throughout the crisis-driven 1970s, Friederich Hayek, Milton Friedman and other

Author: Recently semi-retired having worked in government, the financial markets and academia. He currently is writing a book about free market ideology, financialization and inequality.
e-mail: jbalder1@comcast.net

[1] Crouch (2010), p. vii. Other names used to describe this ideology include market fundamentalism, market liberalism, market triumphalism, or the Washington Consensus. The argument is advanced that unfettered markets are best capable of "satisfying human aspirations."

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right-wing economists pushed for adoption of "free market" or neoliberal solutions. Throughout the 1970s, capital became increasingly concerned that the labor market had become too "rigid," wages were too high and government regulations impeded corporate profits.

The election results in the UK (1979) and the US (1980) effectively buried the postwar compromise. Government has been transformed over the past forty years from a countervailing force to markets that balanced the needs of labor and capital (under the postwar framework, aka, managed capitalism) into a full-fledged facilitator of financial markets and capital. At his first inaugural address, Reagan memorably stated: "Government is not the solution to our problems; government is the problem." This claim and the policies that have followed have reallocated income and wealth from the bottom to the top, while eroding faith in the ability of government to deliver collective solutions. Another result has been the emergence of populist solutions on both the left and right.

II. Background: The Postwar Compromise

As discussed above, the postwar compromise included an agreement between capital and labor ("Treaty of Detroit") that ensured that wages would rise along with increases in productivity growth. Business had reluctantly agreed to this framework, given that there were serious concerns about the viability of the capitalist system, given the Great Depression that had preceded World War II. In support of this initiative, the government utilized macroeconomic policies in support of full employment and supported organized labor in its negotiations with capital. From 1945 to 1970, real wages and productivity rose rapidly supporting growth in aggregate demand.

There were several other aspects to the success of the postwar compromise that included constraints that were imposed during the Great Depression on banks and other financial institutions. In particular, the Banking Act of 1933 (Glass-Steagall Act of 1933) included provisions that mitigated the types of speculative behavior that had contributed to the collapse of the banking system in 1933. Banks and other financial organizations were compartmentalized; interest rates were regulated by the Federal Reserve (Regulation Q); and commercial banking was separated from investment banking, helping to ensure that *banks did not utilize insured deposits to engage in destabilizing speculation.* The Banking Act also provided banks with deposit insurance that ended panicked "runs" on bank deposits. In short, banks operated under the 3-6-3 rule (borrow at 3%, lend at 6%, and be on the golf course by 3:00 pm). Finally, banks were subject to extensive regulation and supervision. This system generated a quarter century of financial stability as banks operated as servants to productive capital. Success for a bank was closely aligned with its clients meeting their goals.

The Bretton Woods Monetary Accords were the final component to the postwar compromise. The U.S. dollar became the reserve currency, linked to gold at a price of $35 per ounce. The exchange rates of other currencies were in turn linked to the U.S. dollar. This fixed exchange rate system, in combination with capital controls, accomplished several objectives. First, it restricted global flows of speculative capital that undermined exchange rates during the 1920s and 1930s; second it provided flexibility to nations to formulate macroeconomic policies that worked in their interest; and third, it provided fixed exchange rates that could be adjusted under specific conditions. This agreement helped facilitate the recovery of Western Europe and Japan from World War II.

In terms of macroeconomic performance, annual economic data from the postwar period (1948-1973) is compared with the post-1980 period in the chart below. Real GDP growth was 1.5% higher under the postwar compromise and the average rate of unemployment was 1.4% lower. Unit labor costs rose by more in the postwar period (relative to its average rate of increase since 1980), despite low inflation, given the link between productivity growth and wage increases. And output per hour was 0.90% higher than it has been since 1980. Income inequality declined sharply under the postwar compromise and financial markets were remarkably stable.

Table 1

MACROECONOMIC DATA: VARIOUS PERIODS				
	Real GDP Growth	Unemployment	Unit Labor Costs	Output Per Hour
1948-1973	4.1%	4.8%	2.5%	2.80%
1974-1979	3.0%	6.8%	7.7%	1.40%
1980-2020	2.5%	6.2%	2.2%	1.90%
2010-2020	1.8%	6.4%	1.6%	1.20%

Source: FRED,Author

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By the late-1960s, the postwar compromise experienced turbulence as a series of events unfolded. First, Western European, and Japanese industries were by then fully recovered from World War II. The U.S. trade balance narrowed significantly in response to rising competition and the U.S. was funding a balance of payments deficit that generated a glut of U.S. dollars. From 1967 to 1971, foreign central banks absorbed the US dollars as their economies imported inflation from the U.S. The Johnson administration's decision to finance the war in Vietnam and the Great Society also fueled rising inflation.

Another source of stress was attributable to the strength of organized labor. The economist Michal Kalecki had argued in 1943 that the loss of the "sack" to business owners, or what Marx had called the "reserve army of labor," would result in heightened class consciousness of workers, reducing workplace discipline and elevating demands by owners of capital for greater control over the workplace. Kalecki argued that ultimately discipline mattered more to capital than profits. In 1968 and 1969, wildcat strikes erupted that added tension to an already unsettled situation, providing one more source of pressure on prices.

In August 1971, President Nixon severed the link between the U.S. dollar and gold; several years later, capital controls were lifted by the U.S. and subsequently by other developed nations. These steps increased the mobility of capital strengthening its hand in negotiations with labor over wages, benefits, etc. Capital was now mobile; labor was not. Also in August 1971, a memorandum was prepared for the Chamber of Commerce by Lewis Powell, at the time a corporate attorney (and later a Supreme Court justice), that helped launch a counterattack by capital: The memorandum stated

> "Business must learn the lesson that political power is necessary, that such power must be assiduously cultivated, and that when necessary it must be used aggressively and with determination – without embarrassment and without the reluctance which has been characteristic of American business." [2]

Jacob Hacker (2011) states that the resultant "organizational counterattack" by business was both "swift and sweeping." He notes that corporations assembled a major lobbying presence in Washington D.C.: (1) corporations with public affairs offices increased from 11 in 1968 to 400 a decade later; (2) firms with lobbyists increased from 175 in 1975 to 2,500 in 1982; and (3) political action committees (PACs) representing business increased from 300 in 1976 to 1,200 by mid-1980. The results of these efforts became clear as business scored several major victories against consumer interests and labor unions during the Carter administration.

These initiatives dovetailed well with the neoliberal program that had been incubating in the wings for several decades.[3] This program originated in 1947 when Friedrich Hayek arranged a meeting of a group that would be known as the Mont Pelerin Society (MPS). The meeting consisted of forty men (all men) who supported free markets, individual liberty, and private property. They also opposed the New Deal and what they called "collectivist" or "statist" policies. Hayek was convinced that these policies would lead to totalitarianism.[4] Members of the MPS supported private property and the free movement of capital. Unlike libertarians, they viewed enforcement of those rights as the primary mission of a strong state, which would be allied with capital. They did not object to corporate monopolies, but they vehemently opposed organized labor.[5]

At the time the neoliberal program was introduced, Keynesian policies and the New Deal (managed capitalism) were meeting with success as the world recovered from WWII. In addition, unfettered markets were viewed as having been responsible for the Great Depression, and memories of that disastrous experience remained fresh in policymaker's minds. However, Hayek and other members of the MPS understood that they were playing the "long-game." They created the foundation for a free-market approach and were prepared to wait for an opening. Wealthy individuals and various corporations supported the MPS and provided necessary funding to the organization and its affiliates over the next several decades as the MPS patiently waited its turn.

For this effort to succeed, Hayek believed that strategically the MPS had to attract interest among the intellectuals (who he called the "second-hand dealers in ideas"). Once the intellectuals had "bought in" to the cause, they would help spread the word. To help facilitate this outcome, members of the MPS created numerous think tanks, including the American Enterprise Institute (AEI), the Cato Institute and later the Heritage Foundation. Institutes were also setup in the UK, including the Adam Smith Institute and the Institute for Economic Affairs. James Buchanan would launch Public Choice Theory (which viewed governments as "at

[2] Powell (1971).

[3] For more detailed interpretations of neoliberalism, see Mirowski (2013) and Harvey (2005).

[4] Other members of MPS included Milton Friedman, James Buchanan, Ronald Coase, and George Stigler. Friedman, Coase, and Stigler were professors at the conservative University of Chicago, where Hayek would subsequently be employed.

[5] The initial test-case for neoliberal policies occurred in Chile following the coup against the democratically elected president, Salvador Allende. The imposition of policies resulted in massive oppression of the Chilean people. The thrust of the movement remains closely aligned with the objectives of the global financial sector.

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best incompetent and at worst corruptly self-seeking")[6] and Henry Manne would establish a program to "educate" judges about the virtues of free markets and neoliberalism.

The MPS became increasingly influential during the 1970s as tensions accelerated and stagflation (stagnant growth and rising inflation) took hold. By the end of the 1970s, neoclassical economic models had shifted in a similar direction, embracing the free market. Milton Friedman proposed direct control of the money supply (monetarism) to reduce inflationary pressures. Newly appointed Federal Reserve chair Paul Volcker hiked short-term interest rates to peak levels of 20%, prompting a severe double-dip recession accompanied by record-level (10%) unemployment. Rising unemployment further undermined the authority of organized labor, which further strengthened capital.

Even before Reagan was elected as president, the balance of power had shifted toward capital, as the Carter administration deregulated several industries (e.g., trucking, airlines, telecommunications, and finance). However, implementation of these policies would become far more aggressive and confrontational under Reagan. In a highly visible move, Reagan fired the striking air traffic controllers and disbanded their public sector union. He appointed people to the National Labor Relations Board who supported management in ongoing disputes with organized labor. He appointed people to government agencies whose views were antithetical to the missions of these agencies, as regulations were either eliminated or else ignored. Reagan engineered tax cuts for corporations and wealthy individuals in 1981. *Indicative of the dramatic rightward turn in economic policies as well as the loss of organized labors' influence, the real value of the minimum wage declined by 30% throughout the eight years he was president.*

III. Finance and Inequality

The rightward shift in policy produced a transformation in economic activity away from the mix of government and markets (managed capitalism) toward the "free market," *especially finance.* The free market had been actively marketed by Milton Friedman and others throughout the 1970s. Margaret Thatcher, an admirer of Friedrich Hayek, would boldly state that "There is no alternative," noting that "There is no such thing as society. There are men, women and families." The push was on to reverse the social safety net and leave individuals to their own wiles in determining their own future, an unfortunate concept of individual liberty. Reflecting years later on the transition, Milton Friedman stated:

> "Only a crisis – actual or perceived – produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes the politically inevitable."

Two dimensions to this transition, that are largely ignored, were particularly noteworthy.

- *The first trend was the shift of income away from labor (and wages) and toward capital (profits).* Multiple factors have suppressed wages over the past forty years though the shift from government and organized labor as countervailing factors to owners of capital to the neoliberal program of deregulation, privatization, and globalization was a key driver of the income and wealth disparity.
- *The second trend was the shift toward financialized (finance-led) growth.* Operating under constraints from 1945 to the 1970s, finance had served as a servant to productive capital. The decision to remove Depression-era constraints, both voluntarily and in response to arbitrage and innovation by financial firms, brought about the turn to financialization, as investment in productive activity has increasingly given way to asset-based speculation.

As these transformations unfolded, an ideological infrastructure evolved. The concept of "efficient markets" and "shareholder value maximization" became affiliated with the notion that financial institutions and markets were capable of self-regulation. The deregulation accelerated throughout the 1980s and 1990s under both political parties. And as the Depression-era constraints were removed, credit growth accelerated relative to incomes in a series of debt-driven boom-bust cycles (see chart below).[7]

[6] Crouch (2010), p. 63

[7] The political party of the administration in power made little difference; in fact, the Clinton administration was by far the strongest advocate of unfettered finance. Steps taken during the 1990s set the stage for the global financial crisis in 2008.

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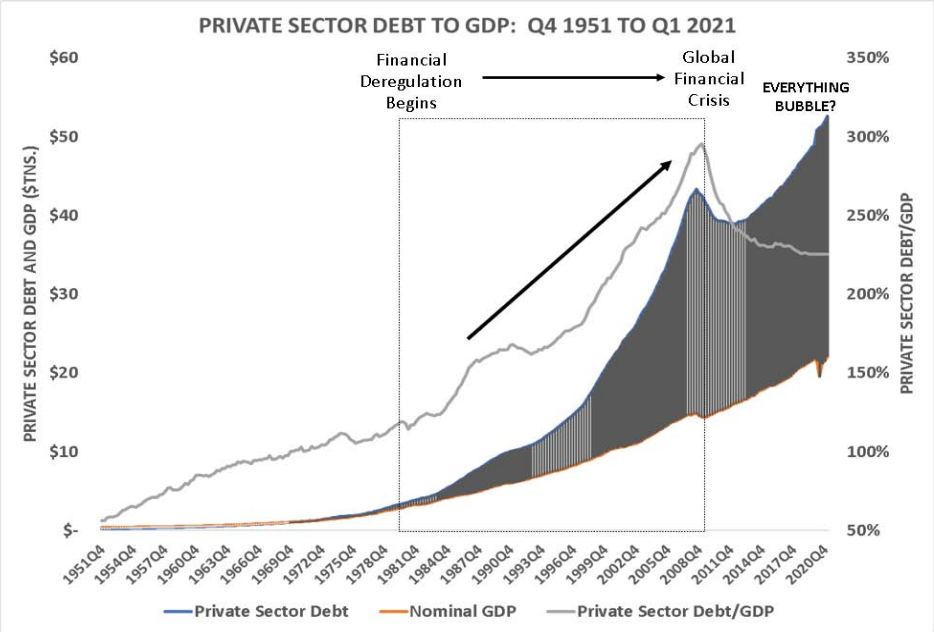

Source: Federal Reserve, FRED, Author

Figure 2

Financialization describes the over-arching importance of finance in dictating economic outcomes. In part, it reflects the symbiotic relationship between credit and asset prices (see diagram below). Once constraints are lifted, as credit growth accelerates, it fuels rising asset prices, which in turn spurs more credit creation, greater use of collateral, etc., in a positive feedback that ultimately results in a boom-bust cycle.

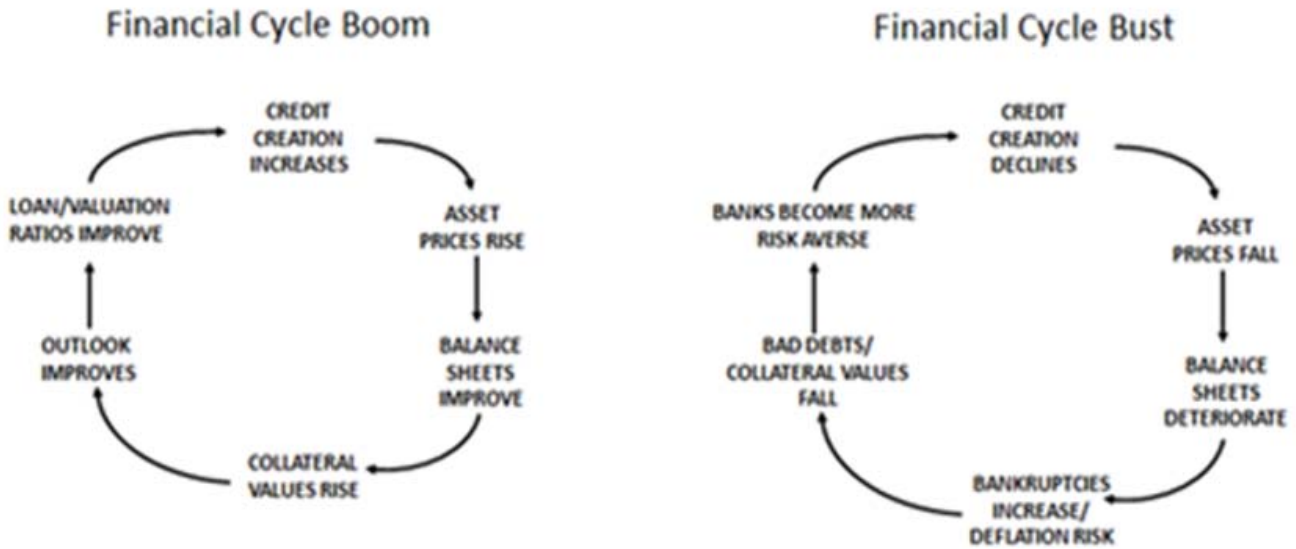

Diagram 1

The financialization of the US economy also impacted the finance, insurance, and real estate (or FIRE) sector, households, and non-financial corporations.

a) Finance, Insurance and Real Estate (FIRE) Sector

The explosive growth in credit elevated the profits of the Finance, Insurance and Real Estate (or FIRE) sector, which accounted for 40% of overall corporate profits from 2001 to 2004 and continues to account for a greater share of profits today than it did during the 1960s and 1970s. Major banks benefit from a low cost of funds, given access to deposit insurance, "too-big-to-fail," and access to the lender of last resort. Salaries and bonuses paid to employees in the financial markets were about equal to those paid in other sectors in 1980, but by 2007, compensation for finance was 70% higher than for other occupations requiring similar

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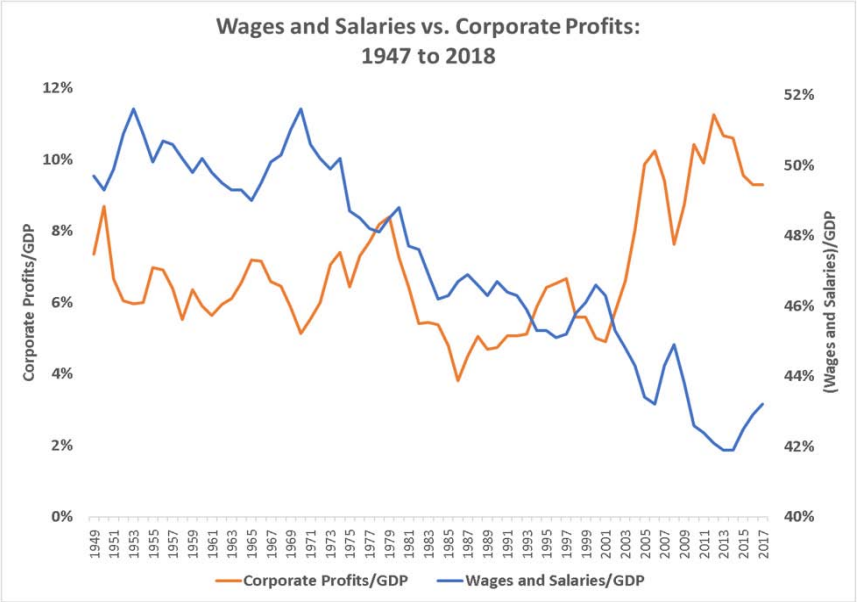
levels of education. [8] This is largely attributable to the economic rent collected by financial institutions since 1980.

Revenues generated by major banks and other financial firms were not "clawed back" during the global financial crisis. For example, the insurance company AIG, issued credit default swaps (CDS) that provided insurance to major financial institutions who purchased the swaps. The premiums paid to AIG were utilized to pay bonuses and dividends to shareholders. These funds were not used to build reserves against potential losses, given the assurances of a senior official at AIG that the instruments being insured (CDOs, etc.) were AAA-rated, meaning reserves were not required. In any case, the U.S. Government ended up paying $180 billion to pay off holders of these swaps in full (with no haircut applied), as senior executives at AIG walked away with their compensation intact.

b) Household Sector

Suppression of wages compelled households to borrow to purchase homes, autos, education, health care, etc., resulting in rising levels of financial fragility. Stagnant wages have elevated corporate profits since the early 1980s (see chart below).



Source: Federal Reserve, FRED, Author

Figure 3

Home purchases were a significant driver of economic activity during the early 2000s. House prices doubled in value (in the 20 major U.S. cities) and mortgage debt likewise increased from $6.83 trillion to $12.76 trillion between 2000 and Q2 2006. House prices peaked in Q2 2006 and then proceeded to fall by 33.6% by Q1 2012. Throughout the house price boom from 2000 to 2007, mortgage rates declined as financial institutions extended loans to numerous customers, including subprime and Alt-A loans. Many of these loans were packaged into securities and sold to investors via Collateralized Loan Obligations (CDOs), etc.

To illustrate how this process worked, suppose a homeowner purchased a home in Q1 2000 for $100,000, borrowing $80,000. She held a 20% equity position (equal to $20,000) in the home. Over the next six years, the home doubles in value. Throughout this period, this homeowner has been refinancing the mortgage, given declining interest rates, and each time increases the amount she has borrowed, while retaining her 20% equity position. The mortgages peak in Q2 2006 at $160,000, meaning she now has a $40,000 equity position in the home. The additional $80,000 she has withdrawn in equity over the six-year period have been used to support her income. It has also contributed to growth in aggregate demand, though importantly it is a liability for the borrower, so it will need to be repaid.

Real estate prices peak in Q2 2006, and then began to decline, slowly at first, and then, into the crisis, rather abruptly. The value of her home declines by 33.6% from Q2 2006 to Q1 2012, meaning that the home is now priced at $132,800. She is now underwater by $27,200, given her outstanding mortgage of $160,000. Admittedly, this example simplifies reality, given that the homeowner would have paid down the mortgage, etc., but the reality holds. Many homeowners

[8] Phillipon and Reshef (2008).

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borrowed against the rising value of their homes, given little or no growth in their income, and this decision increased financial fragility.[9] And in the real world, the terms of the loans (no income, no assets no job or NINJA, etc.) were far more egregious than in the example directly above. As Paul Mason states:

> "If a declining share of income flows go to workers and yet a growing part of profits is generated out of their mortgages and credit cards, you are eventually going to hit a wall. At some point, the expansion of financial profit through providing loans to stressed consumers will break, and snap back. That is exactly what happened when the subprime bubble collapsed."

c) Non-Financial Corporate Sector

Financialization has also dramatically reshaped corporate governance at non-financial corporations (NFCs). The principle of shareholder value maximization was originally introduced by Milton Friedman in a 1970 article he published in the *New York Times Magazine*, in which he argued that maximizing shareholder value should be the only objective or corporations.[10] In November 1982, the SEC implemented Rule 10b-18 permitting corporations to buy back their own stock.

To illustrate how this might work, assume that Rachel Smith is the CEO at XYZ Corporation. She is being pressured by stock analysts at various investment banks to increase shareholder value. During the previous two years since accepting the post as CEO, Smith has cut employment by XYZ by 5,000 in a move to "improve efficiency." This has boosted the stock price from $40 to $50 per share. Smith now wants to engineer a buyback of XYZ shares. She proposes to the board that the company borrow $1 billion (which can be done at record low interest rates, given Fed largess) from ABC Bank to buy back 20 million shares of stock. The board grants its approval, and the CFO engineers the transaction. Stock analysts give the transaction a "thumbs-up" and issue a "buy" order on the stock. The share price rockets to $60 a share and annual compensation for Smith increases from $20 million to $25 million.

The above stock buyback contributed to the compensation provided to Smith and to shareholders of XYZ stock. However, the transaction has not resulted in the creation of value. In fact, the net effect, as documented by William Lazonick (2014, 2016), has been to hollow out corporations, which are incentivized to cut investments, employment, and R&D spending to meet short-term share price or earnings-per-share (EPS) targets. Financial engineering has become increasingly commonplace over the past forty years. These activities have made already wealthy U.S. households even more so but have not promoted job or value creation.

d) Debt Creation and Net Worth

The explosive growth in private sector debt from the early 1980s until 2007 (orange line in left hand chart below) resulted in significant increases in net worth to GDP (blue line in both charts), with two major downshifts, first during the tech bubble and once again in the global financial crisis. Since the onset of the global financial crisis, private debt growth has slowed relative to GDP, especially within the household sector. However, as the right-hand chart illustrates, the Federal Reserve balance sheet has increased significantly, given Quantitative Easing (QE). The Fed's balance sheet has increased from under $1 trillion in 2008 to $8 trillion and as it has increased, asset prices have ballooned as well.

[9]The economist, Hyman Minsky, suggested that purchasing a leveraged asset while depending on that asset to appreciate was what he called Ponzi finance. And this is how the U.S. economy financed itself throughout the early years of the 2000s.

[10] Friedman stated: "There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits….".

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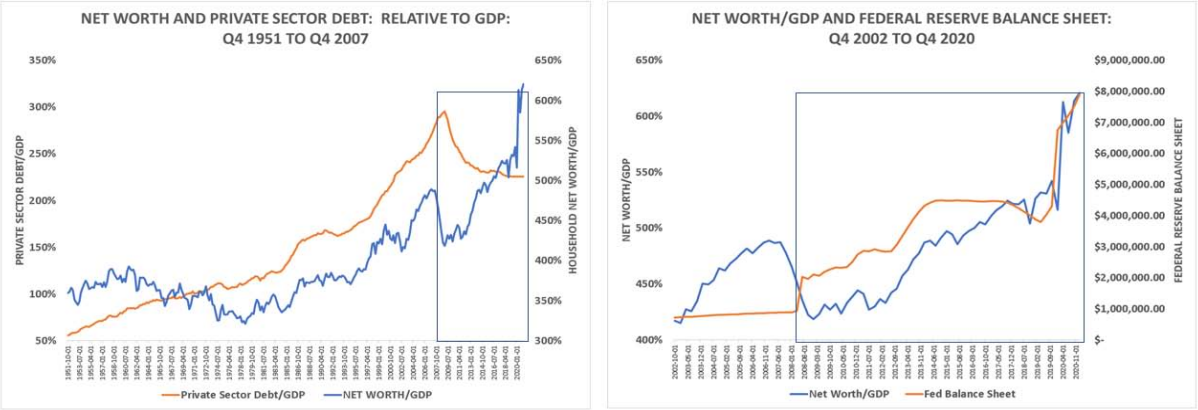


Source: Federal Reserve, FRED, Author

Figure 4

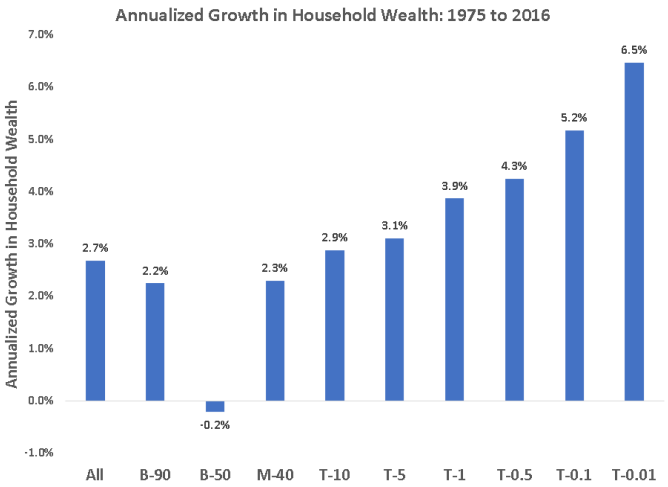
When the Fed conducts Quantitative Easing, it purchases securities from the financial markets, primarily government securities and mortgage-backed securities. In exchange, the Fed creates reserves within the banking system, that now (since 2008) pay interest to those institutions. Importantly, reserves cannot be lent to private borrowers; in any case, the objective in creating the reserves was not to spur borrowing, but instead to reduce interest rates. The reserves remain "stuck" in the banking system.

With that said, reduced interest rates generate capital gains to the sellers of those assets, who then can purchase other assets with the cash provided by the banking system. So, the net effect of these transactions is that *asset prices tend to rise.* This has been the pattern of growth in financialized economic systems for several decades.

e) Financialization and Inequality

Financialization has contributed to rising levels of income and wealth inequality, given enormous capital gains that have occurred over the past forty years. The top 10% of U.S. households now own 88% of all U.S. stock and 86% of all financial assets. On average, a household in the top 10% owns more than 66 times the amount of stock owned by a household in the bottom 90%. And the top 1% own 53% of all U.S. stocks, meaning they own 112 times the stock owned by the bottom 99%.

Average annual rates of growth in household wealth are illustrated in the chart below by households. B-90 refers to the bottom 90% of households by wealth, B-50 to bottom 50%, M-40 to middle 40%, T-10 to top 10%, etc. Remarkably, the rates of growth increase the further up the ladder one goes. The bottom 50% actually endured losses in net worth from 1975 to 2016.



Source: Federal Reserve, FRED, Author

Figure 5

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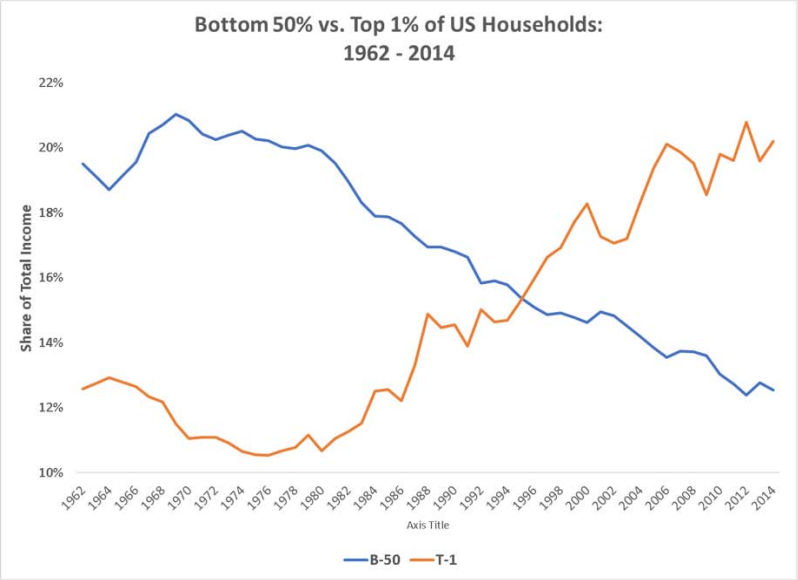
The gains have been particularly robust at the top of the distribution, namely within the top 0.01% of US households. In a neoliberal economic system, economic power translates into political power (e.g., Citizen's United, et al). As the Supreme Court justice Louis Brandeis clearly stated in the early 20th century: "We can have democracy in this country, or we can have great wealth concentrated in the hands of a few, but we can't have both."[11]

An examination of incomes over the past forty years likewise reveals increased concentration. The incomes of the bottom half of U.S. households (B-50) have fallen from close to 20% of total income in 1982 to slightly more than 12% in 2014. The share going to the top 1% of households (T-1) has increased from 11% to 20%. If the share going to the bottom 50% of households had remained stable at 20%, on average a household in that group would have earned more than $25,000 in 2014, as opposed to the $16,200 they actually earned. And median wage earners (M-20 or from 40% to 60%), according to Mishel and Bevins (2021), would have earned $20,696 more than the $48,852 they actually earned in 2017, which would have reduced their need to borrow.



Source: Piketty, Saez and Zucman (2018)

Figure 5

The redistribution of income from the bottom to the top has implications for growth in aggregate demand. The top 10% of U.S. households tend to save a significant portion of their income, while the bottom 80% spend virtually all of theirs. So when income is reallocated to the top, it creates new pools of savings. Tax cuts for the wealthy have had similar implications, meaning that there are massive pools of capital that have accumulated and are looking for a home. At least a portion of this "wealth" has found its home in the financial markets, which have fueled rising inequality. Importantly, this shift has not stimulated productive growth, job creation, R&D, etc.

IV. Financialization and the Fed

The Federal Reserve has fostered financialization in four ways:

(1) The Fed strongly *supported financial innovation and deregulation* under Alan Greenspan. Paul Volcker, who preceded Greenspan as Fed chair, had a healthy skepticism as to deregulation. Toward the end of his life, Volcker commented that the most beneficial financial innovation he could think of was the ATM machine. The decision by the Reagan administration to appoint Greenspan as chair was partially driven by his support for free markets and deregulation (as an acolyte of Ayn Rand). In any case, both political parties supported the shift to deregulation.

(2) The Fed utilized an *asymmetric monetary policy* under Greenspan that persists today. To some extent, monetary policy has been forced to respond to the impact of deregulation, given that the "herd" of financial market participants are far more of a threat to financial stability than they were prior to deregulation. The "Fed Put" results in the Fed cutting short-term interest rates whenever growth slows, or asset prices fall; this provides a movable floor to asset valuations. However, in the reverse

[11] The wealth of three people in the United States is now more than the amount held by the bottom 50% of U.S. households, a staggering statistic that underscores Brandeis's point.

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situation, the Fed has not been inclined to raise short-term interest rates. This creates moral hazard ("heads I win, tails someone else loses"), which has fueled upward movements in asset prices that dates back to the stock market crash in 1987.

(3) The Fed's participation in the *bailout of major banks and non-banks* (e.g., AIG). When asked by Scott Pelley of 60 Minutes how the Fed financed the bailout of AIG the day before, was it tax money, Bernanke stated "No. It's not tax money. The banks have accounts with the Fed, much the same way that you have an account in a commercial bank. So, to lend to a bank, we simply use the computer to mark up the size of the account they have with the Fed." This response provided powerful impetus for underwater homeowners and small businesses to ask why they were not recipients of Fed largess.

(4) Implementation of *Quantitative Easing* policies that purchased securities from financial market participants while providing banks with interest-earning reserves. These purchases boosted asset prices and further widened the divide between the top 10% (and even more so, the top 1%) and the rest of U.S. households.

Ideology overpowered reason during the 1980s and 1990s. Unfortunately, there was little understanding as to what differentiates banks and finance in general from other sectors of the economy. A commercial bank is granted the privilege of creating credit when it receives its bank charter. This privilege is unique to the banking system. When a bank creates credit, given double-entry bookkeeping, it also creates money. When a bank extends a loan of $10,000 to someone, it places a deposit in an equivalent amount in her account. *Money is a public good.* The belief that banks were capable of self-regulation implicitly assumed that banks would manage and monitor risk properly. This granted banks an enormous opportunity. Given that credit growth fuels asset price appreciation, as constraints were lifted, banks shifted away from support of productive activity toward asset-based speculation, as proprietary trading became an increasingly important source of profits. This repeated the experience in the years leading up to the Great Depression in a somewhat different format. The conservative economist and co-founder of the original Chicago School, Henry Simons, remarked that applying "free market" rules to finance is to commit a "category error." The Fed chair, Marriner Eccles similarly testified before Congress that given the economic cycle, "laissez-faire in banking and the attainment of business stability are incompatible." This is at least in part due to the presence of positive feedbacks; the concept of a "market clearing price" is foreign to financial markets, especially once constraints no longer exist.

Finance can serve as a responsible servant to the productive economy, or it can instead become an irresponsible master. This was understood by the authors of the Banking Act of 1933, which was designed to address the issues that resulted in the Great Depression. The application of free market principles to banking and finance inevitably ends in a financial crisis, though positive feedbacks between credit growth and asset price appreciation can provide the "illusion of a "new economy," as they did during the 1920s and again in the early 2000s. Keynes stated the situation well when he said "Financial markets can remain irrational for far longer than any of us can remain solvent"….though he should have added, especially given the Great Depression, "but not forever."[12] As the process ended in 2008, it became clear who the losers were, namely the bottom 90% of U.S. households (especially the bottom 50%), many of whom lost jobs and their homes, and the U.S. taxpayer.

The objective of this article is not to rehash the global financial crisis nor to bash the Federal Reserve. Mainstream economists as a profession (many of whom work at the Federal Reserve System) were lulled into a false sense of comfort by the emergence of a new set of economic (known as Dynamic Stochastic General Equilibrium or DSGE) models that posited stability.[13] Remarkably, these models did *NOT* incorporate money, finance, credit, or banks, based on the assumption that money is "neutral" and does not impact the real economy.[14] Little did they know….

Since the early 1980s, the Fed has protected its independence within the Federal Government based on concern about political pressure that might result in inflationary monetary policy. Inflation since the 1980s has morphed from goods and services prices and become lodged in asset prices. However, asset-price inflation generates capital gains (realized or unrealized), which results in pressure being applied by market participants, etc. to perpetuate this process, via the Fed Put, etc. In my view, the Fed's argument re independence has been eviscerated by recent developments. In fact, the Fed has never been more effective than when it was led by Marriner Eccles and worked closely with the U.S. Treasury Department during the Great Depression and World War II. As financialization unfolded, the Fed has become captive to the financial industry it is supposed to regulate (cognitive capture), as others have recognized.[15]

[12] John Kenneth Galbraith referred to this pause as the "bezzle," namely the period in which the winner enjoys the gains while the loser is not even aware of losses.

[13] For more discussion of these models, see Balder (2018, 2020) and Keen (2011 and 2017).

[14] I have discussed the misunderstandings of money by mainstream economics in numerous articles including Balder (2018 and 2020). MacLeay, et al (2014a and 2014b), Keen (2011 and 2017) and Werner (2016, 2014 and 2005) provide insights in support of this argument.

[15] See Canova (2014, 2010).

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If and when the Fed acts to end Quantitative Easing, asset prices will fall sharply, as they did in December 2018. Asset prices have been inflated over the past decade by QE and stock buybacks, despite weak growth and modest support from the underlying fundamentals. The private sector debt overhang is still massive, especially given how it is distributed within the household sector today; it continues to cast an immense shadow over future growth in aggregate demand. Record low yields on junk bonds should send a cautionary note. Under the current set up, the Fed today appears to have little choice but to continue doing what it has been doing, acting as a "market maker of last resort," despite the fact that its actions only serve to further exacerbate the concentration of income and wealthy.

There have been numerous innovations, including ongoing discussions about whether central banks should create digital currencies (CBDCs) that could be deployed directly to citizens. Morgan Ricks (2016) and colleagues have proposed FedAccounts, which could be utilized by the un- and underbanked. There is little question that the financial sector will be transformed by these developments over the next decade or so. The main question is whether another financial crisis will be required to move the needle on these types of initiatives. The growing concern about inequality is assisting ongoing efforts to rethink how finance operates, though it cannot happen quickly enough.

There is a need for a more robust discussion about the Federal Reserve's conduct of monetary policy and whether and how it has contributed to financialization and rising inequality. Members of the Federal Reserve System have voiced legitimate concerns about rising inequality in speeches and the Fed regularly convenes conferences and publishes written articles, including its annual Economic Well-Being of U.S. Households about this important topic. To the best of my knowledge, no research departments within the Federal Reserve System has studied the implications of Fed policies on the distribution of income and wealth (race, gender, etc.). A no-holds review by people working outside the central bank should be made a priority for the Federal Reserve System. And it should also incorporate the economic models that are utilized both inside and outside the Federal Reserve System. It appears clear, based on comments from insiders and outsiders, that the neoclassical economics profession is not equipped to address these issues.[16]

a) Marriner Eccles: Outstanding Fed Leadership

By today's standards, Marriner Eccles was an unusual choice to chair the Federal Reserve. He grew up in Utah as the son of a Mormon banker who believed in "rugged individualism" and hard work. Marriner never went to graduate school or college; in fact, he never graduated from high school. He would later claim that this left him with "less to unlearn." He arrived in Washington D.C. as a banker in February 1933 as one of two hundred witnesses who were to appear before the Senate Finance Committee, which was investigating the cause of the Great Depression.

Eccles was the only witness among the two hundred who opposed a balanced budget, His remarkable statement at that hearing is well worth reading in full (Eccles 1933), as it provides remarkable insights. Eccles strongly recommended that the government *go on a "war footing"* and stimulate aggregate demand, much as it had done during World War I. He stated:

> "If a man owed himself he could not be bankrupt, and neither can a nation. We have got all of the wealth and resources we ever had, and we do not have the sense, the financial and political leadership, to know how to use them."

Eccles noted that the problem was not a lack of resources or wealth, but the fact that workers did not have sufficient income to purchase production. He acknowledged that the expansion of credit had closed the gap during the 1920s but recognized that "eventually you reach the point of saturation – because you cannot keep forever the process of consumption on the basis of credit." As growth in credit slowed, debtors stopped repaying debt, unemployment rose, banks failed, and the economy spiraled downward into the Great Depression.

The parallels between Eccles' analysis of the Great Depression and the global financial crisis that occurred 75 years later are striking. He focused on how wealth creation during the 1920s tilted toward the wealthy and corporations, which stymied growth in aggregate demand. Eccles criticized the sharp reduction in corporate and inheritance taxes that had been pushed through during the 1920s. These had "primarily benefited the rich and led to excessive wealth accumulation." In combination with lax monetary policies engineered by the Federal Reserve in 1927-1928, the result was an excessive expansion of credit that spurred the Great Depression that followed.

President Roosevelt would appoint Eccles to chair the Federal Reserve System during the 1930s and 1940s. Eccles navigated monetary policy through the Great Depression and the Second World War. Most remarkably, given his childhood, Eccles had an extraordinary ability to reach beyond his own experiences. As he observed the hardship endured by the customers of his bank during the early 1930s, he concluded that self-help and hard work were not sufficient to address the Great Depression. The

[16] For varying perspectives, see Mirowski (2013), Smith (2011), Romer (2016) and Galbraith (2009)

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testimony he delivered in February 1933 would help shape the New Deal.

Importantly for the economy today, Eccles astutely recognized that the inequitable distribution of income in 1933 made it incumbent on the U.S. government to spend because leveraged households and businesses were unable and/or unwilling to do so. This lesson was understood when the pandemic arrived in March 2020.

b) Fixing What Ails

Solutions to current challenges definitely exist; beyond ideological blinders, the primary question is whether the political will exists. Reversing financialization, encouraging creation of public banks, ensuring jobs for everyone who can work (or a universal basic income) and restructuring of the Federal Reserve System would be at the top of my list. However, the more important question that will be discussed here is how to create an opening for potential transformation, especially in the current hostile political climate. In my view, that is a far more difficult challenge than developing workable solutions.

A deeply troubling trend known as "agnotology" has become apparent in recent years. Robert Proctor has defined agnotology as "the study of willful acts to spread confusion and deceit, usually to sell a product or win favor." Mirowski (2013) states that, "The aim of agnotology is not so much to convince the undecided, but to fog the minds of anyone lacking the patience to delve into the arguments in detail (which is pretty much everyone)." There is no question that the use of agnotology has exploded in recent years with the growth of social media (Facebook, etc.).

Neoliberal think tanks have participated in this effort and have been effective in muddying the waters. One such think tank has argued that the global financial crisis was caused by Fannie Mae, Freddie Mac, and the Community Reinvestment Act (CRA). And many otherwise knowledgeable people believed these false claims, perhaps given a disparaging view of government. In addition, neoliberal think tanks also have argued that climate change is not a problem. The main objective to these statements and the research that "supports" them, is to delay action by creating confusion in the "marketplace of ideas." These think tanks have successfully managed to scuttle serious efforts to develop workable solutions to real-world problems.

Rather than assemble a wish-list of changes that will not be adopted, perhaps the more important question is to examine *how and where change is likely to begin.* There is no easy answer to this question. Hayek and the MPS met with success in reshaping thought, arguing that free markets are preferable to states and politics. Friedman became the chief marketer for the notion that "market good, government bad," regularly utilizing the invisible hand of Adam Smith in defense of the neoliberal program. His argument took hold as the postwar compromise deteriorated.

Karl Polanyi (1944) stated that part of the appeal of the "free market" ("laissez-faire") of the 1920s was the promise that it made to excise government in favor of the invisible hand. In the words of Ronald Reagan, "government is the problem." Polanyi correctly stated that this promise was "utopian," meaning impossible to achieve. Democracy, open discussion of ideas, development of policies, etc., is a messy business. If long-term solutions are to evolve in response to current-day challenges, it is not entirely clear where they will emerge.

Fortunately, several books have recently been released from outside the economics and financial markets profession that discuss these issues. Robert Putnam (2020) examines the origins of the New Deal in the Progressive Movement that materialized from the 1890s until 1920, before going on hiatus for a decade. It returned with the election of FDR in 1933, as many of his advisors had themselves participated in the Progressive movement. Importantly, Putnam notes that the Progressive movement "did not have a national blueprint in mind at the start." Perhaps most relevant to today, the movement was *"intensely pragmatic," and "not premised upon ideological beliefs."*

Many of the proposals that emerged evolved out of local communities before they became national programs. Putnam calls on people to build a "grassroots, issues-based movement," noting (in the words of E.J. Dionne, that "Democracy is a long game." If long-term solutiions are to evolve in response to current challenges, they will likely originate in civil society, from non-governmental organizations, churches, professional associations, etc. It appears clear, despite the Biden administration, that there is only so much government can do to launch these initiatives.

As regards the topic of this article -- the contribution of neoliberal ideology and finance to rising inequality -- perhaps the first step is to understand the drivers of inequality, how financial markets and institutions have impacted the division of wealth, the role of ideology in shaping outcomes, and the reasons why finance is so biased toward those who already own enormous amounts of wealth. We need to understand the impact of financialization on U.S. households and then to scrutinize and understand why economic power morphs into political power.

It is important not to fall into the trap of developing purely "economistic" solutions, as I have often in my writing, given that humanity is about much more than the accumulation of wealth. Michael Sandel (2020) states that the grievances today are not only economic, *but also moral and cultural.* Especially among those voters who feel excluded, Sandel argues the issue is not "simply wages and jobs, but also social

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esteem." There is a need to restore the "dignity of work." He argues that our meritocratic society "…has a dark side. The more we view ourselves as self-made and self-sufficient, the less likely we are to care for the fate of those less fortunate than ourselves. If my success is my own doing, their failure must be their fault." This divisiveness has undermined "human flourishing" and is "corrosive of the common good."

As relates to the dignity of work, Sandel states that

> "…it is a mistake to assume that the market value of this or that job is the measure of its contribution to the common good. But over the last several decades, the idea that the money we make reflects the value of our social contribution has become deeply embedded. It echoes throughout the public culture."

I have often pondered that thought in terms of why it is that the average employee at Goldman Sachs makes X times the income that is earned by the average teacher. Sandel quotes a statement from Martin Luther King:

> "One day our society will come to respect the sanitation workers if it is to survive, for the person who picks up the garbage is in the final analysis as significant as the physician, for if he doesn't do his job, diseases are rampant. All labor has dignity."

It is important to put a human face on current challenges and not to fall into the trap of economistic solutions. Pragmatism and non-ideological solutions are needed that emerge from civil society and make sense to people. Utopian approaches that once may have appealed, whether socialism, communism, neoliberalism, capitalism, etc. no longer (if they ever did) provide useful guidance. A meritocracy may seem a fair arrangement to many; it rewards people for their contributions, except that as I read Sandel, it becomes quite apparent that it is, indeed, "corrosive of the common good." We are where we are for a reason, but that does not mean we need to continue on our current path. In fact, as one writer stated, "Neoliberalism, like Communism, is the God that failed" It is worth pondering, as Marriner Eccles did in a speech, "what is an economy for?" Fortunately, no economy is immutable; as social systems, they evolve. For better or worse, all of us must take the lead in this process.

V. Conclusion

An optimist will argue that challenges generate opportunities. Perhaps the pandemic will open this process to further scrutiny. In the throes of the Great Depression, Franklin Delano Roosevelt was elected president. As Thomas Frank states:

> "…the talented people surrounding Franklin Roosevelt stood very definitely outside the era's main academic currents. Harry Hopkins, Roosevelt's closest confidant, was a social worker from Iowa. Robert Jackson, the U.S. Attorney General whom Roosevelt appointed to the Supreme Court, was a lawyer who had no law degree. Jesse Jones, who ran Roosevelt's bailout program, was a businessman from Texas with no qualms about putting the nation's most prominent financial institutions into receivership. Marriner Eccles, the visionary who Roosevelt appointed to run the Federal Reserve, was a small-town banker from Utah with no advanced degree….."

Clement Attlee became prime minister of the UK in 1945. Seven of his Cabinet ministers had spent time working in the coal mines. The lack of credentials for these leaders did not dissuade them from delivering bold actions. Both leaders and their advisors laid the foundations for an economic framework that created decades of robust postwar performance accompanied by declining inequality and a stable financial system. Needless to say, there were numerous challenges, including virulent racism, gender discrimination, imperial adventurism, etc., but the course correction initiated then perhaps provides the best hope for today.

We clearly live in a world of second-best solutions. As the adage goes, "If I were you, I would not start from here." Agreed, but we must operate in the real world. *The destruction of our faith in the ability of government to deliver based on the nightmarish neoliberal dream of privatization, globalization, and deregulation has created the polarization that persists today.* Extreme individualism has undermined our faith in collective action that can offer prosperity and allow humanity to flourish. As Eccles noted in the throes of the Great Depression, "we have got all of the wealth and resources we ever had, and we do not have the sense, the financial and political leadership to know how to use them." A similar challenge awaits humanity today. *The economy has operated best during the past century when it combines government and markets. It is clear that the neoliberal policies have "failed the marketplace test."*

In a "back to the future moment", it is time to recognize that the preferable framework is one that creates a real-world, interactive bridge between the private sector and government (which served from 1945 until the 1970s as both a bridge and as a countervailing check on capital). The collaboration that somehow evolved during the Great Depression and World War II offer historical evidence of what governments and markets can achieve when they work together to solve problems. Given the challenges ahead, we could do far worse than a "back to the future" moment. Better that we get there sooner than later!

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State Aid in the European Union: Where Law and Economics Meet

By Gábor Potvorszki
University of Miskolc

Abstract- The main aim of this article is to give an overview about the Competition Law of the European Union with special regard to the provisions on State Aid which basically determine the level playing field a Member State can grant subsidies for enterprises primarily for economic purposes. Besides the legal environment by giving a brief theoretical summary on the need for State intervention I gave some contributions about the empirics of State aid by analysing the State aid expenditure, economic growth and income level in the European Union between 2004 and 2019.

Keywords: *European Union, Competition Law, State aid, economic growth, income level.*

GJHSS-E Classification: *JEL Code: H2, H7, K2*



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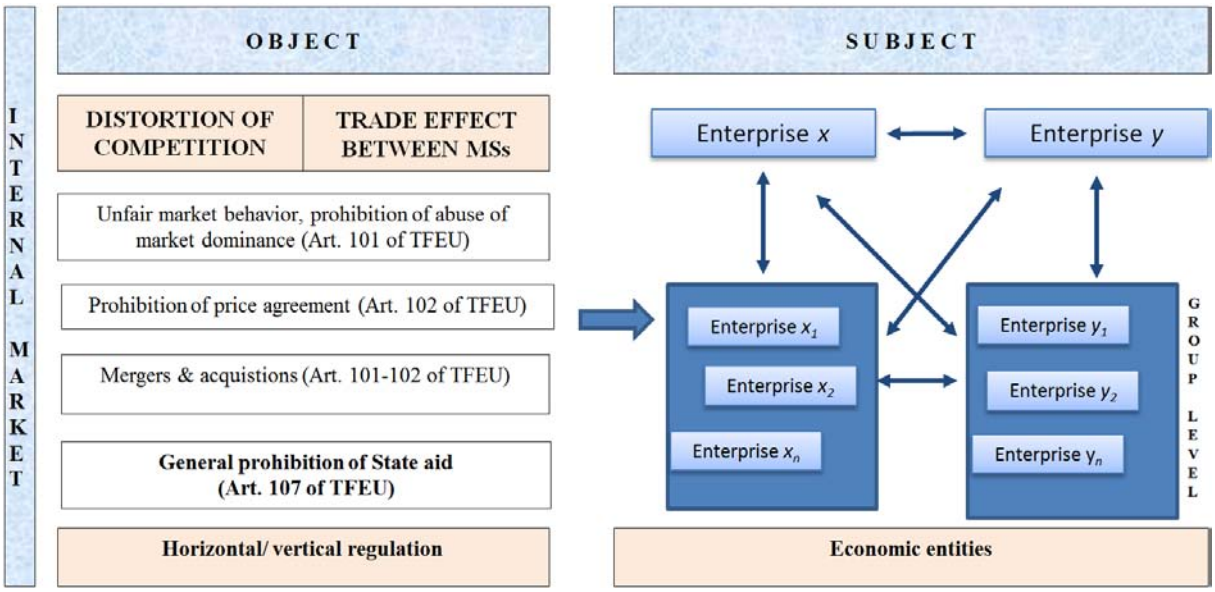
I. The Very Specific Nature of State Aid within the Meaning of the European Union Competition Law

The Competition Law of the European Union (hereinafter EU) is a specific area limited to the Member States (hereinafter MSs) and applicable to market players acting in the internal market of the EU – irrespective from their origins – and therefore it can be considered a unique legislation system all over the world. The Competition Policy is a Common Policy meaning that national sovereignty of a MS is limited. To understand how the competition policy works, it dates back entirely to the Treaty of Rome (1957) as primary source of law, establishing the European Economic Community which had already laid down the fundamentals and main provisions of rules on competition within the economic integration in order to ensure fair market terms across the MSs and to prevent them not to turn into protectionism by protecting their markets which could basically have undermined to create a common and afterwards, single and internal market, at the same time. While the main task of Competition Law in the EU (see Figure 1.) is basically to create and maintain fair market conditions focusing on the prohibition of price agreements (e.g. cartels), the abuse of dominance of market power and unfair market behavior, respectively. State aid is a special area of Competition Law. It has the task to control when a State intervenes in the economy either directly (e.g. through cash grants) or indirectly (e.g. through the tax system or by regulations) and therefore the internal market is distorted or threatens with it and the trade between MSs is affected, too, irrespectively from the form of grants and the ownership issues.



Source: Author's Compilation based on DG Competition, European Commission.

Figure 1: Typology of EU Competition Law

Author: Ph.D., Assisstant Professor, State aid expert, Institute of World and Regional Economics, University of Miskolc, Hungary.
e-mails: regpot@uni-miskolc.hu, potigabi@gmail.com

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As a general rule, any aid "*granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States*" (2012) normally be incompatible with the internal market and therefore prohibited. This provision is considered to be still unchanged, the legislation, however, especially the secondary and supplementary legal sources, legal acts have significantly been extended over time. The main elements of the notion of State aid (European Commission, 2016) are the following when assessing a state intervention measure as State aid:

1. *The Beneficiary Carries out an Economic Activity:* Any activity involving the supply of goods and services on a given market which presupposes the risk of service provided for it. Thus, the business is not merely a business with or without legal entity but any market player carrying out actually an economic activity in the internal market irrespective of its legal status.
2. *Imputability and State Resource:* The term "state" includes both an institution established or managed or partly financed either by the central budget or its subsystems. Thus, any direct or indirect aid measure granted by the ministries, institutions (aid grantors) and other authorities belonging to the central government and any local government body (municipality, county, etc.), constitutes State aid. Moreover, lack in state revenue such as tax allowances (partial or entire tax benefit and tax credit, too) also constitutes aid within the meaning of the EU Competition Law.
3. *Selectivity:* When undertakings in the same factual and legal situation are not automatically eligible for support, the aid measure constitutes State aid because of its selective nature. The selectivity can be sectoral (e.g. covering a particular market), geographic (e.g. limited to a particular region) or discriminatory by aiming at particular market players. If undertakings in the same factual and legal situation are automatically eligible for and benefit from subsidy from an aid scheme and fulfill all the required (general and specific) conditions, it qualifies for a general measure and therefore does not constitute State aid.
4. *Advantage at the Level of the Beneficiary:* Under the same market and financing conditions, the beneficiary will not be able to obtain advantage on the market compared to its competitors.
5. *Impact on Competition:* In competing markets, including those which have not yet been liberalized (that is closed by the state or will be opened gradually) but competition may arise, the aid measure is considered to distort or threaten to distort competition and therefore it qualifyes for State aid. If a particular market had been liberalized earlier but later closed in front of market players, it also distorts or threatens to distort competition.
6. *Effect on Trade between Mss:* In case when due to subsidy it is likely that customers, investments or services are attracted from other MSs or the establishment of companies are obstructed from other MSs in the area concerned and the free movement of goods and services in the internal market are breached.

When considering that an aid measure is qulaified as State aid based on the six criterion, State aid rules are to be applied. These criteria are conjunctive, meaning that all of them must be fulfilled for an aid measure to qualify as State aid and vice versa: if one of the constituent elements is not met, the aid measure does not constitute State aid. However, the European Commission (hereinafter EC) basically has the assumption that an aid measure distorts or threatens to distort competition and trade both from the supply and/or demand side.

Table 1: Forms of Aid and Block-exempted Aid Categories

Direct	Equity participation	Closure aid Compensation of damages caused by natural disaster Culture Employment Environmental protection incl. energy saving Heritage conservation Promotion of export and internationalisation Regional development Rescue & Restructure Research and development incl. innovation Sectoral development SME incl. risk capital Social support to individual consumers Training
	Cash grant	
	Guarantee	
	Recapitalisation	
	Impaired asset measures	
	Liquidity measures	
Indirect	Soft loan	
	Tax deferral	
	Tax exemption	
	Tax benefit	
	Other (e.g. apport, real estate, land etc.)	

Source: Author's Compilation based on Directorate-General for Competition, European Commission.

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Article 107(2) and (3) of Treaty on the Functioning of the European Union (hereinafter TFEU, 2012) allows that under certain circumstances State aid can be granted if it is for an equitable and well-functioning economy and if it contributes to the economic development. The difference between Article 107(2) and (3) of TFEU is the applicability, while in the case of the former the aid is automatically compatible with the internal market (e.g. subsidies for restoring natural disasters, social aid, supporting individuals etc.), in the letter case the aid can only be considered compatible (e.g. to support employment, regional development, environmental protection and energy savings, culture, heritage etc.). In the case of compatibility with the internal market it has to be assessed whether it can be block-exempted – meaning that the aid can be granted under national competence – which depends on the type of aid (categories such as regional development or R&D&I) and its amount, of course. Above a certain threshold determined in the so-called block-exemption regulations (hereinafter GBER). Under the GBER aid can be granted either for horizontal or vertical objectives of common interest. In several circumstances State aid can only be approved individually (i.e. case by case) by the EC, more precisely by the Directorate-General for Competition, meaning that a MS has no control over it anymore.

Overall, in the public consciousness the concept of subsidy and State aid is still mixed nowadays, the lack of its unitary and consistent use is also confused and that is why should be considered a crucial issue among researchers. It can be assessed that State aid is State intervention but not vice versa: only a part of State sources qualify as State aid that are allocated to economic players during the redistribution. State aid therefore is a subset of State intervention according to the EU terminology, a narrow segment focusing on the interactions between the State and business sector with the exception of households (consumers and individuals). The rules basically determine the scope which under and the frames within that a MS can grant subsidies.

II. The Economic Perspectives of State Aid

a) *Macroeconomic Perspective*

Most of the main economic theories deal with the issue of State intervention and the efficiency of public spending and the possible impacts, respectively, from Adam Smith (1776) through Keynes (1936), Solow (1956) and Friedman (1962) to Krugman (1991; 1994); the opinions are basically heterogeneous. The basic question is whether the State is needed to intervene in the social and economic processes and if this is the case to what extent and by what means.

In the 20th century, there can be seen many examples that those developed countries with mixed (public- and private property-based, at the same time) economic models realised that the economy can not work efficiently without State intervention, i.e. merely under market terms, on the one hand because of the inequality of the distribution in goods, services and income, therefore redistribution is needed. On the other hand, if the market mechanisms do not function properly, the state has to intervene in the economy. In the 21th century the global challenges such as climate change, overpopulation, migration, limited availability of (natural) resources, the decrease of the number of areas under cultivation and parallel to that the likely increase in prices at the same time raise such questions which can not be solved on a purely market basis. Due to the fact that the market is basically interested in maximizing profits and/or minimizing costs. For example we can see the increasingly importance of innovation and R&D sector in the digitizing economies during the 21st century; its relevance was already recognized by Schumpeter (1912) and the State's role in stimulating it. Of course, competitiveness can not be without innovation in the 21st century: if a company does not produce more efficiently than its (innovative) market competitors, it will not remain competitive over time. Undoubtedly, but one of the characteristics of innovation is the partial or complete replacement of human labor force. If there is no work, there is no disposable income, there will be no demand, consumption etc. which is a barrier to economic growth. The State must also be able to handle such a situation. Otherwise, the basic frameworks and fundamentals of society can be cracked or even collapse in extreme cases, as Krugman (1994) or Huntington (2005) also points out. Contrary to this, Keynes had the vision in 1930 that the economic and social problems will be resolved within hundred years and prosperity will be general. As regards the past decades it can be seen for example that the views of Kornai (1980) on the role of the State on the public administration and the private sector in full contrast with Piketty (2014) on the role of capital in the 21st century as regards income inequality.

b) *Microeconomic Perspective*

The aim of the competing market players is to achieve the largest possible market share, the higher profit and the more secure market position in the market. If the advantage is obtained in compliance with the competition rules, i.e. not through an advantage that cannot be obtained on the market, it can be interpreted as meaning that an undertaking produces more efficiently, is more productive than its competitor(s), otherwise competition cannot be ruled out. Besides that the task of effective competition is to promote the raise of the living standard of the individuals and social welfare at the level of society as a whole in the long run,

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respectively. Nietsche and Heidhues (2006) distinguishes three levels of competition efficiency on welfare levels:

- *Allocative Efficiency:* If *MU=MC=P,* i.e. the marginal propensity of consumers is equal to the marginal cost of production, which is equal to the market price, the market allocation is efficient. Competition can promote allocative efficiency by reducing the abuse of market dominance (by using excessive prices, *P> MC*) by companies and / or by providing insufficient service and/or quality.
- *Productivity Efficiency:* If the company determines the output in the most cost-effective way in addition to the available technological level. Competition strengthens the selection of the most efficiently producing competitors in the market. If market mechanisms are in place, given fixed costs and fixed marginal costs, an increase in the number of enterprises above a certain level will no longer increase competition, will not lead to an improvement in productivity, because the benefits of economies of scale cannot be fully exploited by more enterprises. is present in the market.
- *Dynamic Efficiency:* Competition drives businesses to innovate for the benefit of consumers and society as a whole.

When examining the proportionality of the market failure and the aid, Garcia and Neven (2005) argued that a higher amount of aid may be justified if it is proportionate to the size of the market failure to be addressed. This finding is nuanced by Buehler et al. (2007) stating that the aid intensity should be proportionate to the market failure:

- In addition to having a less incentive effect on the recipient firm, the low aid intensity also has a welfare-reducing effect due to the marginal cost of public money because it does not address the existing market failure. However, low intensity may also indicate that there is no market failure.
- In the event of a serious market failure, high intensity will not have a greater distortive effect on competition because, in the absence of aid, there is little or no competition.

However, the situation is more complex and it is not the level of aid intensity that is decisive, but the rate of return of the beneficiary. Compared to a similar investment by a non-aided beneficiary, the higher rate of return of the aided company has a much more distortive effect on the competitor(s). The aid intensity must therefore be negatively correlated with the rate of return on the investment planned by the beneficiary. In addition to the socially desirable maximum welfare, the aid intensities are as follows:

$$\left(\frac{s-r}{m}\right) \geq i \geq h - r \qquad (1)$$

where *s* is the social rate of return on the investment, *i* is the aid intensity, *r* is the financial rate of return on the investment, *m* is the marginal cost of the aid *(m>1)* and *h* is the rate of return expected by the beneficiary. The government 's goal should be to minimize taxpayers' money when transferring it to businesses, so it should aim to be $i \cong h - r$.

This approach is basically a balance sheet approach meaning that it does not address the potential effects, the utilization of the aid, despite the same methodology, the individual cost and revenue items are not the same when calculating the social and financial return on investment, so comparability is questionable. It could be applied to return on investment, since in the event of a market failure, the rate of return on the beneficiary's equity should be negative in the case of aid and the rate of financial return on investment without aid should be negative. In the case of a service provider, the interpretation of marginal cost may also raise questions. The formula also does not take into account the cost savings resulting from the aid: if the number of employees increases as a result of state aid – assuming that the number of unemployed decreases in parallel – the state's expenditure on the unemployed (annuities or retraining programs) decreases, while the earnings of the employee entering or returning to the labor market increase and part of the earned income is realized in consumption. The purchasing power also increases compared to the initial situation by consuming more and/or at a higher level and/or decides to postpone consumption, i.e. savings. The consumption indirectly increases budget revenues through taxes and contributions, and in the economy it promotes the process of reproduction, economic growth. Thus, for the current budget, the support can be effective in the results approach if the discounted expected budget revenues and cost savings exceed the discounted support as an expense mértékét $(\Sigma NPV$ *revenues*/ ΣNPV *grants*$> 1)$.

$$\sum_{i=1}^{n} \frac{A_i}{(1+r)^i} < \sum_{i=1}^{n} \frac{C_i + VAT_i + IT_i + CT_i + DI_i - S_i}{(1+r)^i}$$

where *A* is the amount of aid granted in year *i, C* is the amount of employer and employee contributions, *VAT* is the amount of value added tax and excise duties, *IT* is the amount of personal income tax, *CT* is the amount of corporate tax, *DI* is the increase in the amount of disposable income spent minus consumption fixed costs, minus the amount of income intended to be saved and *S* the expenditures saved on the state unemployment benefit, i.e. cost savings and the discount rate. At the same time, it does not manage the external effects of the aid and does not take into account the transaction costs, ie the additional costs of

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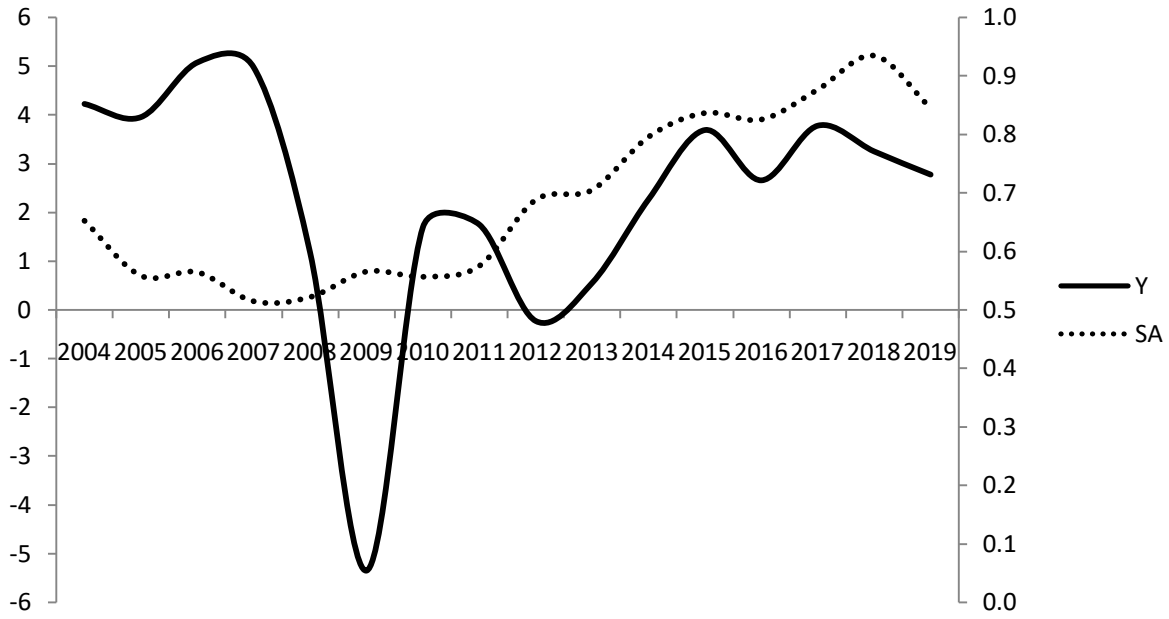
the aid. it also does not take into account the potential (market foreclosure) distortive effect on competitors.

III. Empirical Results of State Aid

There is no MS where no State aid is granted. Between 2004 and 2019 the total spending was 0.7% of GDP on average. On the basis of data provided by the MSs, DG COMP publishes an annual report (namely Scoreboard) on subsidies according to their category, form (direct/indirect) and purpose (horizontal, sectoral) on the basis of 704/2004 Regulation. The aid amounts are collected at current price and with the exception of the euro area are converted into constant prices by the inflation rate of the given reference year in the given MS. According to the latest statistics in 2019 the overall spending by MSs for State aid was EUR 134.6 billion, including Croatia and the United Kingdom as well. The importance of GBER is growing with a relative share of 76% out of all aid measures, representing over 97% of the new implemented ones. MSs spent on average around 46% of the total spending on GBER measures, an increase of more than 10% compared to 2013 when the so-called new GBER – fitted to the seven-year programming period between 2014 and 2020 – was introduced. In terms of the absolute amounts, the difference is more spectacular with a value of around 500 times higher from EUR 104 million (Cyprus, 0.47% of GDP) to EUR 53 billion (Germany, 1.54% of GDP), overall EUR 95.5 billion in 2019. It is Malta, Latvia and Hungary where the highest the GDP proportionate State aid spending can be observed on average with the values of 1.8%, 1.57% and 1.48%, respectively.



Source: Author's Calculation based on State Aid Scoreboard, Eurostat

Figure 2: GDP growth rate (Y, axis y1) and State aid expenditure in percentage of GDP (SA, axis y2) between 2004 and 2019 in the EU

While the total State aid spending scattered with a range between 0.51% and 0.93% as a whole in the EU; among the MSs there can be observed relatively higher disparities with values scattering from 0.04% to 4.35% between 2004 and 2019 (Figure 2.). So much the worse in the case of GDP growth rates: as a whole in the EU it fluctuated between -5.4% and 5.1%, disparities at country level are more significant, it varyed between -14.8% and 25.5%. State aid can be considered to be relatively independent from GDP growth rate. It can be assessed that the level of subsidies seem to be inflexible to the macroeconomic performance. Due to the crisis it has not shown significant increase as regards spending on subsidies but afterwards it has raised parralel to the growth rate. Nevertheless, the impact of the financial crisis has remarkably spilled over the MSs but affected them in different ways.

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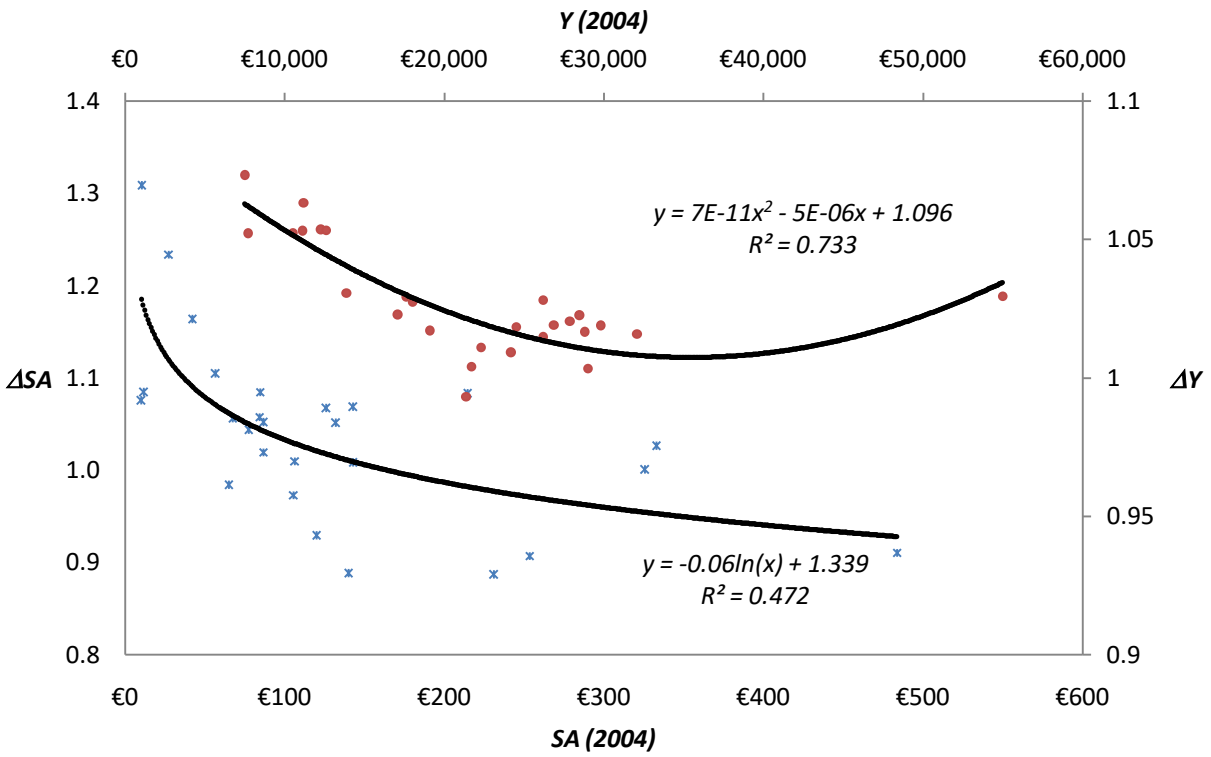

Source: Author's Calculation based on State Aid Scoreboard, Eurostat

Figure 3: State aid per capita (SA, axis x1, blue dots), GDP per capita (Y, axis x2, red dots) and their annual average change (ΔSA, axis y1 and ΔY, axis y2) between 2004 and 2019 in the EU

As it can be seen (Figure 3) the State aid expenditure per capita varyed between 10 and 485 euros in 2004 whereas the income level between 7,500 and 55,000 euros across the MSs, there can observed that the annual average change in State aid expenditure fluctuated between 0.88% and 1.31% and the increase was relatively higher than the growth in income level (ranged between 0.98% and 1.07%) between 2004 and 2019. It can be assessed that those MSs with a relatively lower State aid expenditure per capita could grow better than those with a relatively higher share. Not as the same in the case of income level: it can not be clearly stated that the poorer MSs could better increase their income level than the richer ones.

IV. Conclusions

In this article my main intention was on the one hand to reflect on the issue of regulatory system of subsidies in the European Union by giving an overview about the very specific legal nature and environment of State aid. On the other hand dealing with the issue of State intervention both in macro- and microeconomic way I pointed out that there can not be observed significant relationship between the GDP growth rate and State aid expenditure in the EU in the long run. Rather, Member Sates with relatively low share of per capita spending have increased it between 2004 and 2018. Nevertheless, as a whole it can be assessed that the expenditure on State aid has grown faster than the increase in income level.

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Effect of Foreign Exchange Rate on Maritime Sector Performance in Enhancing Economic Growth in Kenya

By Sudi Amani Mwasinago, Dr. Richard Siele & Dr. Thomas Agak

Moi University

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Keywords: *maritime, labor productivity, generalized method of moments, Kenya.*

GJHSS-E Classification: *FOR Code: 910103*



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Keywords: maritime, labor productivity, generalized method of moments, Kenya.

I. Introduction

A competitive maritime sector is important to global economic growth, since international trade is underpinned by waterborne transport. Maritime activity has a key role to play in the alleviation of extreme poverty and hunger as it already provides an important source of income and employment for many developing countries, such as the supply of seagoing personnel and ship recycling, ship-owning and operating, shipbuilding and repair and port services, among others.

Waterborne transport has historically underpinned international trade and contributed to global economic growth. Waterborne transport is facilitated by ports, which provide a fundamental role in linking navigable water and surface transport. As is the case for most transport services, demand for port services is a derived demand that depends ultimately on the demand for freight at a destination and the demand for travel by passengers. Ports are therefore only one component in a chain of services that deliver the outcome of the movement of people and goods (OECD, 2011).

The neoclassical growth theory, Solow-Swan Model, is grounded on production functions with strict neoclassical assumptions including constant returns to scale, diminishing returns to inputs and the perfect competition assumption. Only two factors, capital and labor, were considered in the production function. According to this model economic growth performance of a country was influenced by exogenous factors, namely, technology and population growth (Solow 1956).

According to Solow (1956) time was the only variable that affected the level of productivity. More specifically, he used the following aggregate production function:

$$Y = A_t F(K, L)$$

Where Y is the level of aggregate output, K is the level of the capital stock, L is the size of the labor force, A is total factor productivity and t is time. The most important prediction of the neoclassical theory was that the poor countries would eventually converge to the per capita income levels of the rich countries. But in reality the gap between the rich and some poor countries in the world has increased (Acemoğlu (2008).

This theory ordinarily presents the producers as successful optimizers by maximizing production, minimizing cost, and maximizing profits. Econometric techniques build on the basis to estimate production/ cost/profit function parameters using regression techniques where deviations of observed choices from optimal ones were modeled as statistical noise (Furková, 2013). Therefore, econometric estimation techniques should allow for the fact that deviations of observed choices from optimal ones are due to two factors: by either failure to optimize i.e., inefficiency or due to random shocks.

Author α: Ph.D in Economics Student, Department of Economics, Moi University, Kenya. e-mail: sudi90589@gmail.com
Author σ ρ: Lecturer, Department of Economics, Moi University, Kenya.

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Global growth in maritime trade is closely correlated with changes in real GDP as a 1% change in real GDP corresponds to a 1.1% change in in maritime trade (UNCTAD, 2017). Maritime transport services are directly driven by global economic growth and the need to carry goods internationally, and thus they are subject to developments in the global economy. In other words, global economic growth directly influences international trade, which, in turn, directly affects transport services and therefore the world's seaborne trade volumes. As demand for both maritime transport services and logistics services derives from global economic growth and the need to carry out international trade, the global shipping industry and maritime transport activities could not escape from performance of the global GDP and international trade volumes (Song & Panayides, 2015).

World tourism has always been enhanced by the maritime transport industry. In 2005, an estimated 10.5% of total world tourism expenditure was directly related to maritime transport (The Philippine Environmental Governance, 2006). The tourism sector of the maritime transport industry also helps in generating revenue to a nation. Cruise shipping is an area with huge potential, targeting high end tourists. Industry experts say that 400 cruise tourists are equivalent to 4000 tourist by air. Kenya Ships Agents Association estimates that 40 cruise ships calling at the port could translate to US$ 20 million (Sh2 billion) and there is a positive development with the Kenya Ports Authority (KPA) currently developing a cruise (Marete, 2018).

The importance of the maritime transport to the Kenya economy is seen in the following contribution: Transportation, Facilitation of Trade and commerce, Revenue generation, tourism, Promotion of Tourism, Development of related economic activities, Employment and job opportunities, Enhancement of industrial growth and development and Institutional development.

Kenya's territorial waters cover 230,000 square kilometers and a distance of 200 nautical miles offshore and 10,700 square kilometers of inland waters, thus the country's maritime sector has a huge potential to turnaround the economy. However, in 2015 for example, the maritime domain contributed only $1.83 billion to the GDP. Fisheries account for only about 0.5 per cent of the Gross Domestic Product and generate employment for around two million Kenyans through fishing, boat building, equipment repair, fish processing, and other ancillary activities.

The Government of Kenya has undertaken several initiatives to streamline the public sector to improve service delivery to its citizens. As a result, the public sector reform program (PSRP) was introduced in Kenya in 1991 after International donors supporting Kenya's development strategies tied aid to implementation of policy and sectorial reforms (PTPR, 2013). These efforts however, have still not yielded much result. The Government, through Sessional Paper No. 10 of 1965 on African Socialism and its Application to Planning in Kenya, resolved to establish state corporations in the Maritime industry like Kenya Ports Authority, Kenya Maritime Authority and Kenya Ferry services with a view to: accelerating economic growth and social development, redress regional economic imbalances, increase Kenyan citizen's participation in the economy, promote indigenous entrepreneurship, and promote foreign investments through joint ventures.

Maritime transport remains the backbone of globalized trade and the manufacturing supply chain, as more than 80 percent of world merchandise trade by volume is carried by sea (UNCTAD, 2019). One subject that has been hotly debated among maritime economists is the way in which shipping and ports facilitate trade (Song & Panayides, 2015). The economic impact of an industry, even though often measured by the level of economic activity of that industry, in the form of value added to GDP and employment generation, is not only restricted to these economic activities but also include the impact of these industry on other aspects of the economy. Studies on the importance of maritime sector has divided this industry contribution into several economic impact.

Maritime sector remains the backbone of globalized trade and the manufacturing supply chain, as more than 80 percent of world merchandise trade by volume is carried by sea (UNCTAD, 2019). Maritime sector in Kenya takes care of 92 percent of Kenya's international trade by volume, which is expected to grow as the country seeks to implement the early crude oil exportation project. However, State corporations in the maritime sector in Kenya have been experiencing redundancies, cost cutting, closure of operations and challenges to the quality of their services. They have become more complex to manage because of the demands of the dynamic business environment. They are finding it difficult to meet the challenge of customer demands as well as complicated service technologies and production processes (Awuondo *et al*, 2013).

Competitiveness of the Mombasa port was ranked number 114 among the world's best 120 best ports that handle container cargo. The latest ranking now puts the Mombasa Port at position 6 in Africa behind other best performing Ports in Africa including Tangier Med Port in Morocco which handled 3.3 million TEUs, Durban (South Africa) did 2.6 million TEUs and Lagos Nigeria that made it into the list for the first time clocking 1.5 million TEUs in 2017. Africa's other best performing Ports are Alexandria and Port Said both in Egypt. (PMAESA, 2017).

Kenya Vision 2030, the country's development blueprint, has set ambitious targets of transforming Kenya into a newly industrialized, globally competitive, middle-income country. The long-term agenda, which is

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being implemented through successive five-year medium-term plans, has three pillars: an economic pillar that aims to achieve GDP growth of 10 percent per annum; a social and environmental pillar that aims to build a society enjoying equitable social development in a clean and secure environment; and a political pillar that aims to build a people-centered, results-oriented, accountable democratic political system (Word bank, 2019).

The costs of international transport services are a crucial determinant of a developing country's export competitiveness. Shipping costs often represent a more binding constraint to greater participation in international trade than tariffs and other trade barriers. Across economies, a doubling of shipping costs is associated with slower annual growth of more than one-half of a percentage point. Transport costs determine the potential access to foreign markets, which, in turn, explains up to 70 percent of variations in countries' gross domestic product (GDP) per capita (World bank, 2019).

Kenya depends quite heavily on external trade for sustaining her economy and also for her economic growth and development. Despite the extensive hinterland the port commands, and the recent commencement of SGR Freight services in 2018, its overall performance remains significantly below international standards. Kenya Ports Authority, a Maritime State corporation which manages Mombasa port, is underperforming in terms of turn-around time despite the heavy infrastructural inputs as depicted in table 1.1.

Table 1.1: Average Turn-around Time

Port	Waiting Time
Mombasa	62.4 hours
Namibia	18 hours
Djibouti	3 hours

Source: Kenya Ports Authority (2020)

As depicted in table 1.1, the port of Mombasa has one of the longest ship waiting time with turnaround time of an average of 2.6 days compared to Djibouti's 3 hours, Namibia 18 hours and Durban 16 hours. While this can lead to underperforming of volumes of handling of cargo and consequently reduce the value of contribution to the national gross domestic, the other fundamental issue is to establish whether the delay is as a result of monopoly structure of maritime sector.

II. Materials and Methods

The research design of this study was explanatory which used panel data to analyze effect of labor productivity on Maritime sector performance in enhancing economic growth in Kenya. In order to analyze the effect of labor on maritime performance in Kenya, this research utilized Simple Regression Analysis and Dynamic Stochastic General Equilibrium (DSGE) employing Generalized Method of Moments (GMM) modeling.

Using simple regression analysis was used to estimated regression equation is, R2 was found, which simply the square of correlation coefficient. This measure was also called the coefficient of determination of a regression equation and it took value between 0 and 1(both values inclusive). It would indicate the explanatory power of the regression model. The test for the significance of R2 would be carried out using the F statistics. The Simple Regression Model was employed in analysis of determinant of maritime output which were labor productivity in maritime sector in Kenya as depicted by equation 2.1.

$$Y_t = \beta_0 + \phi_1 Y_{(t-1)} + \beta_2 Lbr_t + \varepsilon_t \quad \text{.....2.1}$$

Where $Y_t, Y_{(t-1)}, \beta_2 Lbr_t, \varepsilon_t$ represents output, lagged output, labor productivity and the random error term respectively.

In GMM, a population moment condition is that a vector of observed variables, v_t, and unknown parameter vector θ with true value θ_0 which satisfy a $kx1$ element vector of conditions:

$$E[f(v_t, \theta)] = 0 \text{ for all } t \text{ .....2.2}$$

The method of moment estimator θ_T^* is used to solve the analogous sample moment conditions given as:

$$g_T(\theta_T^*) = T^{-1} \sum f(v_t, \theta_T^*) = 0 \text{ .....2.3}$$

Where T is the size of the sample.

Therefore, under the usual regularity conditions, $\theta_T^* \xrightarrow{T} \theta_0$, where θ_0 is the solution for equation 2.3, in which there are k unknowns and k equations leading to unique solution. Suppose that f is a $qx1$ vector and $q > k$ meaning there are k unknowns and q equations implying that there is no unique solution.

GMM picks a value for θ such that it approaches closest to satisfy equation 2.3. The closeness can be defined by the following criterion function:

$$Q_T(\theta) = [T^{-1} \sum f(v_t, \theta)] W_T [T^{-1} \sum f(v_t, \theta)] = g_T(\theta)' W_T g_T(\theta) \text{ .....2.4}$$

Where W_T is the weighting matrix, converges to a positive definite matrix W as T grows large.

The GMM estimator depends on the weight matrix $Q_{GMM}(W_T)$ which becomes the GMM estimator of θ_0 (true value) given as $\hat{\theta}$ can be obtained by finding

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argument of the minimum (argmin) of equation 2.4 as follows:

$$Q_{GMM}(W_T) = \hat{\theta} = \arg\min Q_T(\theta) \ldots\ldots 2.5$$

The Generalized Method of Moments (GMM) of estimation of DSGE model was employed in analysis of determinants of maritime output which were labor productivity in maritime sector in Kenya as depicted by equation 2.6.

$$Y_t = \beta_0 + \beta_2 Lbr_t + \varepsilon_t \ldots\ldots\ldots 2.6$$

Where $Y_t, Lbr_t, \varepsilon_t$ represents output, labor productivity and error term.

Secondary data on port of Mombasa between 2000 and 2019 was sourced from KPA, KFS and various economic surveys among other sources for the analyses. After data collection, analysis was carried out using Stata 13.0 software. Various diagnostic tests were carried out. Inferential statistics were used to understand relationships between different variables.

III. Results

This section presents the results and discussions of the examination of the effects of labor productivity on performance of maritime sector using the GMM approach and simple regression model.

a) Simple Regression Estimation of Parameters

The result for the Simple Regression estimation is shown in table 3.1.

Table 3.1: Simple Regression Results

ln Output (*lnOPT*)	Coeff.	Std. Error	Z- Value	P > |Z|	[95% Conf. Inter.	
ln Foreign Exchange Rate (*lnFOREX*)	3.5694	0.6688	5.34	0.000	2.2129	4.9258
Intercept	-15.4600	3.0878	-5.01	0.000	-21.7224	-9.1976

Source: Author (2020)

The results showed that the intercept coefficient was negative and significantly ($p = 0.000 < 0.05$) determined the output in the maritime sector in Kenya during the period under study. From the above regression equation it was revealed that holding labor productivity to a constant zero; the intercept coefficient indicated that output produced in maritime sector in Kenya 5,178,365 DWT.

With the use of bootstrap which is used to obtain improved estimates and confidence intervals in statistics, the results indicated the range in which the parameter coefficients are normal based on the 95 percentage confidence interval. This implied that the coefficient of *lnFOREX* 3.5694 was within the normal-based 95 percentage confidence interval of 2.2129-4.9258.

In general, transformed models where the dependent variable and independent variables are transformed, a coefficient represent elasticity. The results in this study, the coefficient of foreign exchange rate, 3.5694 was positive and significant at 5% level, $p = 0.000 < 0.05$. This implied that every one percent increase in labor productivity, output increased by about 3.5694%.

b) GMM Estimation of Parameters

The results for the system GMM estimation is shown in table 3.2.

Table 3.2: System GMM Estimation

	GMM			Ivregress_GMM			Arellano-Bond		
	Betas	SE	P	Betas	SE	P	Betas	SE	P
_cons				-6.7142	1.3410	0.000	-13.7809	2.0519	0.000
Indept. Variables									
ln ForeignExhange Rate (lnFOREX)				3.5684	0.6688	0.000	2.9817	0.4146	0.000
Instrumental Variables									
β_0	-14.8527	1.5385	0.000						
β_1	3.2744	0.3346	0.000						
Model Diagnostics									
R-squared				0.9927					
Wald chi2				318.90			458.76		
Sig.				0.000			0.000		

Source: Author (2020)

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From the findings, the results showed that the coefficient of foreign exchange rate was positive and significant at 5 percent level of significance, $p = 0.000 < 0.05$. This implied that for every increase in one percent of foreign exchange rate (β_1), output production increased by 3.2744 percent in the maritime sector in Kenya.

IV. Conclusion

In achieving the objective of this study, which was to establish the effect of foreign exchange rate on maritime sector performance in enhancing economic growth in Kenya, Simple Linear regression and GMM models were utilized. Simple Regression and GMM Models indicated that coefficient of labor productivity was 3.5694 and 3.2744 respectively and were positive and significant at 5% level of significance, $p = 0.000 < 0.05$. This implies that using simple regression every 1 percent increase in coefficient of foreign exchange rate, output increased by 3.5694%. Applying GMM, the results implies that every increase in 1% of foreign exchange rate, output production increased by 3.2744%. The study thus revealed that foreign exchange rate is a critical determinant in the performance of the maritime sector because foreign exchange rate had a direct bearing on the performance of the maritime sector. The results established that foreign exchange rate significantly and positively influenced maritime performance and thus a vital component in enhancing economic growth. The study concluded that foreign exchange rate has a very strong effect on performance of maritime sector in Kenya thus a critical driver of economic growth.

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An Empirical Analysis of Interest Rate and Domestic Savings in Bangladesh

By Hamida Begum
National University

Abstract- The study investigates the relationship between deposit interest rate and gross savings in Bangladesh for the period 1976-2019. In this study, I used the ARDL approach to estimate the short run and long-run relationship between dependent and independent variables, which applicable if some variables are integrated of order one, and some are zero. The result of the study reveals that in the short-run impact of interest rate on gross saving is insignificantly negative, but in the long run this impact is insignificantly positive. The result also shows that both in the short- and the long-run, inflation and GDP positively impact the gross savings. Moreover, the impact of remittance on gross savings is positive in the short run and negative in the long run.

Keywords: *deposit interest rate; gross saving; ardl; co-integration.*

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An Empirical Analysis of Interest Rate and Domestic Savings in Bangladesh

Hamida Begum

Abstract- **The study investigates the relationship between deposit interest rate and gross savings in Bangladesh for the period 1976-2019. In this study, I used the ARDL approach to estimate the short run and long-run relationship between dependent and independent variables, which applicable if some variables are integrated of order one, and some are zero. The result of the study reveals that in the short-run impact of interest rate on gross saving is insignificantly negative, but in the long run this impact is insignificantly positive. The result also shows that both in the short- and the long-run, inflation and GDP positively impact the gross savings. Moreover, the impact of remittance on gross savings is positive in the short run and negative in the long run.**

Keywords: deposit interest rate; gross saving; ardl; co-integration.

I. Introduction

Savings is considered as one of the influencing element for economic growth of a country. Savings increase capital formation, and capital formation is an important factor for promoting economic development. According to Harrod (1939) and Domar (1946), savings leads to investment, and it leads to capital formation, which generates economic growth. It is improving efficiency of loanable funds and promoting capital accumulation (Shaw, 1973). Sustained accumulation of capital foster the economy to achieve higher and sustainable economic growth (Chow, 1993). In the short run, saving rate determine the speed of capital accumulation and growth in the economy (Ramsey, 1928). Savings increase capital formation and investment and thereby raising the growth of the economy (Abu, 2010).

Interest may function as an incentive to postpone gratification (Case, Fair, and Oster, 2012). In other word, it is the reward for postponing current consumption. Hence changes in interest rate may impact the savings such as lower interest rate is expected to stimulates current consumption and discourage savings and vice-versa. Aizenman et al. (2017) showed that the impact of the interest rate on saving is related to the capital accumulation which would determine future income level and thereby present-day consumption and saving in the long run. According to Case, Fair and, Oster (2012), "The final impact of a change in interest rates on saving depends on the relative size of the income and substitution effects." When the substitution effect crossed the income effect, saving tends to increase as the interest rate rises. Keynes argued that interest rate does not have a significant influence on the growth of savings in households and firms as retained profits and investment (Keynes, 1936). Some empirical studies indicated that interest rate could affect the savings positively (Shaw and McKinnon, 1973; Agrawal, 2007, Masson et al. 1998, Warman (1994) or negatively (Loayza et al., 2000). The people of an economy with aging population and insufficient social protection, may want to increase their savings for precautionary purposes if the interest rate is lower. According to Fry (1998), in an economy where interest rates are kept low, this leads to a decrease in current savings.

Bangladesh is an emerging economy that experienced on average more than 6 percent growth rate over the last decade. In FY 2020, during the pandemic situation, its growth rate was 5.2 percent. To expand its development, Bangladesh need to boost private investment. To increase private investment and create new jobs through industrialization Bangladesh decrease the deposit and lending rates by 6% and 9%, respectively. But the question is, what about the savings or deposit? The main objective of this paper is to know whether a lower interest rate has any impact on the saving of the Bangladesh economy?

a) *Purpose of the study*

The objective of this study is to investigate the impact of interest rate on gross saving in Bangladesh.

II. Literature Review

a) *Theoretical Literature*

The main theories on the saving behavior are: The Relative Income Hypothesis by Duesenberry (1949), the Permanent Income Hypothesis by Friedman (1957), the Life Cycle Hypothesis by Ando and Modigliani (1963), the Buffer-Stock Theory and The bequest theory.

The life–cycle hypothesis developed by Modigliani and Brumberg (1954) predicted that individual consumption decisions depend on the lifetime expected income and saving patterns. This hypothesis assumes that individuals save to smooth their lifetime consumption. Thus individuals in their lifetime first act as a dissaver when they are child, savers while working and again dissave when they retire.

Author: Lecturer, Department of Economics, National University, Bangladesh. e-mail: bgmhamida@gmail.com

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The relative income hypothesis by Dusenberry (1949) states that the utility (satisfaction) derives from a given current consumption level is mainly depends on the status in the society rather than from the absolute level of income. Here consumer utility index depends on the ratio of consumption to a weighted average of the consumption of the other consumers. This hypothesis drew two conclusions: aggregate saving rate is independent of aggregate income, and the propensity to save of an individual is an increasing function of his or her percentile position in the income distribution.

The permanent income hypothesis formulated by Milton Friedman in 1957 implies that consumption behavior responds primarily to permanent income. That is, consumers do not respond equally to all income shocks. People will spend money at a level consistent with them appears permanent income. A worker will save only if the change in income is transitory or higher than the anticipated level of permanent income.

The Buffer-Stock Theory (Carrol, 1997) suggested that individuals set aside some precautionary reserve to avoid the unpredictable situation associated with future income fluctuation and smooth out future consumption levels. It assumes that consumers are impatient and prudent in the face of unpredictable income fluctuations.

b) Empirical Literature

Several empirical studies were conducted to find the relationship between interest rate and saving in different countries, but Bangladesh's perspective I could not find any significant studies regarding this topic. There are different views regarding this relationship. Some authors found that the interest rate effect savings negatively (Athukorala and Long Pang, 2003,) and some revealed a positive relationship between these variables (Khan et al., 1994, Sarantis and Stewart, 2001, Richard and Kolluri, 2003).

Joshua, et al. (2019) studied the interest rate effect on private saving by using the data of 135 countries from 1995 to 2014. They show that, a low interest rate can yield different effects on private saving under the different economic situations. If output volatility, old-age dependency, or financial development is above a certain threshold, the real interest rate affects the private saving negatively.

Ojeaga et al. (2014), examined the effect of interest rates on customer savings behavior in the Nigerian banking sector, and revealed that interest rates were probably increasing bank deposits.

Athukorala and Tsai (2003) investigated the determinants of household saving in Taiwan: Growth, demography, and public policy. They found that interest rate and savings positively related, whereas the relationship between inflation and saving is unfavorable.

Siaw and Lawer (2015) examined the determinants of bank deposits in long run and short run in Ghana by using a co-integration approach and revealed that, in the long-run, inflation and the deposit interest rate have a negative effect on bank deposit.

Mushtaq and Siddiqui (2017) investigated the effect of interest rates on bank deposits in Islamic and Non-Islamic economies for the period 1999 to 2014. By using the panel ARDL (Auto- regressive Distributed Lag) method, they revealed that there is no effect of interest rate on bank deposit in Islamic countries. In contrast, in Non- Islamic countries, interest rate and bank deposit are positively related.

Ang (2009) studied the determinants of household savings in India and China. The study results supported the life cycle model that growth in income and inflation stimulates the growth in household savings. In contrast age dependency has the opposite impact on savings. Furthermore, the results suggested that the expected increase in pension benefits tended to encourage savings in India in the long run, whereas the reverse association was found for China.

Loayza and Shankar (2000) examined the private savings trend in India by employing error correction model. They revealed that a significant positive association of per capita income, real interest rate, and agriculture share in GDP with private savings, whereas a significant negative association of financial development, inflation, and dependency ratio with the savings rate.

Murshed & Robin (2012) investigated the impact of the financial liberalization policy on the Bangladesh banking sector from 1981 to 2008. They found that insignificant positive association between domestic savings and the real interest rate.

Agrawal et al. 2007, studied saving behavior in South Asia. They concluded that the real interest rate positively affects the savings rate in Bangladesh and Nepal, whereas in India, Pakistan, and Sri Lanka, the effects are negative.

Masson et al. (1998) examined a broad set of possible determinants of private saving behavior by using sample data for industrial and developing countries. They obtained both time-series and cross-sectional estimates. The results suggest that demographics and growth are important determinants of private saving rates, and interest rates and terms of trade have positive but less robust effects.

Norman and Rashmi 2000, studied the private saving in India and found that real interest rate, Per capita income, and the share of agriculture in GDP has a positive effect on saving and financial development, inflation, and dependency ratio has a negative effect on saving in India.

Abduh et al. (2011) found that the interest rate and growth in production level do not significantly drive deposit.

Horioka (2009) investigated the saving behavior of the aged in Japan for 1990-2008. The author conducted the Family Income and Expenditure Survey

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to collect information on saving rates. The study found that dissaving had been made at retirement age, even working. The findings were consistent with the life cycle model.

Faridi et al. (2010) examined the determinants of household saving in the Multan district of Pakistan using the primary data. They concluded that spouse participation, total dependency rate, total income of household, and size of landholdings had a significant positive relationship with household saving. On the other hand, education household head, children's educational expenditures, family size, liabilities to be paid, marital status, and value of the house have a significant negatively relationship with household saving. This study supports the existence of the Life cycle hypothesis.

Wan et al. (2003) examined the determinants of rural China's savings behavior. The result revealed that undeveloped capital market structure and absence of social rights have a negative impact on rural savings behavior.

Aizenman, J. et al. 2017 investigated the interest rate effect on private saving: alternative perspectives using data on 135 countries from 1995 to 2014. The study showed that in an economy with a well-developed financial market, an aging population, and output volatility can all contribute towards turning the relationship between interest rates and saving negative. They detect the substitution effect of the real interest rate on private saving when the nominal interest rate is not too low among developing countries. The same results were detected among industrial and emerging economies only when the nominal interest rate is lower than 2.5%. In contrast, among emerging Asian countries, they found the income effect when the nominal interest rate is below 2.5%.

III. Data

In this study, I used annual time-series data from the period 1976 to 2019. All data but remittance are collected from the world development indicators published by World Bank. The data of remittance is obtained from Bangladesh Bank.

IV. Model Specification

The model of the study takes the form: Gross Saving as a function of Gross Domestic Product, Deposit Interest Rate, Remittance, and Inflation rate.

$$GS_t = \beta_0 + \beta_1 INT_t + \beta_2 INF_t + \beta_3 REM_t + \beta_4 GDP_t + \varepsilon_t \quad \text{.....(1)}$$

Here, ε_t is an error term which means there could be some other factors that can affect GS and β_0 is a scalar parameter, β_1, β_2, β_3, and β_4 are the slope coefficient parameters. All variables are transformed into log-linear form (LN). According to Shahbaz et al. (2013), modeling the log-log model specification will provide efficient results by mitigating the sharpness in time series data than the simple linear-linear specification.

$$LNGS_t = \beta_0 + \beta_1 LNINT_t + \beta_2 LNINF_t + \beta_3 LNREM_t + \beta_4 LNGDP_t + \varepsilon_t \quad \text{.... .... (2)}$$

Here, LNGS= log of Gross Saving that measured in percentage of GDP. LNINT= log of Deposit interest rate. LNINF= log of Inflation Rate, LNREM= log of remittance measured by million USD, LNGDP = log of real domestic savings. $\beta 0$ = the constant term $\beta 1$ = Coefficient of variable LNINT, β_2 = coefficient of variable LNINF, β_3 = coefficient of variable LNREM, $\beta 4$= Coefficient of variable LNRGDP, t= the time trend. ε = the random error term Methodology.

I employ the Autoregressive Distributed Lag (ARDL) bound test to estimate the short run and long-run dynamic relationship among the selected variables for the study. This test recommended by Pesaran and Shin (1999) and Pesaran et al.2001. The advantages of the ARDL method it provides more robust result in a small sample size (30 to 80 observations); this approach is not sensitive to orders of integration of the variables of interest, It is applicable if some variables are I(0) and some are I(1); it is based on a single equation framework; the ARDL bound testing approach to co-integration yields efficient simultaneous estimation and separation of the short- and long-run relationships between the variables of interest; moreover the ARDL Approach yields unbiased estimates and valid -statistics, even if some of the regressors are endogenous (Paul et al.2011, Benzamin et al. 2001, and Narayan, 2005)

To employ this test, firstly we test the stationarity of the considered variables by using Augmented Dicked Fuller test (ADF) by Dickey and Fuller (1979, 1981) to see the order of integration. The ARDL is based on the assumption that the order of integrations of the variables are I(0)or I(1) (Ouattara, 2004). If any variables are integrated of I(2), the results can be spurious, and the ADRL bound test is unsuitable (Pesaran & Shin, 1998).

The equation for the ARDL test is as below:

$$\Delta LNGSt = \alpha_0 + \sum \sigma_i \Delta(LNGS)_{t-i} + \sum \mu_i \Delta(LNINT)_{t-i} + \sum \varphi_i \Delta(LNINF)_{t-i} + \sum \gamma_i \Delta(LNREM)_{t-i} + \sum \eta_i \Delta(LNGDP)_{t-i} + \beta_1 LNGS_{t-1} + \beta_2 LNINT_{t-1} + \beta_3 LNINF_{t-1} + \beta_4 LNREM_{t-1} + \beta_5 LNGDP_{t-1} + \varepsilon_t \quad ..(3)$$

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Where Δ represents the first differences of the variables, ∑'s represents the error correction dynamic, and β's shows the long-run relationship, α_0 is the drift component and ε_t is the white noise residuals. I analyzed the ARDL directly by using e-views 11. The null hypothesis that there is no co-integration among the variables against the alternative hypothesis of the existence of co- integration among the variables are given below:

$$H0: \beta1= \beta2= \beta3= \beta4= \beta5=0$$

The value of F-statistics is compared with the tabulated values of Narayan (2004) for the small sample size (30 to 80 observations). If the F-statistics value is greater than the upper critical value, reject the null hypothesis that means there exists a co-integration relationship or long-run relationship among the variables. If the value of F-statistics is less than the lower critical value, accept the null hypothesis, which means there is no co-integration among the variables. If, however, the F-statistics value lies within the upper and lower bound, the results are inconclusive. We employ the Akaike Information Criteria (AIC) to determine the optimal lag length for the study. The ARDL restricted ECM models is defined as:

$$\Delta LNGS_t = \alpha_0 + \sum \sigma_i \Delta(LNGS)_{t-i} + \sum \mu_i \Delta(LNINT)_{t-i} + \sum \varphi_i \Delta(LNINF)_{t-i} + \sum \gamma_i \Delta(LNREM)_{t-i} + \sum \eta_i \Delta(LNGDP)_{t-i} + \psi ECM_{t-i} + \varepsilon_t \quad (4)$$

Where ψ is the speed of adjustment. ECM shows how much disequilibrium is being corrected (Emeka N., Kelvin U. (2016). A positive coefficient of ECM indicates a divergence, and a negative coefficient reveals a convergence. If the estimate of ECM = 1, 100% of the adjustment takes place each period that is the adjustment is instantaneous and full; if the estimate of ECM = 0.5, 50% of the adjustment is realized each period/year. ECM = 0 indicates that there is no adjustment, and no longer makes sense of the long-term relationship.

At last, to ensure the goodness of fit of the selected model author conduct the stability and diagnostic test. To check the stability of the parameters of the model, the author employs the stability test of the cumulative sum (CUSUM) of recursive residuals proposed by Pesaran and Pesaran (1997) and the cumulative sum of squares (CUSUMSQ) of recursive residuals by Brown et al. (1975).

V. Result

a) Unit Root Test

To check the stationary of the variables, researchers used the Augmented Dickey-Fuller (ADF) test. The result of the ADF test is given in table 1.

Table 1: ADF and PP test result

	ADF				
Variable	At level		1st difference		Order of integration
	Constant	Constant, linear trend	Constant	Constant, linear trend	
LNGS	-6.76***	-8.63***	--	--	I(0)
LNINT	-2.51	-3.53**	-4.41***	-4.54***	I(1)
LNINF	-5.87***	-5.69***	--	--	I(0)
LNREM	-4.92***	-2.72	-7.77***	-7.54***	I(1)
LNGDP	5.93	1.28	-4.51***	-7.63***	I(1)

*Significance at ***1%, **5%, and *10%.*

Table 1 shows the test of stationary result. From the table, we can see that LNGS and LNINF are stationary at level, and LNINT, LNREM and LNGDP are nonstationary at level but stationary at 1st difference. Since some variables are integrated I(0) and some are I(1), we estimate ARDL long- run and short-run estimates.

b) Optimal Lag

The result of the Akaike information criterion indicates that the optimal lag of the selected model is 4,2,3 4,4, shown in figure 1.

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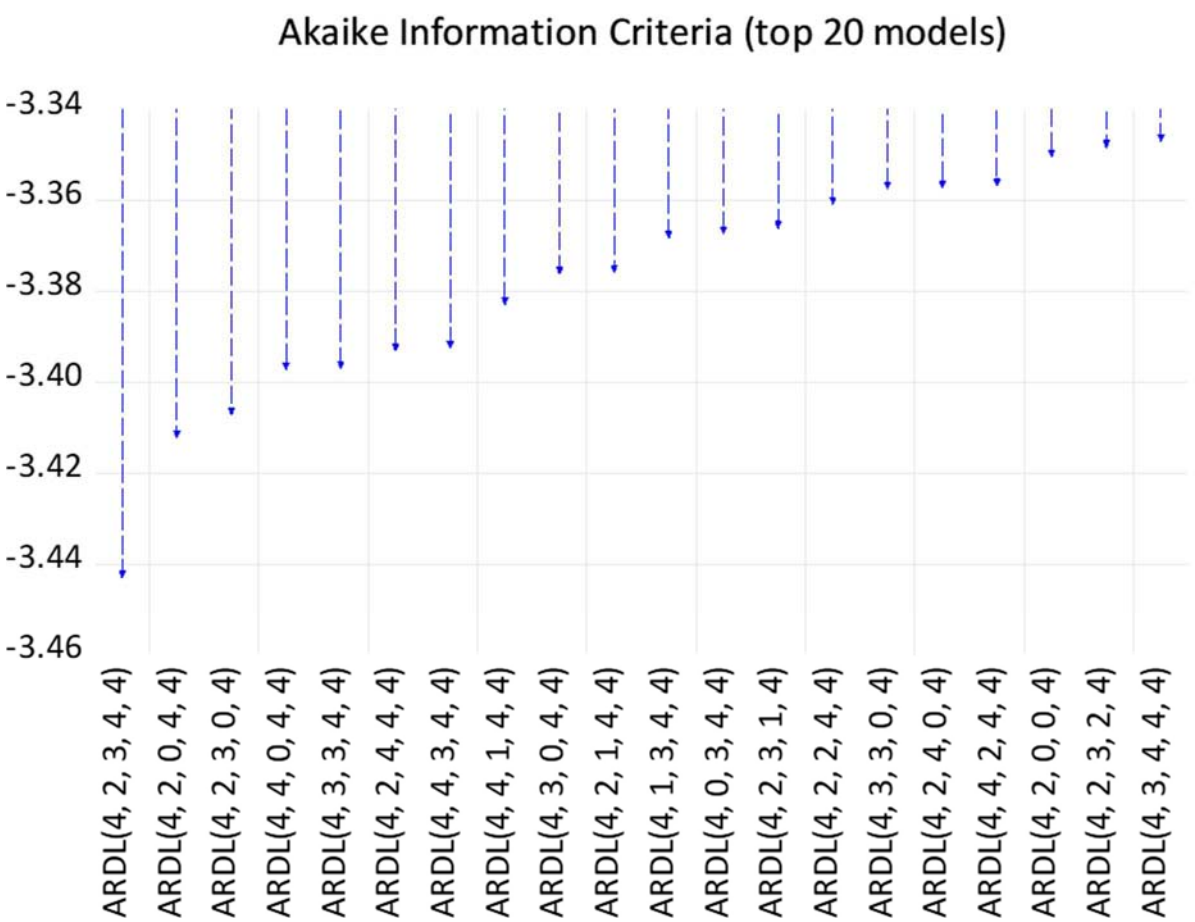

Figure 1: Optimal Lag

c) *Bound Test and Cointegration Result*

Table 2: Summery of Bound Test

Test Statistic	Value	Signif.	I(0)	I(0)
F-statistic	19.15076	10%	2.2	30.9
K	4	5%	2.56	3.49
		2.5%	2.88	3.87
		1%	3.29	4.37

Table 2 shows the result of the Bound F-test. The calculated F value for LNGS is 19.15076, which is higher than all the lower and upper bound limits at 1%, 2.25%, 5%, and 10%. So we can reject the null hypothesis of "no cointegration (long-run relation) between dependent and explanatory variables," that is there exists a long-run relationship between LNGS and all other independent variables used in this study.

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d) Long–Run Estimates of ARDL Approach

Table 3: Result of the Long-Run Estimates

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3.935830	2.103135	-1.871411	0.0776
LNGS(-1)*	-0.187539	0.147794	-1.268926	0.2206
LNINT(-1)	0.065857	0.080417	0.818947	0.4235
LNINF(-1)	0.047654	0.019725	2.415943	0.0265
LNGDP(-1)	0.527124	0.213428	2.469800	0.0238
LNREM(-1)	-0.205587	0.116166	-1.769775	0.0937
D(LNGS(-1))	-0.362844	0.105207	-3.448844	0.0029
D(LNGS(-2))	-0.371500	0.085932	-4.323164	0.0004
D(LNGS(-3))	-0.507882	0.054989	-9.236030	0.0000
D(LNINT)	-0.008119	0.082693	-0.098179	0.9229
D(LNINT(-1))	0.130041	0.084103	1.546216	0.1395
D(LNINF)	0.021211	0.011953	1.774513	0.0929
D(LNINF(-1))	-0.023879	0.014291	-1.670931	0.1120
D(LNINF(-2))	-0.018072	0.011329	-1.595234	0.1281
D(LNGDP)	1.236912	1.101880	1.122547	0.2764
D(LNGDP(-1))	0.663201	1.003260	0.661046	0.5170
D(LNGDP(-2))	-0.709099	1.048418	-0.676352	0.5074
D(LNGDP(-3))	-1.752997	0.901423	-1.944700	0.0676
D(LNREM)	0.157008	0.088557	1.772964	0.0932
D(LNREM(-1))	0.409585	0.117412	3.488436	0.0026
D(LNREM(-2))	0.504683	0.099336	5.080553	0.0001
D(LNREM(-3))	0.197701	0.066752	2.961736	0.0084

Table 3 shows the long-run coefficient of the ARDL model. The result indicates that the previous year's deposit interest rate (INT) has a positive impact on current year gross savings (GS) but not significant. This result is similar to Murshed & Robin (2012). Moreover, inflation and gross domestic product (GDP) bear a significant (at 5 percent) positive impact on gross savings. That is, if 1 percent increase in last year's inflation, gross savings will increase in approximately 5 percent. The result also indicates that the impact of the previous year remittance on gross savings is negative and significant at 10 percent.

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e) Short-Run Analysis of ARDL

Table 4: Result of Short-Run Analysis of ARDL

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LNGS(-1))	-0.362844	0.053651	-6.763049	0.0000
D(LNGS(-2))	-0.371500	0.041358	-8.982546	0.0000
D(LNGS(-3))	-0.507882	0.030235	-16.79802	0.0000
D(LNINT)	-0.008119	0.056850	-0.142809	0.8880
D(LNINT(-1))	0.130041	0.054674	2.378472	0.0287
D(LNINF)	0.021211	0.008764	2.420268	0.0263
D(LNINF(-1))	-0.023879	0.008491	-2.812294	0.0115
D(LNINF(-2))	-0.018072	0.007541	-2.396547	0.0276
D(LNGDP)	1.236912	0.736604	1.679209	0.1104
D(LNGDP(-1))	0.663201	0.676282	0.980658	0.3398
D(LNGDP(-2))	-0.709099	0.726844	-0.975586	0.3422
D(LNGDP(-3))	-1.752997	0.664443	-2.638298	0.0167
D(LNREM)	0.157008	0.062506	2.511872	0.0218
D(LNREM(-1))	0.409585	0.054956	7.453029	0.0000
D(LNREM(-2))	0.504683	0.042967	11.74581	0.0000
D(LNREM(-3))	0.197701	0.044943	4.398973	0.0003
CointEq(-1)*	-0.187539	0.015477	-12.11703	0.0000

R-squared	0.977401	Mean dependent var	0.040433
Adjusted R-squared	0.961679	S.D. dependent var	0.168222
S.E. of regression	0.032931	Akaike info criterion	-3.692219
Sum squared resid	0.024942	Schwarz criterion	-2.974445
Log likelihood	90.84438	Hannan-Quinn criter.	-3.432695
Durbin-Watson stat	1.536555		

Table 4 shows the short-run ARDL result summary that indicates in the short-run impact of interest rate on gross saving is negative but not statistically significant that is in the current year, increase in interest rate decrease the saving rate. The result also reveals that inflation and remittance have a positive with significant impact and GDP has an insignificant positive impact on gross savings in Bangladesh.

Estimated results also exhibit that the sign of the lagged error correction representations (ECM_{t-1}) is negative and statistically significant at 5 percent indicates the speed of adjustment toward long- run equilibrium. The coefficient of -0.19, for instance, implies that approximately 19 percent disequilibrium from the previous year's shock converges on the long-run equilibrium in the current year. The result reveals that the R^2 value is 0.97, which reflects that 97 percent variation of the dependent variable explained by the independent variables. The value of adjusted R^2 is 96 percent. The Durbin–Watson (D–W) value is 1.536555, which confirms that no autocorrelation among the variables. The statistics' (R^2, Adj. R^2; D–W) results show that our model is robust and well fitted.

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f) Stability Test

To check the stability of the model, I used cusum and cusum square test. The result of the tests is given by following figure 2 and figure 3:

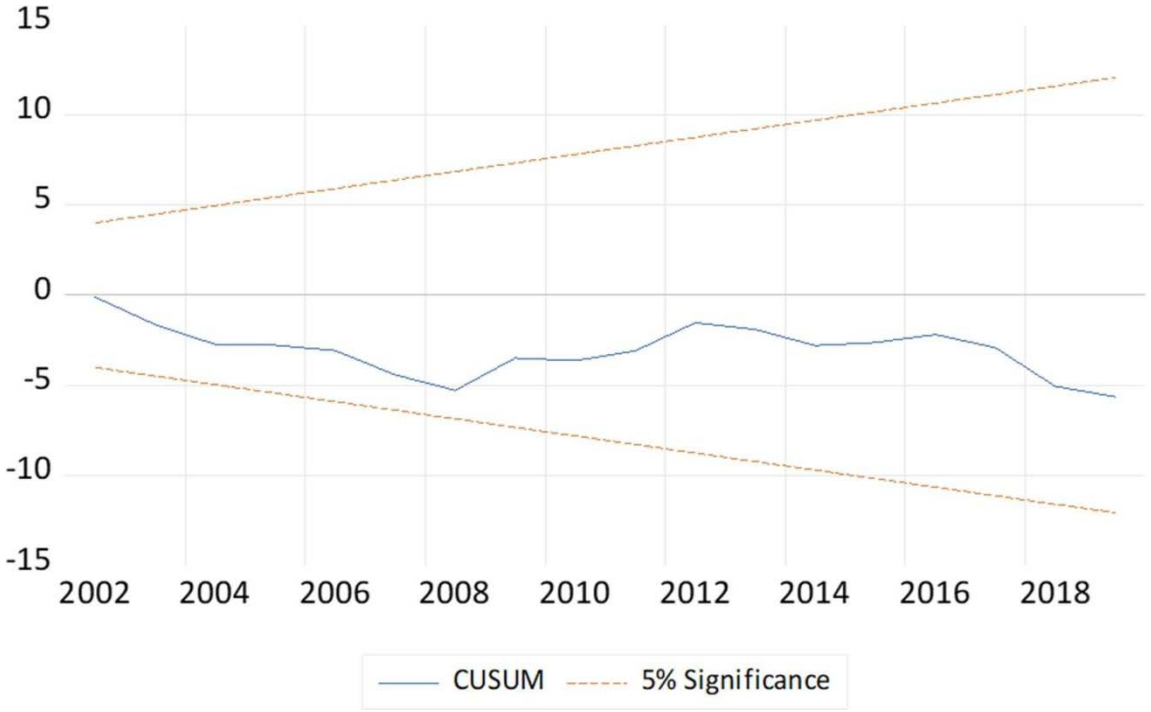

Figure 2: Cusum Test Result

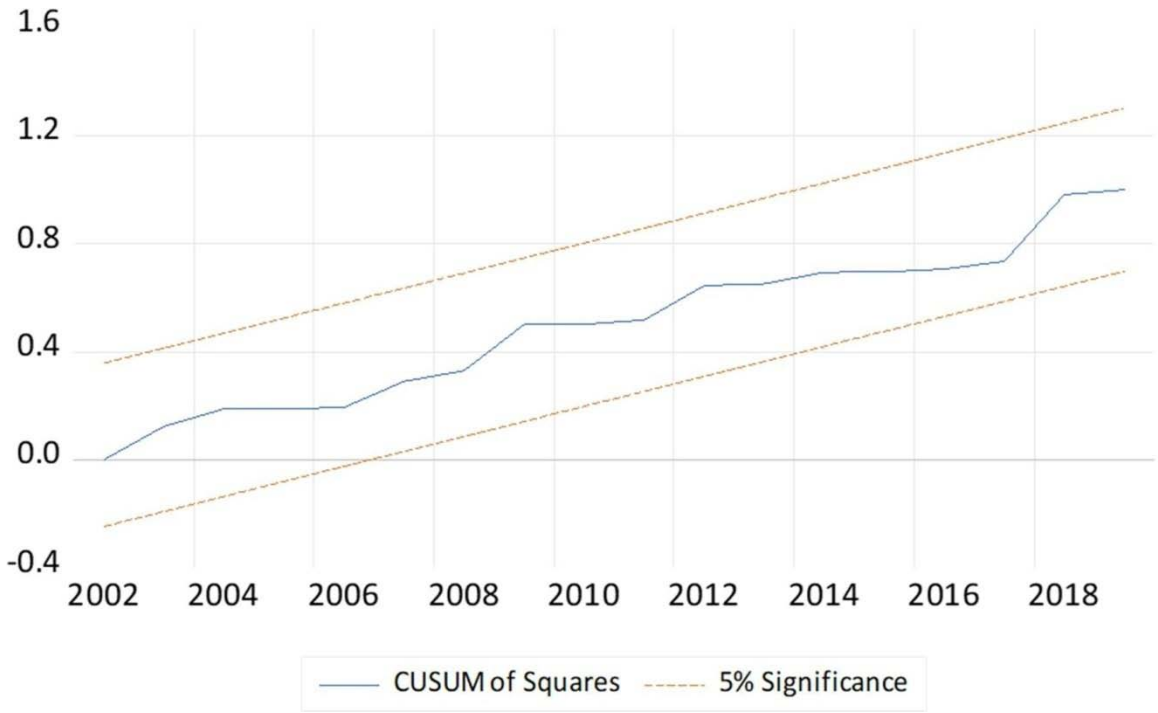

Figure 3: Cusum Square Test Result.

We can see above figures 2 and 3 that the CUSUM line and the CUSUM of Squares line lie between the critical bounds of 5 percent significant, which indicates the stability of all coefficients in the estimated model.

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g) Diagnostic Test

A residual diagnostic test was applied for checking autocorrelation, heteroscedasticity, and serial correlation in the residual.

i. *Test of Normality*

To check whether the data used in the model are normally distributed or not, I employ the Jarque Bera test. Here the null and alternative hypothesis are:

Ho: The data are normally distributed, and

H1: The data are not normally distributed.

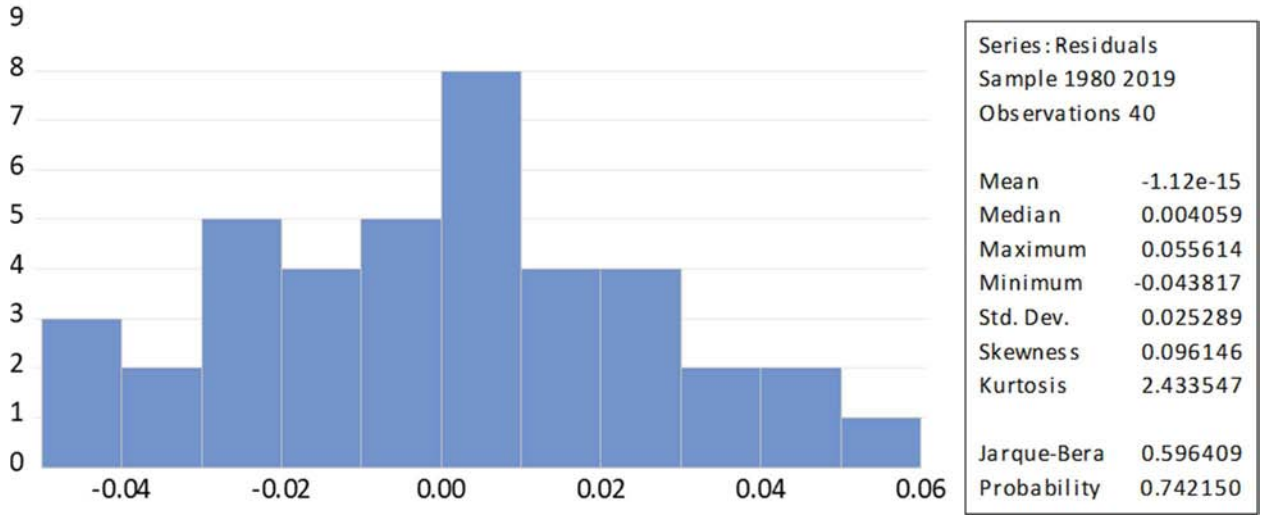

Figure 4: Result of Jarque Bera test

The result of the Jarque Bera test shows that the value of the test is 0.596409 and the corresponding p-value is 0.742150, which is greater than 0.05. that means we cannot reject the null hypothesis. Hence the estimated model is normally distributed.

ii. *Test for Serial Correlation*

The existence of serial correlation is tested by Breusch- Godfrey Serial Correlation LM Test. The null hypothesis and alternative hypothesis are: Ho: there is no serial correlation in the residual. H1: there is a serial correlation in the residual.

Table 5: Result Summery of LM Test

F-statistic	0.687429	Prob. F(2,16)	0.5171
Obs*R-squared	3.165165	Prob. Chi-Square(2)	0.2054

From Table 5, we can see that the Obs* R squared is 3.16 and the p-value is 0.20. Here p-value> 0.05, hence we cannot reject the null hypothesis; instead, we reject the alternative hypothesis, which indicates that there is no serial correlation in the residual.

iii. *Test for Heteroskedasticity*

I used the Breusch-Pagan-Godfrey test to detect heteroscedasticity. Here we can take two hypotheses: *Ho:* Homoskedasticity

H1: Heteroskedasticity.

Table 6: Result Summery of Breusch- Pagan – Godfrey.

F-statistic	0.711667	Prob. F(21,18)	0.7741
Obs*R-squared	18.14540	Prob. Chi-Square(21)	0.6398
Scaled explained SS	2.633745	Prob. Chi-Square(21)	1.0000

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Table 6 shows the result summary of the Breusch-Pagan-Godfrey test. From the table, we can see that obs* r-squared p-value is 0.6398, which is greater than 0.05, so we can reject the alternative hypothesis and accept the null hypothesis. That is, there is no heteroskedasticity in this model.

VI. Conclusion

In this paper, I focused on whether the recent lower deposit interest rate will create any monetary uncertainty by discouraging people to save in Bangladesh. In this study, I used deposit interest rate, inflation rate, remittance, and GDP as explanatory variables. I used time-series data from the period of 1976 to 2019. In my current study, I employed the ARDL approach to investigate the long-run and short-run impact of selected variables on gross savings. The stationarity of all variables was check and we found that some variables were integrated at the first difference, and some were at the level. The Akaike information criterion was applied to get the optimal model, and the suggested optimal model was 4,2,3,4,4. The results of the study revealed in the short-run lower interest rate increase gross saving that indicates that people save their money for the precautionary purpose not for interest or profit but in the long-run relationship between deposit interest rate and gross saving is positive but insignificant that is higher interest lead to higher gross savings and lower interest rate lower the saving. In the long-run and short-run inflation and GDP have a positive influence on gross savings. Result also displayed that in the long-run previous year remittance discourage the current year savings, and in the short run it encourages saving behavior in Bangladesh. From this investigation, it can be said that in the long period, lower deposit interest rate may negatively effect capital formation by reducing savings.

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Domestic or Foreign Debt ? A Choice of no Wrong Selection

By David Owuor, Dr. Elijah Museve, Dr. Arvinlucy Onditi & Dr. Michael Nyagol

Jaramogi Oginga Odinga University of Science and Technology

Abstract- This paper reviewed the matter of balance and trade-off between domestic debt and public debt. The study sought to underpin the general consensus on the issue of debt and how economic activities were impacted by the various forms of public debt. The paper gives an overview of different countries experience with regards to debt sourcing. Various authors express various views with regards to this question that do not necessarily bring about points of convergence in ideologies. The general point of agreement of specialists who have looked into this subject matter is established at the use of the debt acquired. If debt is acquired to facilitate development projects then there is no doubt that such debt will resultantly bring about economic growth and economic development. On the other hand there are some governments that do borrow for to finance recurrent expenditure however much that this increases consumption within the economy, the desired growth and development is hardly achieved. Worse still some of the funds acquired as a result of debt in some nations are squandered and pocketed by few individuals and this is very significant in the retrogressive states of many countries with weak systems that provide no serious check mechanisms as well as accountability and ownership of responsibility.

Keywords: *domestic debt, foreign debt, economic growth, debt overhang, crowding out.*

GJHSS-E Classification: *FOR Code: 149999*



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Domestic or Foreign Debt ? A Choice of no Wrong Selection

David Owuor [α], Dr. Elijah Museve [σ], Dr. Arvinlucy Onditi [ρ] & Dr. Michael Nyagol [ω]

Abstract- This paper reviewed the matter of balance and trade-off between domestic debt and public debt. The study sought to underpin the general consensus on the issue of debt and how economic activities were impacted by the various forms of public debt. The paper gives an overview of different countries experience with regards to debt sourcing. Various authors express various views with regards to this question that do not necessarily bring about points of convergence in ideologies. The general point of agreement of specialists who have looked into this subject matter is established at the use of the debt acquired. If debt is acquired to facilitate development projects then there is no doubt that such debt will resultantly bring about economic growth and economic development. On the other hand there are some governments that do borrow for to finance recurrent expenditure however much that this increases consumption within the economy, the desired growth and development is hardly achieved. Worse still some of the funds acquired as a result of debt in some nations are squandered and pocketed by few individuals and this is very significant in the retrogressive states of many countries with weak systems that provide no serious check mechanisms as well as accountability and ownership of responsibility. The review established the concurrence on usage of debt while still the subject matter of domestic and foreign debt still remaining empirically divergent. This study established that CBK Overdraft and Bilateral debt had positive and significant effect on Economic Growth.

Keywords: domestic debt, foreign debt, economic growth, debt overhang, crowding out.

I. Introduction

Striking a balance between domestic debt and foreign debt presents a challenge as discussed in debt overhang theory. Albeit a sound equilibrating policy or guideline is required to ensure economic growth and development are met with utmost efficiency. Public debt refers to the total of the nation's debts which covers debts of local and national governments indicating how much public spending is financed by borrowing instead of taxation (Makau, 2008). According to (Patenio & Tan-Cruz, 2007), a public debt is a debt owed to both external and internal parties by a government of an independent country. This is an indication that nations have liberty to bridge their budgetary deficits within the local markets or international financial markets.

(Mahara & Dhakal, 2020) Found that fiscal deficit, trade openness, and foreign aid are major macroeconomic determinants of external debt in Nepal. From the obtained results, it is seen that an increase in foreign aid helps to significantly reduce external debt but trade openness and the budget deficit significantly leads to an increase in external debt both in the short-run as well as in the long-run. The error correction term is found to be significant and negative, showing proof of a strong association between the selected variable and ensures the correction of short-term disequilibrium to a stable equilibrium at the rate of 37 percent per annum. The study concluded that foreign aid, budget deficit, and trade openness were the main determinants of external debt in Nepal in both the long-run and short-run. Appropriate export-import or foreign trade policy, effective demand management policy, progressive tax system as well as monitoring tax evasion, effectual and productive utilization of available resources helped to reduce debt accumulation and saves the nation from the possible debt trap.

(Benli, 2020) investigated the long run dynamics of external debt burden – economic growth nexus as well as the nonlinearity in the debt-growth relationship in Turkey over the period 1970-2018. Using a multivariate model in which real output growth, external debt burden, domestic investment, exports and population growth are included as variables we employ Autoregressive Distributed Lags (ARDL) bounds testing approach to cointegration. The empirical findings indicated that the external debt burden harms economic growth in Turkey. The preliminary evidence presented here also does not appear to support the hypothesis of the debt Laffer curve in Turkey for the study period.

(N'Zue, 2020) sort to determine the impact of external debt on economic growth in the ECOWAS region. Panel data spanning from 1990 to 2016 was used and analyzed using panel CS-ARDL estimation approach. The results indicated cointegration among the variables. The study found that external debt has a positive impact on economic performance up to a threshold. In the short run, the threshold stood at 45% and in the long run, it stood at 42.52%. Beyond these points, additional external debt accumulation negatively affects the regional economic performance. Knowing that the level of the region's external debt-to-GDP ratio

Author α σ: School of Business and Economics, Department of Accounting and Finance, Jaramogi Oginga Odinga University of Science and Technology. e-mails: owuord82@gmail.com, elijahmuseve74@gmail.com

Author ρ ω: School of Business and Economics, Department of Management and Economics, Jaramogi Oginga Odinga University of Science and Technology. e-mails: lucionditi@gmail.com, michael_nyagol@yahoo.com

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stood at 33.11% in 2018 (below the threshold), it appears that external debt has not yet hampered economic performance in the ECOWAS region. The study however, noted a need for caution given the fast rate of increase (25% in six years) of external debt accumulation in the region.

II. Statement of the Problem

It is largely documented that countries appetite for debt has continually increased pushing up individual countries debt to GDP ratio across board. The structure of these acquired debts range from domestic instruments to foreign instruments. With regards to how these two wide instruments affect economic growth and economic development is a constant point of divergence for researchers. This paper seeks to review insights drawn from African and Asian contexts so as to establish a concrete perspective on matter of debt instruments. generally attract higher interests this means that the financiers in the domestic markets make more while dealing with the government. This can spur growth since they will be making more, the levels of consumption is also expected to increase due to the increased incomes.

III. Theoretical Review: Debt Overhang

This theory was propounded by (Myers, 1977). The debt overhang theory is based on the premise that if the total amount of debt exceeds the country's repayment ability in the future, then the expected debt service of that country will be an increasing function of its output level. This implies that part of the returns gained from investing in the domestic market is taken by the foreign creditors thus discouraging domestic investments (Claessens et al. 1996). In such a situation the indebted country is left with a small proportion of any increases in output and exports because part of the proceeds is used to service external debt.

The theory postulates that reducing debt obligation lead to a rise in investment and repayment capacity. When this happens, the outstanding debt is more likely to be repaid therefore reducing chances of debt default. Similarly when the effect is strong, the indebted country is said to be on the wrong side of the debt Laffer curve. Here debt Laffer describes the relationship between the level of debt and the country's repayment ability which implies that there is a maximum at which accumulation of debt promotes growth (Elbadawi et al. 1996). Therefore the debt overhang hypothesis predicts that if there is likelihood that in future, debt will be larger than the country's repayment ability, then the cost of servicing the debt will depress further domestic and foreign investment (Krugman, 1988), (Sachs, 1990), (Karafat, 2002).

IV. Conceptual Framework

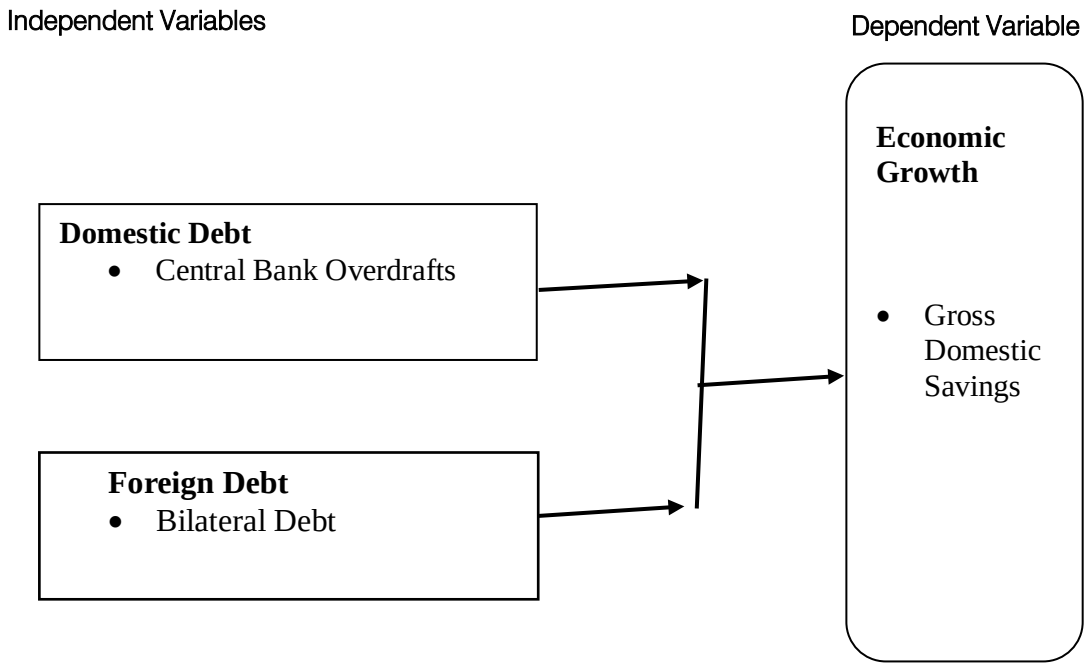

Figure 1

a) Research Design

So as to be able to capture and explain changes that occur overtime, longitudinal design was best suited for the study.

b) Study Area

This study utilized data collected over a period of two decades within reputable and verifiable statistics

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bureau in an emerging economy within the east African region.

c) *Data Analysis and Model Specification*

$$Z_{t,1} = \beta_{10} + \beta_{11}H_{t-1} + \beta_{12}H2_{t-2} + \ldots + \mu$$

$$X1_{t,1} = \beta_{20} + \beta_{21}Z_{t-1} + \beta_{22}H2_{t-2} + \ldots + \mu$$

$$_{for}All\ X\ldots$$

This model will be expanded into the following model:

$$Z = \beta 0 + \beta 1H1t + \beta 2H2t + € \quad \ldots\ldots\ldots 3.3$$

Where: Z= Economic growth (E.G) (Measured by real value of GDS)

H1= Domestic Debt (D.D) (Measured by total value in Kshs. Of Central Bank Overdraft)

H2= Foreign Debt (F.D) (Measured by total value in Kshs. Bilateral Debt)

V. Results Analysis, Discussion and Interpretation

a) *Descriptive*

	D.D	F.D	E.G
Mean	22.12	23.58	23.29
Median	22.02	23.32	23.65
Maximum	23.35	24.96	24.62
Minimum	21.79	22.78	21.98
Std. Dev.	0.31	0.63	0.85
Skewness	1.68	0.84	-0.23
Kurtosis	5.60	2.56	1.59
Jarque-Bera	180.42	30.23	21.83
Probability	0.000000	0.000000	0.000018
Sum	5309.69	5658.36	5589.45
Sum Sq. Dev.	22.65	96.15	173.78

For the dependent variable E.G, the measures of central tendencies were as follows, the mean was (23.29, the median was established as (23.65) The dispersion statistics were generated as follows: standard deviation was (0.85). The Kurtosis statistic was determined as (1.59) which is below the value (3) which illustrates presence of symmetry. The skewness coefficient was (-0.23) this bespeaks that the variable is moderately skewed. Minimum was noted as (21.98) while maximum connoted as (24.62).

For F.D, the mode was equivalently obscure while the mean was derived as (23.58) and median stood at (23.33). The standard deviation was fixed at (0.63). Kurtosis statistic was specified as (2.56) denoting presence of symmetry. Skewness coefficient confirmed the same settling at (0.84). The minimum value was (22.78) and the maximum value was (24.97).

CBK_Over drafts the fifth independent variable wonted the mean as (22.12) and median stood at (22.02) the mode was analogously nebulous. The standard deviation was fixed at (0.31). Both Kurtosis statistics that was specified as (5.60) and Skewness coefficient that settled at (1.68) illustrates lack of symmetry. The minimum value was (21.79) and the maximum value was (23.35).

b) *Unit Root*

Series	Prob.	Lag	Max Lag	Obs
F.D	1.00	12	14	227
D.D	1.00	14	14	225
E.G	0.65	13	14	226
Method			Statistic	Prob.**
ADF - Fisher Chi-square			3.10	1.00
ADF - Choi Z-stat			4.29	1.00

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The data was not stationary.

c) Differenced Unit Root

Series	Prob.	Lag	Max Lag	Obs
D(F.D)	0.02	12	14	226
D(D.D)	0.00	13	14	227
D(E.G)	0.00	12	14	226
Method			Statistic	Prob.**
ADF - Fisher Chi-square			180.14	0.0000
ADF - Choi Z-stat			-11.51	0.0000

The tested variables had no unit root this was later achieved on differencing.

d) Correlation Analysis

	D.F.D	D.D.D	D.E.G
D.F.D	1.000000		
D.D.D	-0.27	1.000000	
D.E.G	0.17	0.53	1.000000

The correlation analysis revealed that both foreign debt and domestic debt are positively correlated with economic growth as evidenced by their coefficients 0.17 and 0.53, respectively.

e) Johansen Cointegration Trace Test

From Johansen test, the time series variables were not cointegrated. Consequently, the best model to use in the study was Vector Autoregressive Model (VAR).

Vector Autoregressive Model (Var)

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	0.18	0.05	3.77	0.00
C(2)	0.13	0.05	2.78	0.01
C(3)	-0.0002	0.00	-0.05	0.96
C(4)	0.55	0.07	7.98	0.00
C(5)	0.52	0.05	10.19	0.00
Determinant residual covariance		0.00		
Equation: DEG = C(1)*DEG(-1) + C(2)*DEG(-2) + C(3) + C(4)*DFD + C(5)*DDD				
R-squared	0.64	Mean dependent var		-0.01
Adjusted R-squared	0.63	S.D. dependent var		0.03
S.E. of regression	0.02	Sum squared resid		0.10
Durbin-Watson stat	1.34	Log Likelihood		587.84

The model is reliable for forecasting since Log Likelihood criteria {587.84>30} is an indication of the goodness of fit. With an R-Square of 64% the model is fit for prediction. This is interpreted that E.G can be explained by the variables in the model up to 64 % while the remaining 36% could be explained by other variables not in the current study.

The model therefore was stated as;

$$E.G = -0.0001 + O.18E.G_{t-1} + 0.13E.G_{t-2} + 0.5200\,D.D + 0.5524\,F.D$$

f) Domestic Debt (D.D) and Economic Growth (E.G)

The fourth objective of the study was to establish the effect of CBK overdraft and economic growth. The null hypothesis was therefore stated as follows;

H_0: Domestic Debt has no significant effect on Economic Growth.

The table indicates that the regression weight of D.D and E.G was 0.5200 ($p = 0.0000 < 0.05$) indicating existence of a positive and significant effect of D.D on E.G and hence the null hypothesis was rejected. This means that a unit increase in D.D causes E.G to expand by 0.5200. The amount borrowed should be matched with type of investment to ensure repayment is done on

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time thus avoiding delayed repayment `costs. This finding has a bearing on borrowing implementation policy that ought to match borrowed money and targeted investments required to reduce chances of penalties associated with delayed debt servicing. This will in turn enhance credit rating hence reduce cost of borrowing consequently narrowing the interest rate spread. (Muhammad, Muhammad & Tariq, 2010) in their study in Pakistan on impact of domestic debt on economic growth found that there exists a positive relationship between domestic debt and economic growth. (Putunoi & Mutuku, 2013) also found existence of a positive relationship between public debt and economic growth in their study of domestic debt in Kenya.

g) Foreign Debt (F.D) and Economic Growth (E.G)

The sixth objective of the study was to determine effect of bilateral debt on economic growth. The null hypothesis was therefore stated as follows;

H_0: Foreign Debt has no significant effect on Economic Growth.

The analysis on Table 4.6b indicates that the regression weight of F.D on E.G was 0.55 ($p = 0.000 < 0.05$) indicating existence of a positive and significant effect of bilateral debt on economic growth and this therefore led to the rejection of the null hypothesis. This means that a unit increase in F.D enhances E.G by 0.55. This result could be attributed to economic discipline (management efficiency) in the application of debt as contained in the debt agreement between the parties hence improved debt rating. This in turn enables the government to access cheaper credit in future. This finding has a policy implication with respect to continue having a legal limit on size/volume of bilateral debt to avoid situation of excess debt repayment installments (Principal, interest and associated penalties) that consequently reduces savings necessary to catalyze economic development. These findings affirm use of Debt Overhang Theory. These findings contradicts the study by (Pattillo, Poirson, & Ricci, 2004) who looked at the channels through which external debt affects growth. They found out that there exists a strong negative relationship between external debt and economic growth. In their study that looked at the impact of external debt and debt servicing on poverty reduction in Nigeria, (Oloruntoba, Apollos & Emerah, 2013) also contradicts the findings of this current study since they indicated that there exists an inverse relationship between external debt and economic growth.

VI. Conclusion

a) Domestic Debt (D.D) and Economic Growth (E.G)

The first objective of the study was to establish the effect of D.D on E.G. The null hypothesis was therefore stated as follows; H_0: Domestic Debt has no significant effect on Economic Growth.

The findings show existence of a positive and significant effect of D.D on E.G and hence the null hypothesis was rejected. D.D is seen to stimulate economic growth as evidence by the positive correlation as well as positive coefficient in the estimated model. This variable defies the expectations from the neoclassical theory since it shows that debt can be a tool to invoke economic growth.

b) Foreign Debt (F.D) and Economic Growth (E.G)

The second objective of the study was to determine effect of Foreign Debt on Economic Growth. The null hypothesis was therefore stated as follows; H_0 : Foreign Debt has no significant effect on Economic Growth.

The analysis indicates existence of a positive and significant effect of bilateral debt on economic growth and this therefore led to the rejection of the null hypothesis. Bilateral debt was not in agreement with the neoclassical postulations since it indicated a positive interaction with economic growth.

VII. Recommendation

Key establishments have it that as a country secures loans, feasibility has to be factored in to see the position in terms of debt repayment. Still to be considered is the function of the acquired debt and this should largely revolve around development projects to ensure sustainability of growth and development. Further if the development projects could also be income generating the better for the country since this will relieve undue and unnecessary pressures within the economy in search for funds to help off-set the loans. These consideration factors are a clear indication that frugality in cost-benefit analysis needs to occur and this could possible tame the global outage of debt appetite. The market from where the debt is drawn is of importance to the individual governments' consideration since the outcomes have significant effects to both the market players and the countries at large. Domestic debts.

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Need of a Better Start-Up Ecosystem in India

By Vedant Pawar

Abstract- India is the second most populated country in the world and it's one of the biggest economies too but looking at its population, it's still underdeveloped. India's per capita income increased by only a 1% annualized rate in three decades after its independence. In 2018 its GDP growth rate was a mere 6.386%. The majority of India's population is in the lower-middle-class category. This economic condition demands a better ecosystem to uplift and encourages startups that will help reduce unemployment in India. India has become a status-driven society where risk-taking and audacious behavior are not considered ideal. If this situation continues India will soon become a nation of clerks and government servants. With unemployment rising and competitive exams getting tougher, it's getting hard for talent to get what it deserves.

The below article highlights the challenges faced by the Indian Startup Ecosystem and why we need it.

Keywords: *start-up, economic development, indian economy, social media, start-up ecosystem.*

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Abstract- India is the second most populated country in the world and it's one of the biggest economies too but looking at its population, it's still underdeveloped. India's per capita income increased by only a 1% annualized rate in three decades after its independence. In 2018 its GDP growth rate was a mere 6.386%. The majority of India's population is in the lower-middle-class category. This economic condition demands a better ecosystem to uplift and encourages startups that will help reduce unemployment in India. India has become a status-driven society where risk-taking and audacious behavior are not considered ideal. If this situation continues India will soon become a nation of clerks and government servants. With unemployment rising and competitive exams getting tougher, it's getting hard for talent to get what it deserves.

The below article highlights the challenges faced by the Indian Startup Ecosystem and why we need it.

Keywords: start-up, economic development, indian economy, social media, start-up ecosystem.

I. Introduction

India is the 2nd most populated country and the 7th largest country in the world by area. Despite its incredible achievements in all fields, it still faces many challenges out of which most share a common origin: poverty. The education system of India is all about exams, scores, and getting jobs. This huge country doesn't need an ecosystem that just allows you to get jobs but needs an ecosystem that appreciates risk-taking and promotes the *Startup Culture*. This Startup culture will allow Indian youth to create jobs rather than taking one. In recent years, Indian youth inclines towards self-employment instead of relying on parents or government or opportunities. Rather, they start to take initiative to look for new challenges. This encourages and promoting a self-employment environment that creates startup systems in India. This ecosystem will allow Indian youth to reach its highest potential and tackle real-world challenges.

II. Challenges Faced by Startup Culture

Indian citizens with their ideas and the faith that they can succeed often face challenges, sometimes because of money and sometimes because of *the Indian Mindset.* These challenges affect the growth of startups in India.

a) *Issues in Indian Education System*

The establishing of IITs, IIMs, law schools, and other institutions of excellence brought with them the entrance exams, the score of which eventually became more important than the person applying to this institution.

Many applicants holding stellar extracurriculars end up giving up on their life because of failing in those exams. The education system in India can only teach you how to succeed, it doesn't teach you how to deal with failures which, therefore causes the lack of risk-taking culture in India. Start opportunities, creating your club or any activity related to business is a luxury which hard to afford for even the upper-middle class. Students choosing streams or majors other than STEM majors are looked down upon, even if they are at the top level in their careers. "*This country doesn't need job seekers; it needs job makers.*"

b) *Challenges Faced by Indian Youth*

Indian youth is more inclined towards starting their initiative and creating jobs but there are big challenges they have to tackle such as the Indian education system, lack of funding, lack of information. The Internet has brought endless possibilities to people wanting to launch a startup but the lack of funding makes it harder for many startups to survive. Due to this lack of funding, many youngsters who want to start their initiative try to settle in countries where risk-taking is appreciated. Moreover, the lack of information to the consumers in India adds to the Problem

c) *Risk-taking and Society*

India has become a status-driven society and the risks taken by one aren't easily stomached by people. Gen Z is trying hard to move through this society and start their initiative but most of the time they are pulled back, sometimes by parents and sometimes the society. Successful entrepreneurship. Every successful entrepreneur has taken many risks in his career. Youth in India is often forced to secure a government job and to think about starting a business later. But the best time to take risks is the 20's when you have no other responsibility but just a goal, a purpose to live for. Risks can be tackled by strategic planning and hard work. 52% of the US citizens invest in stocks whereas in India this number is around 3.7 percent. Investing in the stock market helps new companies grow and bigger companies become even bigger. This small step of investing in stocks can change what the economy of India looks like. And this will help the youth to believe in their ideas which someday, might become a million-dollar company that inspires others to do the same.

Author: e-mail: vedant.pwr10@gmail.com

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III. Role of Social Media and Internet

India has a huge population which gives it an upper hand in social media. Social media plays a big role in Branding, Early Feedback, Marketing, and many more domains. A product launched by a person popular on social media gets noticed with more ease.

a) Branding

India has a huge population which gives it an upper hand in social media. Social media plays a big role in Branding, Early Feedback, Marketing, and many more domains. Social Media increases the amount of exposure a brand receives and increases traffic. It helps brands penetrate deeper into the audience which is the goal of most startups in their early stage. Having a strong social media presence allows a brand to develop business partnerships, reduce marketing costs and improve sales which they couldn't do before. This brings India a new wave of opportunity which most Indian youths are taking advantage of to do what they truly love. This even increases jobs by introducing new jobs such as social media optimizer, social media Influencer, Social media marketing, and many more.

b) Marketing

Most startups use social media to grow their user base and conduct marketing activities for many reasons. It's cheap, you can select your target audience, has become powerful with increased screen time of the newer audience, and has many other benefits. Small businesses that earlier had a hard time getting people to know them can now put the ads online and attract customers in a single day. AdSense, Facebook ads, Instagram Ads are now better than the traditional method of marketing and more cost-efficient. This helps small businesses in India to grow and evolve faster according to their user's needs.

c) Testing New Ideas

Startups with new ideas can broadcast their idea to the world easily and even get feedback directly from the audience. Early feedbacks are helping a lot. They let the brands understand the demand of their customers and provide them with better quality products.

Thus, social media is a goldmine of opportunities for budding startups in India and it gives the Indian youth the freedom to run their initiative without any funding problems at their early stage. Social media provides a ton of opportunities to start-ups but it's in people's hands to use it to its fullest.

IV. Conclusion

India as a civilization is very old and as a country is very new, this newness can benefit India in the business and economic field but it still has a long way to go if it doesn't cultivate and encourage the startup culture. But when this happens it might help India very greatly. New technologies are social media which are mostly looked down upon by the older generation can benefit the youth in a great way. The education system of India currently is very poor and kills the talent of many young minds. But still few people are creating startups and helping others to do the same. These startups will however benefit India in a very great way as many startups like *Zomato* and Meesho. As Economies around the world are developing faster than ever India needs to develop even faster.

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Which of these Economics Jargons - Underemployment, Overemployment, Unemployment, Rightemployment, Overqualification and Overeducation is Appropriate for an Economy?

By Past. Prof. Abomaye-Nimenibo, Williams Aminadokiari Samuel

Obong University

Abstract- In behavioural sciences such as Economics, Management, Psychology, and Sociology, one often finds various and divergent definitions of specific terms regarded as the jargon of that particular discipline. In economics, such clichés include and is not limited to Underemployment, Overemployment, Rightemployment, Unemployment, Overqualification, or overeducation. We therefore define and discuss these terminologies for clarity, know, and understand what each of these terms means. We, therefore, set ourselves to succinctly carry out terminology study to have more in- depth knowledge. We discuss the aces and scams of these vocabularies. Among these five (5) terminologies, unemployment is the worse type that can visit a nation, and it is undesirable, bringing economic, social, and political vices in any society it is found. It has numerous consequences to a society where it is instituted. The high wave of crime, robbery among youths, etcetera has been the result of unemployment. However, we concluded and made relevant recommendations that right employment is the only answer to unemployment in Nigeria and elsewhere.

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Which of these Economics Jargons - Underemployment, Overemployment, Unemployment, Rightemployment, Overqualification and Overeducation is Appropriate for an Economy?

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I. Introduction

In behavioural sciences such as Economics, Management, Psychology, and Sociology, one often finds various and divergent definitions of specific terms regarded as the jargon of that particular discipline. In an Economics education, such verbiages include and not limited to Underemployment, Overemployment, Rightemployment, Unemployment, Overqualification, or overeducation, and we need to know what these are. This article, therefore, tries to define and discuss these terms or jargon for clarity. It is essential for us in these fields of endeavour to know and understand what each of these terms means. We, therefore, set ourselves to succinctly carry out terminology study to have more in-depth knowledge. Hence, the essence of this study.

a) *Underemployment*

Underemployment is the under-graded level of employment of labour and the measure of his utilisation in the economy in terms of the employed labour's skills and experience and his/her availability to work. It also means the underutilisation of labour.

Generally, unemployment means a state of joblessness. Briggs (1973) stated that unemployment is the variance between the sum of labour employed at current wage levels and his working conditions and the sum of labour not hired at the same levels. However, Gbosi (1997) has also defined unemployment as a situation in which people who are eager and capable of working at the prevailing wage rate cannot find jobs. Therefore, anybody who is unwilling and actively seeking paid employment should not be counted as part of the employed workforce, otherwise we may be overestimating the official rate of unemployment. On the other hand, additional workers should not be added as part of the unemployed labour force, and If we do so, we may be underestimating the official rale of unemployment. No matter how one defines unemployment, the underlying philosophy is that unemployment means a state of joblessness.

Feldman (1996) stated that Underemployment is the under-use of a worker due to a job that does not require the worker's skills because it is part-time or leaves the worker idle. According to Chohan (2016 a & b), underemployment examples include holding a part-time job despite desiring full-time work and over-qualification. The employee has the education, experience, or skills beyond the requirements of the job.

Economics, Management, Psychology, and Sociology have all extensively studied Underemployment from various perspectives. In Economics, we have three discrete meanings of Underemployment. However, all connotations boiled down to a situation in which a person is working, but not according to his desire or skill, which are underutilised. Again, it means a condition where the worker is in a redundancy situation, unlike unemployment, where a person searching for work cannot find one. Under-utilisation of labour is evident in all meanings, which most officials (governmental agencies) miss in their definitions and unemployment measurements.

In 2014, O'Brian carried out an investigation in which he found that university graduates from the US were often unable to find jobs requiring a degree; and

Author: Ph.D, M.Sc., B.Sc. Economics, and UD, Personnel Management and Industrial Relations, Director of Post Graduate Studies, School of Post Graduate Studies, Obong University, Obong Ntak, Etim Ekpo Local Government Area, Akwa Ibom State, & Faculty Member, School of Business, Charisma University, Nigeria.
e-mails: wasanim2006@yahoo.com, abomaye.nimenibo@charisma.edu.eu

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only 44% of them could only find service jobs such as barista or store clerk positions that do not require post-secondary education such as pictured below:



Distinguished labour under the under-employment classification includes those highly skilled workers working in low-paying jobs and casual workers desiring full-time work but are denied. In such a situation whereby the potentialities of a worker are underutilised. There is financial, mental, and physical under-employment. Financial Underemployment is when the worker is not getting equal pay from the work he is doing; mental Underemployment is when there is a mismatch between the lot a person is doing and what he studied, and physically Underemployment is when the worker is underutilised.

An example of an individual with an engineering degree working as a pizza delivery man, which is his primary source of income, is considered to be underemployed and underutilised by the economy as he, in theory, can provide a more excellent beneficiary service to the overall economy if he works as an engineer. Also, an individual working in an office on a part-time job in alternative to a permanent one is counted underemployed because he is willing to provide more employment services to his total capacity, increasing the overall output of such labour. Underemployment ultimately affects the productivity of the worker and brings into the economy a low yield. The US underemployment rate was 13.7% as of 2016, and that of Nigeria, the rate is considered to be at 44%.

b) Categories of Underemployment

Underemployment is in three classes:

i. Overqualification or overeducation;
ii. Involuntary part-time work and
iii. Overstaffing or hidden unemployment or camouflaged unemployment or labour hoarding.

i. *Overqualification*

Erdogan & Bauer (2009) stated that "Overqualification," or "overeducation," is a situation where workers with high education, having skill levels, or experience are engaged in jobs that do not require such high abilities. We often find a trained medical doctor with a foreign credential who works as a taxi driver under such employment. Such skilled labour is said to be exceptionally under-employed, and this type of employment is one with "Overqualification," or "overeducation," or "underemployment." We often find Ph.D. holders becoming bus conductors for want of a job to earn a daily living.

ii. *Involuntary Part-time work*

In the second connotation, Underemployment is an "Involuntary part-time" work, where workers who could and would like to be working for full-time job in the week can only find part- time work for a few hours. Involuntary part-time work is also used in regional planning to describe regions where economic activity rates are meagre because of lack of job opportunities, training opportunities, or a lack of services such as childcare and public transportation.

iii. *Overstaffing or Hidden Unemployment or Disguised Unemployment or Labour Hoarding*

In the third connotation, Underemployment refers to "Overstaffing" or "hidden unemployment" or "disguised unemployment" or "labour hoarding," where Felices (2003) stated that it is the practice in which businesses or entire economies employ workers who are not fully utilised or not currently used in producing goods or services as a result of due to legal or social restrictions or because the work is highly seasonal. The workers so employed to be on standby without working and are paid a full salary at the end of the month. As at the very time, the excess or unrequired workers were not laid off but were kept as a team of reserves with full pay without rendering any service.

Underemployment is a significant cause of poverty generally; although the worker may find part-time work, payment may not meet the person's basic needs. Underemployment is, therefore, a problem, particularly in developing countries, where the unemployment rate is often relatively low. Most workers

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are doing sustainable work or occasional part-time jobs in substitution of actual wage employment. The global average of full-time adult workers per population is only 26%, as against the 30–52% found in developed countries and 5–20% in most of Africa, according to Gallup, Inc. in 2014.

c) Underutilisation of skills

In one usage, Underemployment describes workers having high skill and post-secondary or tertiary education in relatively low-skilled and low-wage jobs. For example, someone with a university degree may be working as a bar attendant or working as a factory assembly line worker because of unemployment. Unemployment has made workers who have bills to pay and responsibilities to take care are vulnerable to take up any job available, even if they do not use their full talents and skills. Unemployment can also occur with individuals who are discriminated against, who may also not have a relevant trade certificate or academic degrees (such as a high school or college diploma) but have the requisite skills and experience, people having disabilities or mental illnesses, or have served time in prison and could not fit into societal jobs are subjected to take up menial jobs that ordinarily they will not accept to work due to their qualifications and skills.

Underemployment is an "involuntary part-time" job, where workers who could (and would like to) be working for the standard work week (typically full-time employment of 40 hours per week) could find a part-time job only. We find Underemployment more at times of economic stagnation (i.e., time of recession). During the Great Depression (the 1930s), many workers were counted as underemployed. These kinds of Underemployment arise because labour markets typically do not "clear" using wage adjustment. Instead, there is non-wage rationing of jobs.

There exist two everyday situations that can easily lead to Underemployment, such as immigrants and new graduates. When highly trained immigrants arrive in a foreign country, their foreign credentials may not be recognised or accepted in their new country, requiring them to do a lengthy or costly re-credentialing process. For example, when doctors or engineers arrive other countries as immigrants, they may be unable to work in their profession in the new location. As such, they may have to seek menial work to sustain them in the interim until they commensurate job that matches their qualification(s). New graduates may also face similar Underemployment because they have completed the technical training for a given field with a good job market, yet they lacked experience. A graduate with a master's degree in Economics or accounting works as a barista or store clerk with low-pay, jobs that do not require a university degree until they can find work in their chosen professional field.

Another example of Underemployment is someone having high skills. Still there is low marketplace demand for this skill at that very moment, and if he chooses to do menial work, it means that he has chosen to be underemployed. Acquiring a University degree is costly in terms of money and time, but those in the liberal arts produce significantly more graduates than properly employed, as Vedder; Denhart; & Robe (2013) asserted. According to Pappano (2011), employers have responded to graduates' oversupply by raising the academic requirements of many occupations higher than is necessary to perform the work. Several surveys showed that skill-based Underemployment in North America, Europe, and Africa could be a long-lasting phenomenon. If university graduates spend a long time in underemployment situations, the skills they gained from their degrees are unnecessary. For instance, a person who graduated with a Ph.D. in English literature has advanced research and writing skills when they graduated, still if they work as a store clerk for several years, these researches and writing skills will shrink due to disuse. Similarly, technically specialised workers may find themselves unable to acquire positions commensurate with their services for extended lengths of time following lay-offs; and a skilled machinist laid off may find that he or she cannot find another machinist job, and as a result, he/she may opt to work at s a server in a restaurant, a position which does not use her professional skills as observed by Lederman, (2018).

Underemployment is also defined as the ineffective use of public resources. This statement is true with most university studies in the Western countries that subsidised tuition for its citizenry in a State or public University, or the students receive government loans or grants for their educational expenses. In such a situation, the Underemployment of such students who have left school and are in their employment leads to ineffective use of public resources spent on them. Some solutions were proffered to reduce skill-based Underemployment: (a) government-imposed restrictions on enrolment in public universities in fields with a low labour market demand (e.g., fine arts) changes into degrees that reflect potential labour market demand be encouraged.

d) Economic Capacity Underusage

Economic capacity under usage occurs when Underemployment occurs in regional planning to describe localities where economic activity rates are meagre and induced by a lack of job opportunities, training opportunities, or childcare and public transportation services. Hence, residents of that locality accept economic inactivity rather than register as unemployed or actively seek jobs because their prospects for regular employment appeared dreary.

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Such residents are often referred to as discouraged workers and are not counted officially as "unemployed." The tendency to get on with life without work and exit the labour force, relatives, and friends or non-recorded economic activities is aggravated if it is made complex to obtain unemployment benefits.

In macroeconomics, "underemployment" refers to excess unemployment, i.e., high unemployment relative to total employment or the Natural Unemployment Rate (NAIRU). We thus have underemployment equilibrium in Keynesian economics, whereby, Economists calculate the cyclically-adjusted full employment and unemployment rate at 4% or 6% regarded as normal and acceptable. The gap formed between potential output and the actual real GDP is what Okun's law calls the "GDP gap," showing the degree of Underemployment of labour which would be more significant if they incorporate the roles of underemployed labour, involuntary part-time worker, and discouraged workers.

e) The Underusage of employed Labour

The third definition of Underemployment is "overstaffing" or "hidden unemployment," whereby businesses or entire economies employ a workforce that is not maximally utilised and are not economically productive, or under-productive, or frugally inefficient, and categorised as underemployed because of legal or social restrictions on firing and lay-offs. For example, Union rules may have it that managers are to make a case to fire a worker to the Union who have to okay it before terminating the appointment of its member(s) or else management has to spend time and money fighting the Union.

Secondly, some union members are overhead workers because the prevailing work is highly seasonal such as year-end account balancing or agriculture jobs. This type of Underemployment does not refer to works such as firefighters or lifeguards, who had to spend their working time watching and waiting for any rescue or emergency work to do. There are sufficient firefighters available in case of multiple cases.

Underemployment may occur because of structural or cyclical details. In such industries insulated from competitive pressures, they will in most times, grow inefficient as they have government monopoly, e.g., telephone or electrical utilities, who may employ more workers than necessary and may have excess costs and low profits.

In some countries, influential union leaders or labour legislature may force employers to retain excess employees. Japanese companies, for instance, retain workers who are committed to serving a company with long and loyal service on their payroll even at economic downturns. Centrally-planned economies discourage lay-offs as they would have periods when they may have more workers than needed to complete the organisation's tasks.

Cyclical Underemployment refers to firms' tendency to maintain capacity utilisation and, therefore, maintain their demand for labour even at such times of economic depression. Underemployment of workers. It may be tolerated at such times, and may indeed be a wise business policy, given the financial cost and the degradation of morale from shedding and then re-hiring staff. In the short run, paying underused overhead workers is seen as an investment in their future contributions to its production. This kind of Underemployment has been the practice of Airbus, who gained market share from Boeing; who, unlike Airbus, had more flexibility, in that Boeing company cannot raise enough production when prosperous times returned because the company had laid off a significant part of its personnel in lean times.

Another good example is the tourism sector, which faces cyclical demand for labour in areas where attractions are weather-related. For example, the sun and sand tours operated by Club Med Company can shed lifeguards, and sports instructors with other staff in the off-season, because there is such a strong demand amongst young people to work for the company, and it is a glamorous thing to be identified with her beachfront properties which are good workplaces. The tourism sector requires workers with unusual or hard-to-find skills. Northern Ontario hunting and fishing camps require skilled guides that may have an incentive to retain their staff in the off-season or else will lose any laid-off staff at odd times. Consequently, Companies that run tours for foreign tourists use staff that speaks the travellers' native tongue and keep such staff off-season than totally losing them and find it difficult to recruit such staff at high-demand seasons.

f) Definition of Terms

Labour Force: This is the total population of an economy minus young people below a prescribed age (usually 15 years), older adults above a certain age (usually 65 years), people who were hospitalised or in mental institutions, full-time homemakers, and those unwilling to work, Labour force can then be referred to as total active population minus economically inactive population.

Gross Domestic Product (GDP): This is the sum of the money value of output produced in that country (by its nationals and non-nationals) in a given period. If depreciation or capital consumption is detached from it, we have Domestic Net Products (DNP).

Gross National Product (GNP): This is the money of the total output of goods and services produced by the nationals of an economy over time, usually one year. When capital consumption is deducted, we have Net National Product (NNP).

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The difference between GDP and GNP is the net income from abroad, being the difference between the incomes earned abroad less the incomes paid abroad. Indeed, Gross Domestic Product is the difference between the Gross National Product and the Net Income from abroad.

The National Income: This is the sum of all the factor incomes generated in the process of production for the given year. It refers to individual earnings like profits, interest, wages, rents, dividends.

Per Capita Income: This is the income of a nation per head of the population. It is obtained by dividing the Country's GNP by its populace.

Disposable Income: This is personal income minus personal taxes and the balance is known as disposable income which is further divided into consumption and saving.

Monetary Policy: This refers to manipulating money supply and demand, which affects the economy's interest rate and credit.

Fiscal policy is the manipulation of the economy through taxes and expenditures of the government to achieve stability in the economy.

Commercial Policy is the measures taken to equalised the receipts and payments in an international transaction (i.e., external balance). Such actions include tariffs, exchange control, prohibition and quota.

II. Overemployment

Overemployment is a situation in which a person or a worker consistently work for more hours than he/she can sustainably work or bargain to work. Overemployment can only occur when a worker is overworked, i.e., exceeding the time assigned or bargained to work involuntarily. Overemployment means the excessive use of a worker, person, thing, strategy, etcetera by another person or thing.

Individuals are over-employed when such people are ready to forgo some proportionate income for a given reduction in their work hours which similar sacrifice but cannot do so at their current job or a suitable comparable job. For example, an over-employed individual would like to work not more than forty hours per week (including overtime), but the employer forces them to work fifty hours per week.

It is also a situation in which the number of vacancies for jobs exceeds the number of people unemployed or about to be employed thereby, producing a labour shortage. It is also a situation in which a person or worker consistently works more hours than he/she can sustain the work. Overemployment is said to have occurred when staff is overworked. Brokerages and other significant corporations may encourage over-employment by promoting a culture in which those who work the most hours tend to receive promotions.

It is a situation in which a company hires more employees than it can afford to maintain wages, salaries, and incentives. Overstaffing occurs if a small business unit decides to employ all the business owners' children with no work for some of them to do. Similarly, overstaffing will ensue when a company hires more staff to expect increased production, which may be unsustainable if the expected increase in business does not materialise.

Altonji and Oldham (2003), Feather and Shaw (2000), Contensou and Vranceanu (2000), and Rebitzer and Taylor (1995) stated that employers bring face various incentives to pressurise workers to work overtime by lengthening their hours of work which may be against the will and wish of each employee. Lee and McCann (2004) stated that surplus hours are created whenever they work beyond their stipulated hours of work. This condition may persist indefinitely, and when alternative jobs with shorter working hours, the workforce output will be relatively lower (Kaufman and Hotchkiss 2006). Hour's mismatches or inconvenient hours do not compensate wage differentials for working (Altonji and Paxson 1992; Reynolds 2004). Overemployment creates a social problem when symptoms of "overwork" occur, such as fatigue and stress, workplace accidents, illnesses, and work-family time conflicts.

John de Graaf (2003) stated that people who remain over-employed tolerate long hours of work because they either expect their employment to be brief (such as temporary caregiving) or figure that part-time or reduced hours status involves too large a sacrifice in to pay.

Overemployment is depriving the employed of their desired time. Overemployment is considered different perspectives as cyclical, frictional, and structural macroeconomic sources of over-employment according to Altman and Golden (2004). Measuring the overall rate of overemployment has not been proven successful. The estimated range is from 6 per cent to over 30 per cent of the US workforce according to Bell and Freeman (1995); and Altman and Golden (2004); this rate is lower in comparative countries as stated by Bielinski, Bosch, and Wagner (2002).

The over-employment rate may reduce diminish with time if penchants are "endogenous." and workers are not able to "get what they want, and rather want what they get" (Schor 2005, p. 46). Golden (2005) has stated that overemployment distribution is highest among women with preschool children, professional and technical health occupations, and long work-weeks. Overemployment is considered as the form of an unfulfilled wish to switch from long to standard or part-time hours or decline mandatory overtime work.

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Conventional economists discount over-employment for some reasons, saying One is the suspicion that stated preferences for shorter hours. Also, the rate of over-employment is a low priority because it is undermined by the underemployment rate (Kahn and Lang 2001). However, a proactive approach would favour regulatory incentives that compel employers to shift the excess hours of the over-employed toward the underemployed within their workplace or industry.

III. Unemployment

Generally, unemployment is a state of joblessness. To Briggs (1973), unemployment is the variance between the amount of labour engaged at the current wage rate and the working condition; and those not employed at the present wage rate. Gbosi (1997) stated that unemployment is when people who are willing and able to work at the prevailing wage rate cannot find jobs. Therefore, anybody who is unwilling and actively seeking paid employment should not be counted as part of the employed workforce or maybe overestimating unemployment's official rate.

On the other hand, additional workers are not part of the unemployed labour force. If we do so, we may be underestimating the official rate of unemployment. No matter how one defines unemployment, the underlying philosophy is that unemployment means a state of joblessness.

Unemployment is when people willing and able to work at the prevailing wage rate or structure (level) are not employed or cannot find a job. Unemployment can also happen when a person in an economy is looking for a job and cannot find one. Unemployment may be open or disguised.

International Labour Organization (ILO) considered unemployed workers as those not currently working but are willing and able to work and earn pay. These set of people are available to work and have actively searched for the same, but found none. http://www.ilo.org/public/english/bureau/stat/res/index.htm] stated that only workers of the age group of 15 to 65 are allegeable to be in a country's labour force. Unemployment is the gap between the potential "full employment" and the number of employed persons.

Briggs (1973) opined that unemployment is the difference between the amount of labour available at the prevailing wage rate and working conditions and the number of persons not employed. However, Gbosi (1997) pointed out that unemployment is when people willing to work at the current wage rate cannot find jobs.

The unemployment rate is the number of an active population who are without work but available for and seeking employment, including people who have lost their jobs and those who have voluntarily left work (World Bank 1998).

Oduah (1999) saw that one way of economising efforts in any inquiry is to review and build 200 other works. Nicholas (2000) says a person is unemployed if they are eligible for work but do not have a job.

Volkova (1986) maintained that an unemployment situation is, in other words, called mass unemployment when the number of qualified workforces who are unemployed is considerably enough or outnumber that of those in gainful employment (Jelilov, Gylych; Onder, Evren; 2016).

Keynes (1935) stated that the term unemployment is applied in a literal sense to all persons without work. Still it has a more specific meaning in the recent realisation of social and economic policy.

Aguene (1991) defined unemployment as the number of people in the population who are willing and offer themselves for employment but could not find any for want of vacancies.

Fajana (2000) and Standing (1983) opined that unemployment is the state of worthlessness experienced by persons who are members of the labour force who perceived themselves and are alleged by others as capable of work.

The international labour force organisation (ILO) defines unemployment as the proportion of the labour force available for work but did not work even for one hour in the week preceding the survey period.

Nigerian National Bureau of Statistics (NBS) defines unemployment as the proportion of the labour force ready for work, and found none; and could not work for at least thirty-nine (39) hours in the week preceding the survey period.

Unemployment is a situation where persons who are willing and able to work at the prevailing wage structure (level) were unemployed.

Unemployment may result from many factors and may take diverse forms, including job losers, that is, persons who are temporarily out of a job for one reason or the other.

Unemployment can also occur as a by-product of a profit-based market-oriented economy. As a result of adjustments necessitated by changing profit conditions and market structures, some workers lose their jobs. Consequently, there will always be a certain level of unemployment in the economy. This form of unemployment is called frictional unemployment. Thus, instead of talking about full employment, it is fashionable in some cases to talk about maximum employment or the minimisation of frictional unemployment. There is no standard agreement on the exact numerical definition of maximum or optimal employment level. For Canada and the United States, the accepted target is 79 per cent of the labour force, respectively. For Nigeria, total employment has never assumed prominence as an objective of policy, and no specific target has been mentioned earlier. Worse still,

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there is also no reliable data to support any definition of total employment in Nigeria.

Unemployment is in two ways: The first way is to view it as a welfare loss to society of total output foregone. The other way is in terms of the "welfare burden" borne by the individuals affected by unemployment. To the individual, it creates a sense of lack of personal fulfilment. It is essential to reduce frictional unemployment, if a high level of employment is required by directing policies specifically to minimised institutional rigidities in the labour market that are likely to be very considerable.

There are several reasons for the existence of frictional unemployment. A significant source of frictional unemployment is associated with geographical factors. The location of job vacancies is different from the location of unemployed persons. Some other factors such as lack of knowledge about job vacancies, cost of movement, language barrier, and cultural, political, and religious features are significant unemployment sources. Structural factors may significantly affect the level of frictional unemployment. These may be due to the rapid change in skill requirements for existing vacancies and the length of time required to train and upgrade workers for specific jobs.

a) Types of Unemployment

Economists have generally used several theories to explain the phenomenon of 'unemployment in an economy. They include seasonal, frictional, structural, and cyclical (insufficient aggregate demand) unemployment. The review will better understand the various types of unemployment and their implications for Nigeria's economic growth and development.

i. *Seasonal Unemployment:* Occurs as a result of seasonal fluctuations in occupations. Elrenberg and Smith (1982) observed that agricultural workers' demand declines after the planting season and remains low until the harvesting season. Similarly, the request for construction workers falls during the rainy season and peaks up during the dry season.

This type of unemployment occurs when some workers vary widely over the year. Hence, seasonal unemployment can be considered as a form of structural unemployment, mainly because seasonal employees' skills are not in demand in a particular labour market for at least some part of the year. Seasonal unemployment is less problematic than chronic structural unemployment because seasonal skills demand has not gone forever and resurfaces reasonably.

Seasonal Unemployment is a situation where people were laid off at one time following the job's climatic nature. For instance, agricultural workers in Nigeria are not in demand during the planting season.

ii. *Frictional Unemployment:* Occurs when workers spend time searching for new jobs. For example, a worker in Port Harcourt may leave his present work and go to Lagos with the expectation of getting a higher-paid job. During this period, without a job, he is categorised by labour economists as a frictionally unemployed person. Several factors are said to responsible for frictional unemployment. One such factor is the imperfect flow of information in the labour market due to labour markets not being dynamic, as the neo-classical economists contended. Second, it usually takes a long time for unemployed workers to get in touch with potential employers with available job openings. Even though the size of the labour market is constant, there are always new entrants into the labour market at every point. Some of these workers may be searching for employment, while other employed or underemployed individuals will be leaving the labour force. Therefore, one can say that the level of frictional unemployment in any country is the flowing in and out of individuals in the labour market and the speed with which these unemployed individuals search for and secure jobs (Gbosi, 1997).

Unemployment occurs because it takes workers sometimes to move from one job to another, and workers are supposed to look around for a good and fit for them, which takes some time. During this time, the individual is considered unemployed. However, unemployment due to frictional unemployment is thought to last only short periods and not be specifically problematic from an economic standpoint, particularly true now that technology helps workers and companies search for jobs more efficiently.

Frictional unemployment occurs as people are temporarily out of work within the period of changing jobs. This type of unemployment is unavoidable in an economy in which both the labour force and the jobs offered are continually changing.

iii. *Structural Unemployment:* This kind of unemployment exists when an economy is in total employment, and there are some structural changes in the economy. Such changes take the form of decreased demand for specific skills or a change in technology in a definite industry. Some structurally unemployed workers do not have jobs because the industry they would have liked to work in may decrease output. These declining industries, therefore, have a falling demand for labour. It may also occur due to movement in the natural employment rate itself, as changes in labour market institutions, demographic shifts, etcetera, which is caused by economic variables, such as the level of aggregate demand and that of actual and expected real wage rate.

Solomon (1980) stated that structural unemployment might occur when individuals look for jobs in a particular location with no industry that utilise

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their skills or possess the skills employers are not looking for to engage.

Structural unemployment is in two perspectives. One, when some labour markets have more workers than there are jobs available, and for some reason, wages do not decrease to bring the market into equilibrium. The second aspect is when workers possess skills that are not in high demand in a particular marketplace. Hence, there is a mismatch between workers' skills and employer's needs.

iv. *Cyclical Unemployment:* This occurs due to fluctuations around the natural employment rate due to aggregate demand changes. This situation occurs when there is an inadequate level of aggregate demand. In every market economy, producers produce goods in anticipation of request, but when aggregate demand in any economy is deficient, unemployment will arise because factory workers will be disengaged, which may lead to depression; and according to Keynes, the great depression of the 1930s was of deficient aggregate demand.

It heightens that unemployment is higher during recessions and depressions while lower periods of high economic growth. Economist has coined the term cyclical unemployment to describe the unemployment associated with the economy's business cycle. During the recession, demand for goods and services in an economy falls. A resultant effect is that some companies respond by cutting down production, and workers are laid off rather than reducing wages and prices of goods and services. However, when the economy recovers from recession or depression, cyclical unemployment tended to disappear.

v. *Natural Unemployment:* Every economy always has some level of natural unemployment, even in a healthy economy. The lowest number of unemployment was at 2.5%, right after the Korean War, as in an economic bubble that soon leads to a recession. That is why some natural unemployment level is usually around 4%, which is a healthy indicator.

vi. *Real Wage (Classical) Unemployment:* This is a form of dis-equilibrium unemployment that occurs when real wages for jobs are forced above the market cleaning level. Trade unions and wage councils are traditional institutions causing this type of unemployment. However, in recent years, the importance of trade unions in the UK labour market has dwindled, and this has not stopped unemployment from reaching nearly three million in the last twenty years or so. Real wage or Classical unemployment results from real wages being above their market-clearing level leading to an excess supply of labour. Some economists believe that introducing a national minimum wage will positively create some classical unemployment in industries when average wage rates are closer to the NMW level and international competition from low labour cost producers is severe.

vii. *Hidden Unemployment:* There is always hidden unemployment as some people interested in doing paid work are not counted as workers for obvious reasons and are not classified as unemployed. An employee leaving a job for a long time, losing motivation to apply for jobs, and not having the requisite skills may also be an influencing factor for hidden unemployment. The poverty trap may cause jobless workers not to apply for work because of financial incentives created by the income tax and state benefits system's interaction.

viii. *Voluntary Unemployment:* This deliberate unemployment occurs when a person refuses to take any paid employment, deciding not to work. A good example is when husbands order their wives not to do any work but stay home as full-time housewives.

ix. *Under-Employment:* This is a situation whereby the potentialities of a worker were not utilised fully. There is financial, mental, and physical underemployment. When the worker is not getting equal pay from the work he is doing; mental when there is a discrepancy between the work a person does compare to and what he studied; vis-a-vis physical when the worker is underutilised.

x. *Technological Unemployment:* This is unemployment resulting from switching from labour-intensive production technique to capital intensive production technique. In this situation, where the machine takes over men's work, the men are rendered jobless because they replace men in the production process. The skilled workers are retained, while the unskilled are replaced with machines.

xi. *Residual Unemployment:* is a type of unemployment faced by people who are so low in a standard of efficiency that few occupations may be open to them; meaning that a segment of the labour force cannot contribute substantially to the economy due to physical disability and such labour includes the physically disabled persons or the handicaps.

xii. *Search Unemployment* is the situation in which when a person turns down offers to work on the premise of searching for a better paid work, which search may last for a long time depending on the prevailing economic situation in the country.

xiii. *Deficient Demand Unemployment:* This occurs where there is not enough aggregate demand to produce work for the whole labour force, no matter how it is trained.

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b) Measurement of Unemployment

Unemployment refers to a situation where the labour force does not have enough paid jobs or not working at full use of an employee's skills and ability, which is measured by the number of hours worked per week. Unemployment is calculated in different ways by the national statistical agencies. Such differences limit the validity of international comparisons of unemployment data which differences remain unresolved. However, the nationwide statistical agencies adopt the definition of unemployment by the International Labour Organization. Some organisations, such as the OECD, Eurostat, and International Labour Comparisons Program, have adjusted unemployment data to facilitate international comparisons. The number of unemployed individuals matters, but economists typically focus on the unemployment rate (Jelilov, Gylych; Kalyoncu, Huseyin; Isik, Abdurahman, 2015). For unemployment to be measured, the number of unemployment and the number of labour force must be known and corresponds to the average increase in the number of people employed, relative to the entire workforce of a nation. Therefore, the unemployment rate is expressed as a percentage and is calculated 423 thus:

$$\text{Unemployment rate} = \frac{\text{Unemployed workers} \times 100}{\text{Total labour force}}$$

The International Labour Organization says that unemployed workers are not currently working even though they are willing and able to pay. They are handy to work and have actively searched for work as they could. Anyone actively seeking job placement must make an effort to contact an employer, attend an interview, submit applications with resumes, and respond within the previous four weeks. Those who saw an advert and refuse to apply are not actively looking for a job. For example, in the United States, the unemployment rate does not consider those not actively looking for employment, such as students still attending college.

c) The Unemployment Rate

The national definition defines the unemployment rate as the ILO harmonised definition. The unemployment rate gives the number of unemployed persons a percentage of the labour 429 force (the total number of people employed plus unemployed).

The leading indicator of the job market's unemployment rate is healthy because it does not account for the labour force's full potential. The US unemployment rate was 4.7% as of May 2016, and the underemployment rate was 13.7%. The Bureau of Labour Statistics (BLS) defined unemployment as the statistics of all jobless people available and willing to work and have continually hunted for a job in the past four weeks.

We calculate the unemployment rate based solely on the workforce, excluding persons not seeking a job. There are instances where a person can work but has become too discouraged to seek a job actively. The labour workforce participation rate is the measurement in percentage of the civilian population of 16 years and above who are working or seeking work. The BLS compiles six different unemployment rates, labelled U-1 to U-6; and U-3 is the officially recognised unemployment rate, but U-6 is a better representation of the job market as it accounts for discouraged workers who have left the labour force and are not utilising their complete competence and skillset and workers who have part-time employment but would instead be employed440 on full time.

i. *U-6 Rate of Unemployment*

The unemployment rate includes discouraged workers who have quit looking for a job and part-time workers looking for full-time employment. Many economists consider the U-6 rate to be the most revealing factor of a country's unemployment rate as it covers the percentage of the labour force that is unemployed, underemployed, and discouraged.

The US government's official unemployment rate and conducted by the Bureau of Labour Statistics (BLS), is called the U-3 rate, which is the percentage of the labour force that is unemployed and seriously looking for a job within the past four weeks. A portion of the unemployed who have not looked for a work in the past four weeks will not be considered unemployed anymore but will instead "marginally added."

Therefore, the U-6 rate, on the other hand, is a factor in this marginally attached percentage of the labour force in its unemployment calculation. This added group includes discouraged job seekers who have given up looking for work. This group includes workers who have unsuccessfully looked for work sometime in the past twelve months. The additional workers also include people who have gone back to school as they were not employed and wishing not to be idle, or become disabled, in which case they may or may not return to the labour force.

In addition to the marginally attached class, the U6 rate also includes the underemployed labour451 force. So, the underemployed represent people who would prefer full-time jobs but have resigned their fate to settle for part-time occupations due to the economy's prevailing conditions. In essence, the U-3 rate considers the employed, while the U-6 refers to the unemployed. Thus, the U- 6 rate is well-thought-out a better depiction of the economy as it consists of people who would like full-time jobs but cannot find one.

The BLS publishes both the U-3 rate and U-6 rate in the monthly job report, which market watchers

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use to gauge the economy's health. To calculate the official unemployment rate, U-3, the BLS divides the total unemployed by the over-all labour force participants. For example, the December 2016 monthly rate report indicated that the total number of unemployed people was 7.53 million and the civilian labour force consisted of 159.64 persons. So, the unemployment rate was, calculated to be 7.53 ÷ 159.64 = 4.7%.

In the same December 2016 report, marginally attached people to the labour force were 1.68 million. The total of workers with part-time jobs for economic reasons was 5.6 million. When calculating the U-6 rate, the marginally attached group is added to the numerator (total unemployed) and denominator (total labour force). Also, part-time workers are added to the numerator only since they are in the labour force. The real unemployment rate, U-6, was (7.53 + 1.68 + 5.6) ÷ (159.64 + 1.68) = 9.2% in December 2016. The unemployment rate is a proportion of unemployed persons in the labour force.

The economically active population or working-age population (persons between ages 15 and 64) in Nigeria increased from 108.03 million to 108.59 million, representing a 0.5% increase over the previous quarter and a 3.4% increase in Q4 2015. In Q4 2016, the labour force population (i.e., those within the working-age population willing, able, and actively looking for work) increased from 80.67 million in Q3 2016 to 81.15 million representing an increase of 0.6% in the labour force during the quarter.

d) Identified Causes of Unemployment in Nigeria

i. *Rural-Urban Migration:* Since the oil boom period in Nigeria, non-disabled people have neglected the agricultural sector and moved to the urban areas searching for non-existing white-collar jobs. This process has reduced employment in agriculture and put pressure on the little or existing urban Jobs.

ii. *Influx of Alien:* With the introduction of the free movement agreement of the Economic Community of West African State (ECOWAS), there has been a rising influx of foreigners into Nigeria, for instance. These aliens are employed in Nigeria at the expense of Nigerians.

iii. *Poor Utilisation of Government revenue:* Using Nigeria as a case study, people in a position of authority misused meant for development and production. This practice affects the number of people who would have been employed. Stealing public funds that are nicked named "Embezzlement" and another form of fraud has affected projects that would have created employment for people.

iv. Increase in Population: The rate of birth in Nigeria, for instance, is increasing faster than available jobs. In a situation like this, unemployment is undoubtedly bound to increase.

v. *Premature Retirements:* Many governments in the Less Developed. Countries on the pretext of old age, ill-health, declining productivity, misconduct and other issues as the labour have not met their target in a private establishment. They are a force to mass retrenchment or retirements to check their purported production. This situation causes unemployment.

vi. *Poor Agricultural Technological Advancement:* The use of crude implements like a hoe and cutlasses reduces productivity and profits. Because of not making profits in the sector, people prefer to look for another job. Hence, unemployment springs up.

vii. *Increase in Educational Policies without Proper Human Capital Formation:* There have been expansionary educational policies that have given rise to producing more graduates into the labour market without a job. The government has not created much emphasis on vocational subjects that can create jobs for graduates. So, these graduates come out of school and stay without a job.

viii. *Deceit of Multinational Corporations:* Most of the production done in Nigeria, for instance, does not engage in total production. They only assemble parts. This situation has only given a chance for very few employments while living many unemployed. These corporations make use of computers and other automated machines. This process by the corporations' force people out of a job.

ix. *Economic Depression:* Unemployment can be caused by economic depression. For instance, the 2010 world economic recession affected many nations of the world by forcing corporations to retrench their labour. This recession affects the inflation rate, balance of payment and debt burden; for many nations to handle this situation, they will have to adopt a policy that will lead to unemployment.

x. *Public Policy:* Lampman (1974), in his research on unemployment and its causes, found that good research on the effect of unemployment and an intelligent approach to public policy aimed at preventing or reducing it and would demand some understanding of the causes of unemployment in a given society. Hanson (1977) researched the root cause of the economic setback in post-colonial West Africa, including Nigeria, Algeria, Ghana, Kenya, Tunisia, and the Ivory Coast. In his result, he discovered that the utter neglect paid on

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agricultural development in a bid towards the realisation of industrial economic ambition in underdeveloped Africa is responsible for their employment problems (Jelilov, Gylych; Waziri, Fadimatu; Isik, Abdurahman, 2016) which is attributable to poor or undefined public policy statement. He maintained that in any economy where adequate attention is paid to agriculture, almost everybody is self-employed and that the number of unemployed is easy to control.

According to Lampman (1974) opined that agriculture is the taproot of our economy; and that any attempt to giving agricultural activities secondary attention will make the economy of our nation sooner or later create an unemployment situation. This situation is where Nigeria finds itself in terms of unemployment.

xi. *Businessmen withholding money from Investment:* Keynes (1935), in his book "The general theory of employment, interest and money", found that the number of money industrialists and businessmen tried to hold out from investment causes unemployment. Jelilov (2015) believed that our leaders, instead of expanding industries with the acquired profit to create employment opportunities, lavish such wealth unnecessarily.

xii. *Neglect of Indigenous Technology:* Teriba (1977) says that the neglect of indigenous technology and lack of patronage to local industries, the poor management of our public industries, and the unpatriotic attitude of Nigerians towards work and public property was a distinguishing factor that caused unemployment problems. He says that Nigeria's employment situation stalks because Nigerian industrialists rely much on purchasing the processed raw materials from abroad.

xiii. *Lack of patriotism among Nigerians:* Achebe (1983), in his comparative analysis study on "The Trouble with Nigeria", discovered that a lack of patriotism among Nigerians had contributed very much to our unemployment situation. He pointed out that the past evidence showed that most Nigerians' unpatriotic act in public industries on public properties, consideration of "self- first", and public property destruction worsened Nigeria's unemployment situation.

xiv. *Lack of foresight of Economic Planners:* Ojukwu (1989), while analysing the cause of unemployment in Nigeria in his book, "I am involved" concluded that the production of many graduates was not responsible for the unemployment situation in the country; instead, the social scourge unemployment caused by the inversely proportional pattern of education and economic advancement. He blamed the impropriety on the psychological "blindness of our economic planners in the oil boom days than on "over-production" of graduates.

xv. *Ineptitude and Corruption of Leaders:* Finally, the most significant unemployment causing factor in Nigeria has been identified as ineptitude, corruption, fraud and the general failure of leaders who go on to loot the treasure and squander the ill-gotten wealth abroad.

e) Effects of Unemployment

a. *Brain Drain:* Unemployment especially among University graduates result in youths' emigration and active adult population to other countries such as advanced nations of Europe and America. This brain drain leads to the loss of a highly educated and skilled workforce. In a country with a high unemployment rate, graduates of such nations migrate to countries to find a job. This movement leads to the loss of skilled human resources in the country.

b. *Increase in Social Vices and Crimes:* Frustrated unemployed youths could be a recruiting source of armed robbers, prostitutes, economic saboteurs, human traffickers, smugglers, militants, militias, etcetera. People who are not employed are usually violent because of frustration. This frustration forces them to commit violent crimes and other social vices like prostitution, drug trafficking, smuggling, child trafficking for survival.

c. *Increase in Rural-Urban Migration:* Unemployment aggravates rural-urban movement among youths who move to cities searching for non-existent jobs has put more pressure on existing food and social amenities in the cities. Because of the lack of job in rural areas, able-bodied youths move from rural areas to urban areas searching for non-existing jobs. These insert pressure on existing food and social amenities in the urban areas, making the cost of living in the urban areas high.

d. *Fall in National Output:* The existence of unemployment means that a nation cannot maximise the use of its labour force for increased output. In developed countries of the world, the private sectors stimulate the economy, but the reverse is Nigeria's case. People depend on the government, which reduces productivity because the government does not have enough to give to its citizens.

e. *Increase Drain on Government Finances:* The presence of unemployment necessitates an increase in government expenditure in the payment of unemployment benefits in nations where they are paid. The government also spends more on the provision of social services at the same time that it collects less from taxes;

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f. *Potential Sources of Political Instability:* The army of unemployed youths serves as recruiting ground for disenchanted, disgruntled and revolutionary elements in the society. Such social and political instability is inimical to development. Youths who are not employed are used as tools to attack the government and their policies by those who are against the government. These social vices of destruction lead to the destruction of government properties, which hampers the government's development effort.

g. *High Dependency Ratio:* The mass of unemployed persons will depend on the small number of the working population for their survival. The dependency will reduce efficiency and savings. The people who are not employed in Nigeria that are more than employed will have to depend on their survival. The employed who were not even satisfied will not save efficiently, which will affect the standard of living.

h. *Low Investment and Low National Income:* As a result of low savings, the investment will also fall. As a result of the multiplier effect, income will also below, thus be creating a vicious cycle of poverty. Like earlier mentioned, any economy that grows depends mainly on the private sector. In an economy where many are unemployed, productivity is usually low, and individual savings will be equally low because of over-dependency. The multiplier processes on income below will lead to a low level of national income and investment.

i. *Fall in the Standard of Living:* Unemployment, through the resulting poverty and income inequality, reduces the standard of living of the masses. Unemployment widens the inequality gap, impoverishes the masses and lowers their standard of living. Unemployment is directly linked to income generation. An unemployed person directly will not have enough income, and this is directly equally related to poverty. Therefore, a poor person will be living below the poverty line, thus reducing the people's living standard.

j. *Full Employment:* This is a firmly established objective for most countries. Full employment is a concept that cannot be precisely defined. It is sometimes defined as the employment of all persons in the labour force, excluding those who are frictionally unemployed. Full employment then does not mean zero unemployment (Ajayi and Ojo, 1980). In a society where there is the mobility of the labour force, people will be moving from one job to another. Also, there will always be some who are not willing to work (voluntary unemployment).

f) Analysis of the Consequences of Unemployment

Unemployment is undesirable, bringing economic, social and political vices in the society. It has numerous consequences to the society it visits. The high wave of crime, robbery among youths has been traced to unemployment. Prince will, in Vanguard (June 25; 2002), observed that since 1999, this country had experienced an unprecedented rise in a crime wave, armed 10robbery, political assassinations, religious riots, inter-ethnic and intra-ethnic clashes, and communal clashes as a result of the increasing unemployment rate.

Recently, researchers have noticed an unprecedented increase in prostitution among young girls. The results of Jajere's investigations were carried out in our brothels and hostels in some urban areas in Nigeria, whereby prostitutes confessed to the fate of the scourge of unemployment. According to Osi (2001), the research on unemployment consequences maintained that autonomous consumption is inevitable, making some feeble-minded ones indulge in a robbery. Besides, examination malpractices are perpetrated by some jobless school leavers, who must make ends meet. These teach the younger society negative options available for survival.

Similarly, the issue of unemployment has caused hunger and malnutrition. Volkova et al., 1986 stated that unemployment and price increase of food and the unceasing onslaught of the unemployed and their dependants had increased malnutrition and its associated diseases in the third world. According to Nicholas et al. (2000), the unemployment social consequences for people who lost their job induces a higher poverty incidence, ill-health, high death toll, and strained family relationship. For society as a whole, the social consequences include the failure of social investment on human capital development through the educational system, the loss of tax revenue, and an increase in unemployment benefits payments that threatens the financing of other economic sectors of the economy. Also, the evil effects of mass unemployment have cracked some families in the country. It has led to broken marriages of homes that were once happy, as is succinctly stated by Awake magazine of July 22, 1984. This magazine went on to say that families have broken up and their children miserable due to unemployment. Graham (1992) upheld the consequences of loss of job to have caused some unemployed people, and their family's nervousness, misery, frustration, and despairing unhappiness. He also stated that the psychological compression of unemployment causes the unemployed to suffer trauma and sorrow.

Unemployment is a waste of human labour. An increase in the non-working population size is a simultaneous increase in the "liability" of the working population. An insinuation can be drawn from here that some difficulties arise regarding managing the

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workforce's meagre finance. Also, it can be implied to mean a grossly lowered standard of living and insecurity. Usen (1978) stated that the unemployed eventually becomes psychologically wrecked. There are many more consequences of unemployment, such as housing, inadequate poor clothing, lack of medical care, deprived means of transportation and so on. All these sorrows would have been given a technical knockout had our leaders are awake to their responsibilities.

g) Theories of Unemployment

The theoretical framework in this research uses the Keynesian theory of unemployment; because it is more relevant to the Nigerian situation as GDP depends on unemployment, government expenditure and money supply (MS).

Keynesian Economists see unemployment as a situation in which the number of people able and are willing to work at the prevailing wage rate exceeds the number of jobs available, and at the same time, firms are unable to sell all the goods they would like to sell (bannock et al., 1998). When carefully analysed, Keynesian unemployment primarily applies to situations in Nigeria (Bello 2003). Unemployment can result in a situation where many Nigerian consumers, including the government, prefer foreign goods to domestic goods, thereby causing the domestic producers to be faced with low demand problems that naturally forces them to lower output and reduces workforce. This experience continues in some firms, especially the small-scale ones, till they are pushed out of the market resulting in the loss of more jobs, the long- term unemployment remains in the market for too long and thereby reducing the costs of job finding. Keynes believed that government interference is beneficial to an economy. Through fiscal and monetary policies, the government use spending on goods or services to regulate the business cycle. Government's spending decreases the price of goods and services, making them cheaper, and spurs increased demand and consumer spending.

Unemployment is a monster that plagues Nigeria, and it is one of the most critical problems the country is to tackle. The years of corruption, civil war, military rule, and mismanagement have further exasperated economic growth in Nigeria. Nigeria is endowed with diverse and infinite resources, both human and material. However, years of negligence and poor government policies have led to the underutilisation of these resources.

According to Olueye (2006), the classical economist argued that unemployment exists when unions maintain wages above their equilibrium level. When this happens, we have a situation of involuntary unemployment. Cyclical unemployment differs from structural and frictional unemployment (lindbeeket et al., 1999). It is unemployment that results from a lack of aggregate demand in a downswing in the business cycle (Bannock et al., 1998).

In his theory of unemployment, Pigou (1934) makes the employment volume depend on the actual wages and the natural demand function for labour. These two fundamental factors interplay in the market to determine equilibrium employment, assuming there is no involuntary unemployment. As noted by Keynes (1936), changes in the investment rate can shift the employment volume; thus, a change in unemployment. Involuntary unemployment is possible, as evidenced during the great depression. Against the popular view of orthodoxy (classical economics), Keynes showed that economies could go into a depression where the various production factors were not used to achieve optimum economic configurations.

A. *Classical Theory*

The views of most economists always go with their thinking at that particular time. The two top schools of economic thought were "classical and Keynesian." The two have different ideas on the effect of unemployment. The classical was the school of thought that emphasised money's role in explaining short-term national income changes. Traditionally, this theory has been looked upon in aggregate. Their view was that involuntary unemployment was a short-term phenomenon resulting from discrepancies between the price and wage levels. Unemployment was the result of too high real wages. At times the wage level in the classical view would be reduced, and there would be no unemployment except for frictional search unemployment caused by the time delay between quitting one job and starting another. This school professed that urban unemployment is traceable to workers' fault and the various trade union powers. They believed strongly in the theory of demand and supply. Therefore, it contends that urban unemployment is caused by a low labour supply of more than the economy's capacity. Accordingly, the school argued that the demand for too high wages of workers without a corresponding increase in productivity renders product costly, thereby discouraging competitiveness among local and foreign industries. This trend's implication is the decrease in sales, which further leads to mass retrenchment of workers culminating in unemployment.

B. *Keynesian Theory*

The British economist John Maynard Keynes's ideas of the 1930s reformed the intellectual thoughts of nations in several areas of macroeconomics problems of money supply, inflation, and unemployment, which he mentions in his publication "The general theory of unemployment, interest and money".

The Cyclical or Keynesian unemployment, is also known as demand deficient unemployment, occurs when there is no aggregate demand in the economy. It gets its name because it varies with the business cycle, though

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it can also be persistent during the great depression of the 1930s. Cyclical unemployment rises during economic downturns and falls when the economy improves. Keynes contends that this type of unemployment occurs due to insufficient effective demand. Demand for most goods and services falls, less production is needed; wages do not fall to meet the equilibrium level and mass unemployment results.

The Keynesian framework, as examined by Thirlwal (1979), Grill and Zanalda (1995) and Hussian and Nadol (1997), postulate that increase in employment, capital stock and technological change are mainly endogenous. Thus, the growth of employment is demand determined and that the fundamental determinants of long-term growth of output also influence the growth of employment. In the Keynesian theory, employment depends upon effective demand, which results in increased output; output creates income, and income provides employment. He regards employment as a function of income. Effective demand is determined by aggregate supply and demand functions. The aggregate supply function depends on physical or technical conditions, which do not change in the short run; thus, it remains stable. Keynes concentrated on aggregate demand function to fight depression and unemployment. Thus, employment depends on aggregate demands, which are determined by consumption demand and investment demand. According to Keynes, employment can be increased by increasing consumption and or investment. Consumption depends on income C(y), and when income rises, savings rises. Consumption can be increased by raising the propensity to consume to increase income and employment, but people's psychology (taste, habit, etcetera) is also constant in the short run. Therefore, the propensity to consume is stable. Employment thus depends on investment.

C. *Marxian Theory*

It is in the very nature of the capitalist mode of production to overwork some workers while keeping the rest as a reserve army of unemployed people. Marxists also share the Keynesian view of the relationship between economic demand and employment, but with the caveat that the market system's propensity to slash wages and reduce labour participation on an enterprise-level cause a vital reduction in aggregate demand in the economy, triggering crises of unemployment and periods of low economic activity before the capital accumulation (investment) phase of economic growth can continue. According to Karl Marx, unemployment is inherent within the unstable capitalist system, and periodic mass unemployment crises are expected. The proletariat's function within the capitalist system is to provide a "reserve army of labour" that creates downward pressure on earnings which is accomplished by dividing the working class into surplus-labour (employees) and underemployment (unemployed), who form the reserve armies of labour; and they fight among themselves for rare jobs at lower wages. According to Marx, the only way to permanently eliminate unemployment would be to abolish capitalism and forced competition for wages and then shift to a socialist or communist economic system. For contemporary Marxists, persistent unemployment is proof of the inability of capitalism to ensure full employment.

D. *Efficiency Wage Theory*

Efficiency wage theory is a macro-economic approach to explaining unemployment. The rationale behind the theory is as follows; Assume that workers differ in quality, not just abilities but in the probability of shrinking; in other words, some people are lazier than others and are therefore less likely to work harder. The effort is a function of costly monitoring, i.e. if you are closely monitored, then if you not. An employer cares about the cost of labour (the wage rate). However, the cost is dependent upon the productivity of the workers. So, the objective is to minimise the wage divided by productivity (wage per unit produced), and to do this, there are at least two options: Firstly, you can increase productivity by increasing wage. As wages increase, the cost shrinking becomes higher because if you are caught, you are fired and lose your wages, and the higher the wage is, the more you lose by being fired. Thus, a higher wage means that you work even harder since it is essential for you not to be fired.

h) Statistical Table of Unemployment in Nigeria

Table 1

Year	GDP	Unemp Rate
1990	499.68	3.5
1991	596.04	3.1
1992	909.8	3.5
1993	1259.07	3.4
1994	1762.81	3.2
1995	2895.2	1.9
1996	3779.13	2.8
1997	4111.64	3.4

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1998	4588.99	3.5
1999	5307.36	17.5
2000	6897.48	13.1
2001	8134.14	13.6
2002	11332.25	12.6
2003	13301.56	14.8
2004	17321.3	13.4
2005	22269.98	11.9
2006	28662.47	12.3
2007	32995.38	12.7
2008	39157.88	14.9
2009	44285.56	19.7
2010	54612.26	21.1
2011	62980.40	23.9
2012	71713.94	22
2013	80092.56	23.1
2014	89043.62	24.5
2015	91144.96	26.7
2016	368109.19	13.4
2017	460456.50	17.5
2018	39719.00	22.6

Table Showing Rate of Unemployment, GDP and Inflation

Table 2

Year	% Rate of Unemployment	% rate of GDP	% rate of Inflation to GDP
1980	5.3	2.872	9.97
1981	4.8	20.84	20.56
1982	5.4	-1.053	5.882
1983	5.2	-5.05	22.22
1984	6.2	-2.022	40.91
1985	6.1	8.323	3.226
1986	5.3	-8.754	6.25
1987	7	-10.75	11.773
1988	5.1	7.543	4.214
1989	4.5	6.467	9.02
1990	3.5	12.77	7.895
1991	3.1	-0.618	12.204
1992	3.5	0.434	4.575
1993	3.4	2.09	7.145
1994	3.2	0.91	7.427
1995	1.9	-0.307	2.732
1996	2.8	4.994	9.29
1997	3.4	2.802	10.67

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1998	3.5	2.716	7.862
1999	17.5	0.474	6.618
2000	13.1	5.318	6.938
2001	13.6	8.164	18.871
2002	12.6	21.18	2.881
2004	13.4	10.59	5.001
2005	11.9	5.393	7.86
2006	12.3	6.211	8.218
2007	12.7	6.972	5.413
2008	14.9	5.984	11.58
2009	19.7	6.96	12.54
2010	21.1	7.976	13.72
2011	23.9	7.19	10.84

Source: National Bureau of Statistics (NBS) (2010) (2011), IMF, World Economic Outlook (WEO), CBN (2011).

South Africa is the top country with the highest unemployment rate in the world. As of 2017, the unemployment rate in South Africa was 27.5 %. The top 5 countries also include Venezuela of the Bolivarian Republic, Macedonia, Greece, Bosnia and Herzegovina.

i) Unemployment And Inflation

Unemployment and inflation are primary economic illness and disequilibrium in the macroeconomic policies of any government. Unemployment relationship with inflation is apparent, and there is nowhere inflation will be cited short of unemployment. The duo work together with each other. This relationship can best be described using the A. W. Philips curve. A. W. Philips (1914- 1975), an economist from New Zealand. In the curve, it was observed that there is an inverse linear relationship between the rate of inflation and unemployment rate. This curve indicated a negative shape curve, much like a demand curve.

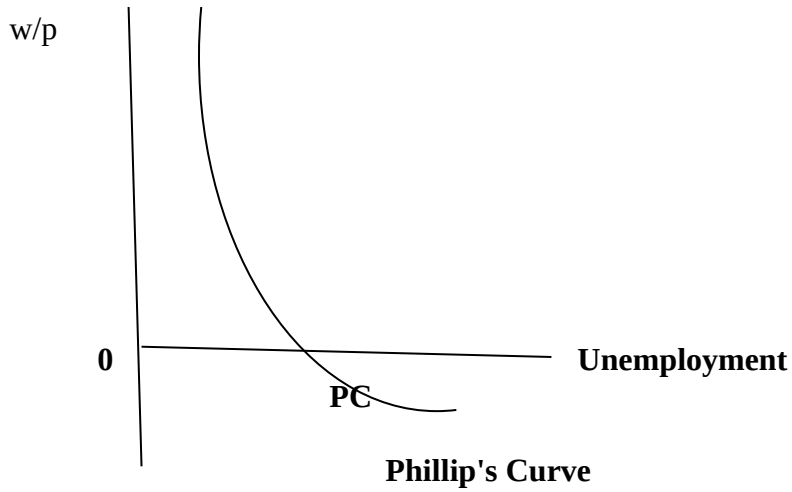

Figure 2

This curve is explaining that a stable but inverse relationship exists between unemployment and the inflation rate. This curve may help policymakers choose between inflation and the unemployment in adjusting and managing macroeconomic policies that will affect the economy. The policymakers may decide to let one go at the expense of the other; conversely, a government desirous of achieving low inflation rates could do precisely that only at the cost of a high unemployment rate. The high unemployment rate can be explained that the inability to reduce unemployment and simultaneously achieve the good of full employment and price stability means that effort to move the economy closer to one of them like full employment will, of necessity, shift farther and farther away from the other areas of price stability. The slope of the curve measures

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the struggle to reduce one of them at the other's cost, meaning that if the curve's slope is steeper, the rate of unemployment brought about by a significant increase in the rate of inflation, the decrease in unemployment will below. However, if the slope of the curve is flatter, the fall in unemployment that will be attained by a slight increase in the rate of inflation will cause unemployment to be high. Government policymakers can determine the opportunity cost of a lower inflation rate in terms of employment forgone, i.e., the policymakers' task to optimise this relationship by selecting the inflation-Unemployment Combination that maximised social benefit. Therefore, any policymaker who wants to decide should take such a decision that will have a less negative impact on the citizens, like ensuring that they take a policy that will minimise social harm for the people.

j) First Set of Solutions to Unemployment

In Nigeria, there are several solutions to unemployment which has been on the increase, among which are:

i. *Proper Attitude to Work*

Most people, especially government workers, do not generally like working hard. They always believe the slogan. "After all, government work is not my father's own". This idea or belief at the back of their minds makes them handle the work with all amount of carelessness. In a company or establishment where we have this type of workers, there used to be a high labour turnover rate in its bid to stop this type of behaviour towards restoring to the frequent fringe of any workers who attempt to bread this type of obnoxious meaning and human style of a worker in the workplace. Common sense, therefore, will even indicate to us that where the number of those employed are reduced and unemployed is increased in order to obtain from advocating for proper attribute to work, people should regard the work from which they earn a living and very serious by being punctual to avoid unnecessary embarrassment and lay off from their employers.

ii. *Reorganising the Education System*

In order to use the education system to combat unemployment, the system should completely be reorganised so that employment is guaranteed on completion of school. This re-organisation can be realised through proper and adequate training coupled with well-experienced and qualified personnel. The teacher goes a long way in shaping one's life by giving the student the real stuff expected by his employers.

iii. *Vocational School Curriculum Should be Encouraged*

Nigeria's educational system should be a vocation oriented whereby skills taught in schools should be relevant to industries and commerce. The successful implementation of the 9-3-4 education system in Nigeria should be a system that will make the young school leaver's self-employed and not made to roam the streets looking for white-collar jobs.

iv. *Expansion of the Agricultural Sector*

Double attention should be given to the agriculture sector because it is the nation's bedrock. Almost 75% of people of Nigeria living in rural areas without any modern infrastructure like good roads, pipe born water, electricity, etcetera thereby making them perpetual local and crude farmers; government should, in order to curtail unemployment build good roads, good communication network pipe born water and electricity so that investors can go inside the rural are to invest financial sides loan, and awareness should be given to farmers by way of making tractors, plough, harvester, etcetera available to them, which will invariably boost their ego and production capability, thereby attracting more into the profession and in the same way renouncing the amount of unemployment government not only encouraging farmers as a means or step to eradicate unemployment can do the same thing by building agriculture estates like cassava, banana, cocoa plantation and also breading of poultry, piggery goat etcetera which generates revenue to the government but reduces birth rate of unemployed because it is human being, not animals, that are going to work in those agricultural establishments; this is to say therefore that attention should be given to the expansion of the Agricultural sector by way of making loans available to the farmer the problem of unemployment will definitely to be a thing of the past in the nearest future.

Also, farmers should be encouraged to use modern agricultural technology, including modern equipment, machines, improved seedling, and fertiliser. To complement this effort, the government should build farm settlements, open and equip school in the farm settlements and close to the towns where farmers settled with health facilities to make agriculture more attractive and profitable.

v. *Making Loans Available*

If there is the availability of loan to the investors who have little or no m43oney but have that business insight, they will invest, thereby creating opportunities for our youths, school leavers who are working the whole street of the town searching for the financial situation. The high rate of interest should reduce the loan given to them. The repayment of the loan should give a loan period, and freedom of movement should be given to these investors to distribute theory employment opportunities to all the workers and concern of the society.

vi. *Encourage Mobility of Labour*

People's movement will solve the unemployment problem as stated by a great and well-known development economist, Author Laws, who

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worked on human beings' illness in his theories. He talked about the illness of human being. He took certain assumptions, which include. The identification of two types of wage and these wages applies to two sectors of society.

vii. *Encouragement and Expansion of Small-Scale Industries*

More labour-intensive small-scale industries should be established in the rural areas and through government investment, direct incentive, income distribution, and the government's enabling environment for industrial development.

viii. *Encouraging Self-employment*

Young school leavers should be encouraged by governments, organisations, and well- educated individuals to be self-employed and provided with interest-free loans, enabling environment and necessary working materials. This process will help reduce over-dependent.

ix. *Population Growth Rate Should Be Reduced*

This should be the government churches' responsibility and other non-governmental organisations. The government, for instance, should adopt measures to reduce population growth through family planning persuasion, financial incentives, and disincentive, legislation, and education. The government should give sanction to the family with more than specific good numbers while churches should use moral persuasion on their members.

x. *Tribalism should be Dejected*

Nigeria is primarily an ethnic country (Yoruba, Hausa, and Igbo). Apart from these three major ethnic groups in Nigeria, other sub-ethnic groups still exist. Therefore, all constraints which prevent people from getting jobs in states or tribes other than theirs should be discouraged. This government can do this by putting a measure in place to sanction defaulters.

xi. *Discourage Rural-Urban Migration*

Integrated rural development programme should be enhanced in the rural areas. Re- orientation of economic activity by the ministry in charge of information and provision of social amenities like electricity, pipe-borne water, and communication facilities should be provided in the rural areas. The government should also provide and encourage the already existing small-scale industries in rural areas.

xii. *National Employment Scheme Should Be Established*

National employment schemes should be established at the federal, state and local government levels. They should be charged with the responsibility of providing information on the number of unemployed people. These unemployed people will register with the schemes, and the unemployed should be placed where there are vacancies.

xiii. *Repatriation of Illegal Immigrants*

The government, through its agencies like Nigeria Customs, immigration, Police, etcetera, should check the influx of illegal immigrants. The government should ensure that any illegal alien should be deported.

xiv. The federal government should hasten the power sector reforms and re-stabilise the power sector to end Nigeria's looming energy crisis. Encouraging entrepreneurial activities is believed to be the remote cause of the country's unemployment problem; power is a significant factor in the economy.

xv. Religious, Ethnic and Political violence and crisis should be controlled by all means necessary as it displaces people and causes serious harm to their means of livelihood.

xvi. There should be a process or program geared towards training youths in Nigeria in the act of entrepreneurship, inconsonant with the assertion that knowledge is power. We are aware that programs like the National Directorate of Employment and the inculcation of entrepreneurship development courses in all higher institution's curriculum in Nigeria, but more still need to be done as these platforms are just being institutionalised. They ought to be proactive and pragmatic. If they cannot fit in the prescription, a new one should be created to take their place.

xvii. There should be a government-regulated means of entrepreneurial development sponsorship devoid of politics. The likes that have crippled those developments in Nigeria in terms of financial funding as a lack of monetary access have contributed to the noteworthy glitches of entrepreneurship development in Nigeria.

xviii. The agricultural sector as a medium of reducing unemployment in Nigeria should be harnessed and recommends that government and all relevant stakeholders continue to reduce unemployment and give their support in ensuring that the agricultural sector is not downtrodden but embraced in this track.

xix. *Removal of socio-political impediments and discrimination to employment*

Job vacancies may be available but remained unfilled because of prejudice against certain potential workers even if qualified. Such prejudice includes religions, ethnics and political bias, which encourages misallocation of labour because the job seeker with the "right" political, or religious or ethnic connection gets the job whatever his or her qualification.

One way of removing a non-economic impediment to employment is by legislation to prevent discrimination with a strong political will to enforce such law.

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xx. *Adoption of the Labour-Intensive Strategy of Industrialisation*

Most manufacturing industries in developing countries are capital intensive relying on imported technology that cannot absorb a reasonable number of local people. The indigenous technological innovation that can encourage labour-intensive industrialisation should be encouraged.

xxi. *Labour Market Information System*

One of the significant causes of unemployment is labour friction brought about by a lack of information concerning available jobs. A labour market information system can generate all job-related information for job seekers and employers of labour, and this should include existing vacancies and job specifications, required qualifications, salaries and other working conditions. Both private and public sector employers should be induced to patronise the labour market information system to reduce the duration of frictional unemployment for more qualified job seekers.

xxii. *The use of the Public Works Programme*

This programme is rooted in the Keynesian multiplier effect that creating public work will boost aggregate demand, thereby stimulating investment and resulting in more employment.

xxiii. *Promotion of small and medium scale enterprises (SMEs)*

Small and medium scale enterprises have great potential for employment creation. For SMEs to generate employment, the promotion of viable micro-credit schemes to overcome such enterprises' credit problems is essential. For SMEs to generate employment, the promotion of viable micro-credit schemes to overcome such enterprises' credit problems is essential.

xxiv. Expansionary fiscal policy measures should be encouraged because they can increase employment and hence reduce unemployment in Nigeria. That is, adequate fiscal policies that will create employment opportunities should be enhanced.

xxv. The government should increase its capital expenditure and ensure a healthy combination and co-ordination of both fiscal and other policies to increase employment opportunities in Nigeria. The government should avoid mismanagement of national resources, misappropriation of funds and wasteful spending. Fiscal policy should be given more attention to reducing unemployment in Nigeria.

xxvi. In conclusion, there should be smooth harmonisation and consistency in fiscal pursuits to solve unemployment in Nigeria.

IV. Underemployment and Overemployment

There are economic consequences of underemployment and overemployment. Although unemployment is the conventional indicator of the labour market's state, it may not fully capture the degree of spare capacity. For example, people working even an hour alone during the orientation week in their engagement are underemployed. Nonetheless the International Labour Organisation (ILO) still regard such an employee on orientation as duly employed. Therefore, the total capacity of the labour market would be more accurately determined if underemployment is also taken into account. In economic terms, underemployment implies an extra labour supply that would add to the economy's output. On the other hand, it may be appealing to accept that extra hours worked would inevitably associate to an equivalent surge in production stages.

Nevertheless, there are likely to be unseen costs rising from over employment, in that a reserve of workers are employed who are on standby to replace any staff that suddenly falls in life or sickness so that the work or production do not stop abruptly on account of the absence of any worker, such as worker absences and fatigue, which could result in a decrease in productivity. In short, there are economic incentives to reduce the prevalence of both underemployment and overemployment.

Please note that *underemployment* is different from *unemployment* in that in terms of underemployment, the individual is already working but not at his full capability; or the individual is employed but not according to the skill he has so far acquired.

Underemployment and *over employment* represent two scenarios: a mismatch between an individual's preferred and actual number of work hours.

V. Rightemployment

Right employment emphasises that the solution to these mentalities is to encourage the best fit and authentic measures to avoid such workplace inefficiencies. Everyone is familiar with what our traditional hiring process looks and feels like. Those looking for work often start by building a formulaic resume that lands on the desks or in the inboxes of hiring managers that sift through hundreds of similar-looking documents all day. After one, maybe a few rounds of interviews, the person who made the most stimulating impact in a short time is hired to fill a position—one that often they are not genuinely the ideal candidate. The lack of depth reached by these traditional interview tactics and people's willingness to accept job offers that they may be good at but do not play to their innate attributes or strengths only adds to

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the ever-growing career mismatch stats. However, a shift in cultural thinking is finally breaking its way into sectors that have typically stuck to this compromised path when hiring and onboarding new talent.

Rightemployment is the ideal hiring mindset that leads to bi-directional benefits for both those looking for work and those looking to bring on new talent to their teams and organisations. Combating unemployment and over employment by emphasising the *right employment* gives hiring managers the ability to onboard talents for work that reveals their innate professional passion and more reliable and sustainable strengths. Such a practice gives those in charge of making these hiring decisions a higher confidence level attaining desired productivity, creativity, and happiness, therefore longer retention. Ultimately, this notion helps minimise the likelihood of repeating the expensive hiring cycle to refill the position.

a) Right-Employment is the Future of Work

It digs deeper into talent's capacities to match and align jobs, emphasising both the employers' ability to recruit the right and most qualified workers and on the part of employees to seek the best fitting job for their acquired skills. Employers are to improve on the hiring system is looking for candidates who are truly qualified and are compatible with their company's core mission statement and vision. There will be a higher success rate in employment when people's right connection is engaged in the right work. Hence, *Rightemployment* hinges that when qualified and compatible people are hired using the right employment method. The natural desire for fulfilling work is with every human being, and we need to adopt the right, and practicable methods in engaging workers in the best practice need to transit into 21st-century realities without tribalism, nepotism, godfatherism, and sentiments.

b) Second step of Solution to Unemployment Problem

Rightemployment is the solution to the problem of unemployment by redefining how we perceive employment and recruitment. It also encourages independence for those looking forward to building careers by doing things they have a natural passion, strength, ability, and skill.

Regardless of the work model, whether on-demand, man-know-man engagement or full time, right employment provides the most natural or sustainable conditions for all sides in the labour market and community to benefit. Democratising *the right employment* will pave the road to a sustainable and healthier workforce and labour market. It is the best practice of employment selection and best hiring practices since it emphasises a level of professional compatibility that ultimately minimises financial loses that companies bear while hiring for positions where candidates did not authentically fit in the first place. High employment promotes best-fit partnerships and candidates with intrinsic attributes having motivation over external forces and influences that often drive hiring decisions that were hitherto based on bribery and man-know-man basis. With its obvious bi-directional benefits, it is surely where the workforce needs to guarantee continual productivity, innovation, and the most basic job fulfilment level. Nigerian employers, especially the government sector, should quarantine and jettison tribalism, inept and crude manners of cutting corners, godfatherism, and the likes; and recruit the right and qualified skills in our employment. It is high time that we rise and do the right and needful. "One Nigeria" is a slogan on the mouth of the Nigeria Leader – General Yakubu Gowon, and the Nigerian Soldiers, with the corollary slogan "To keep Nigeria one is a task that must be done", which was the captivating national anthem we sang during the Nigeria-Biafra civil war between 1966 and 1970 to win the war against the Biafrans (Igbo tribe) excluding the Niger Deltans whose overriding population fought on the part of Nigeria, of which I the inaugural Lecturer 64 was living testimony.

VI. Summary, Conclusion and Recommendation

a) Summary and Conclusion

The labour market's theoretical assumption is that labour suppliers (workers) will certainly match themselves to jobs that offer the number of working hours they want (Golden and Gebreselassie 2007). In practice, constrictions from employers and trade unions arose due to standard working hours typical for each occupation, and lack of labour mobility make the balance grim. Thus, there are discrepancies between a worker's actual and preferred number of hours worked, hence creating time-related underemployment and overemployment. Time-related underemployment echoes a desire for additional working hours for more pay, whereas time-related overemployment mirrors a desire for fewer working hours for less pay. While a mismatch of actual and preferred work hours may arise due to an individual's preferences and circumstances, it may also follow from the cyclical economic growth pattern. For instance, over employment may increase when the economy is above trend and decrease when the economy is below trend. For underemployment, the opposite cyclical pattern would be expected. Underemployment and over employment may take other forms, such as a mismatch of skills required for the job and the jobholder's skills (such as under- and over-qualification). For this article, however, only the time-related forms of underemployment and over employment are considered. These are situations where the worker's preferred and actual working hours differ.

There is so much talk about unemployment and underemployment, and while numbers continue to fluctuate, it is not those statistics that are missing from the overall conversation. The often omitted "over

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employment" is not to be forgotten, but the real interest should be on *right-employment*, the idea of holistic best fit characterised by deeper professional compatibility when it comes to hiring and other workplace practices. Contrary to popular belief that the economic downturn of 2008 was where the shift in our employment and work environments all began, emphasis should be placed on the dot-com crash of 2000 when a new Darwinian job market began to appear. It impacted the tech sector first, and its effects seemed to ripple into other industries where this new exploitative mindset brought about practices.

Characterised by the disappearance of work-life balance, this era in business brought out the worst in such a highly educated and intellectual community. As tech companies rapidly downsized to reduce costs, those left lucky enough with their jobs had to take on the workload of the many empty chairs left behind by displaced co-workers. Companies maintained labour on lower pay scales that included the young, hollowing out organisations from the higher paid mature and valuable experiences. The new young workforce was expected to hit the ground running from day one with minimum to no mentorship. Many companies started to experience rapid "brain-drain" perceivably due to retiring ageing boomers, but in actuality due to premature and often forced exits. It became a new widespread practice to hire "passive job seekers" based on an unspoken practice that automatically labelled "active job seekers" as damaged and undesirable commodities. This new cherry-picking model was painted under meritocracy colours. The mass exhaustion can be felt today as its ongoing shift fostered unhealthy employment practices that trickled into other major industries. As a result, an inhumane supply and demand mutation escalated job market anxiety and forced a new "survival of the fittest" hiring practices and culture. This major beginning point is reflective of what we have been experiencing in the employment landscape.

This transition set the foundation for a decade or so of mass underemployment and the underreported over the employment of a smaller workforce percentage. Protecting one's livelihood in such a fearful environment brought in micro protectionism, or the idea of protecting your job security or "turf" in professional white-collar communities. This behaviour affected recruitment practices raising hiring sensitivity towards overqualified candidates that could threaten the tenderness in job security felt by those inside corporate firewalls. False credit is given during this period of productivity rise to automation, where it was due to fewer people doing the job of displaced workers for the same stagnate pay. GDP continued to rise, while automation's pace was not super-fast than profit gains due to leaner headcount. These left people were grappling for work, often in industries or jobs that are not aligned with their innate professional compatibility. With the middle class continuing to vanish as multiple forces push to widen the gap between, this fight or flight mentality has continued to seep into our business practices and workplace cultures. When people enter and exit the workforce, the gap only widens between those falling into one of two economic extremes. Those who end up in the wrong fit or with no career are where all the untapped potential truly lies.

b) General Recommendations

Based on our findings, we draw appropriate recommendations given insight into how the output growth can perform its role without necessarily leading to low productivity due to unemployment.

i. The study revealed a causal relationship between unemployment and output growth in Nigeria, and the government should ensure that available human resources are used as effective agents of growth and modernisation through general mobilisation and purposeful motivation. Special attention should be given to promoting gender equality in human resource development and all employment practices.
ii. There must also be a need for direct policy to increase the domestic output to stimulate employment. Since more people will be employed as domestic output increases, an increase in government public expenditure will also stimulate aggregate demand, thus producing the consequent effect of stimulating employment and enhancing human capital formation and optimum human resources utilisation.
iii. From this study, the economy's aggregate demand side could not be motivated without causing inflation in an economy. Hence, the government has to employ a policy mix to put inflation under control if its economic growth is not to be battered. The government should provide enabling grounds for the productive minority to operate freely through subsidies, flexible credit facilities, and stable, sustainable electricity. If these pieces of machinery are put in place, the Nigerian economy will spring up and move along the production possibility curve (frontier).
iv. The government's debt plan should also be sloped towards asset procurement and capacity building both in the public and private sectors that will serve as inducements to productivity through foreign direct investment.
v. The government must safeguard that FDI profits are re-invested in the economy to increase manufactured goods and create more room for engagement of workers. The government at all levels must wage persistent wars counter to sleaze since it hinders economic growth because it decreases investment by increasing the cost of doing business. It is also important that more distinct and urgent care be paid to internal security to give investors'

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confidence since insecurity jolts foreign and local investors. There is also the need to put in place concrete policies to engender a positive and competitive enabling environment that would attract more foreign investors.

vi. The agricultural sector as a medium of reducing unemployment in Nigeria should be harnessed and advises that government and all relevant stakeholders continue to reduce unemployment and give their support in ensuring that the agricultural sector is not downtrodden but embraced in this task.

vii. The government should give the Youths vocational training and skill acquisition schemes that will make them self-employed.

viii. The government should establish a special public works department to absorb the youth's in direct manual works, especially indigenous works, which should not be contracted out.

ix. Small scale industries or cottage industries be opened to absorbed our youths and graduates.

x. The discontinuation of fuel subsidy and the mitigation of the proceeds and be properly targeted into safety net programmes including Public works and employment schemes in the area of infrastructural development projects which include; (FERMA - Preventive Roads Maintenance Programme, Niger Delta Development Projects, Roads and bridges, Rail transport projects, ICT, Petroleum/NNPC Projects) maternal and child health, mass transit programmes.

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Pandemia Y Pobreza: Dialogando Con Familias En El Norte Peruano

By Lindon Vela Meléndez, Elizabeth Ruth Acevedo Sánchez,
Ana Bertha Cotrina Camacho, María Magdalena Barrantes Quiroz,
Abdel Javier Flores Olivos, José Florencio Vidal Meza & María Alejan-Dra Rojas Riojas

Universidad Nacional Pedro Ruiz Gallo

Abstract- Through the complementarity of bibliometric techniques and in-depth interviews, this study explored the existing literature and the experiences of families living in poverty and vulnerability to poverty, with respect to coping with the covid-19 pandemic in northern Peru. For the bibliometrics, the sample was taken from publications in the scopus database and interviews with families that met the inclusion criteria, such as an average of 4 people in the household, who have had family members infected by the pandemic, and whose typical situation is one of poverty or vulnerability. The results allow us to affirm that the socioeconomic conditions of the families have been seriously affected in several ways, the first by the catastrophic health expenses to deal with the disease, the precarious hospital infrastructure for care that has forced them to assume the disease in many cases in their homes with private care, the measures of confinement and closure of businesses with the consequent unemployment and loss of income. A perspective of the future is also evident. The discourses of the participants show that in the study area the condition of vulnerability of poverty is present before the so-called emerging middle class.

Keywords: *poverty, vulnerability to poverty, covid-19, pandemic.*

GJHSS-E Classification: *FOR Code: 149999*



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Pandemia Y Pobreza: Dialogando Con Familias En El Norte Peruano

Lindon Vela Meléndez [α], Elizabeth Ruth Acevedo Sánchez [σ], Ana Bertha Cotrina Camacho [ρ], María Magdalena Barrantes Quiroz [ω], Abdel Javier Flores Olivos[¥], José Florencio Vidal Meza [§] & María Alejan-Dra Rojas Riojas [χ]

Resumen- Mediante la complementariedad de técnicas bibliométricas y las entrevistas a profundidad, en el presente estudio se ha explorado la literatura existente y las vivencias de familias en condición de pobreza y vulnerabilidad a la pobreza, respecto al afrontamiento de la pandemia de la covid-19 en el norte del Perú. Para la bibliometría se ha tomado como muestra a las publicaciones de la base de datos scopus y las entrevistas a familias que cumplían criterios de inclusión, tales como número de integrantes del hogar en promedio 4 personas, que hayan tenido familiares con contagio por la pandemia y cuya situación típica sea de pobreza o vulnerabilidad. Los resultados permiten afirmar que las condiciones socioeconómicas de las familias han sido seriamente afectadas por varias vías, la primera por los gastos catastróficos de salud para lidiar con la enfermedad, la precaria infraestructura hospitalaria para la atención que ha obligado a asumir la enfermedad en muchos casos en sus domicilios con atenciones particulares, las medidas de confinamiento y cierre de empresas con el consiguiente desempleo y pérdida de ingresos. También se evidencia una perspectiva del futuro. Los discursos de los participantes evidencian que en el área de estudio está presente la condición de vulnerabilidad de la pobreza antes que la llamada clase media emergente.

Palabras claves: pobreza, vulnerabilidad a la pobreza, covid-19, pandemia.

Abstract- Through the complementarity of bibliometric techniques and in-depth interviews, this study explored the existing literature and the experiences of families living in poverty and vulnerability to poverty, with respect to coping with the covid-19 pandemic in northern Peru. For the bibliometrics, the sample was taken from publications in the scopus database and interviews with families that met the inclusion criteria, such as an average of 4 people in the household, who have had family members infected by the pandemic, and whose typical situation is one of poverty or vulnerability. The results allow us to affirm that the socioeconomic conditions of the families have been seriously affected in several ways, the first by the catastrophic health expenses to deal with the disease, the precarious hospital infrastructure for care that has forced them to assume the disease in many cases in their homes with private care, the measures of confinement and closure of businesses with the consequent unemployment and loss of income. A perspective of the future is also evident. The discourses of the participants show that in the study area the condition of vulnerability of poverty is present before the so-called emerging middle class.

Keywords: poverty, vulnerability to poverty, covid-19, pandemic.

Author α σ ω ¥ § χ: Universidad Nacional Pedro Ruiz Gallo, lambayeque, Perú. e-mails: lvela@unprg.edu.pe, eacevedo@unprg.edu.pe, acotrina@unprg.edu.pe, mbarrantes@unprg.edu.pe, afloreso@unprg.edu.pe, jvidal@unprg.edu.pe, mrojasrio@unprg.edu.pe

I. Introducción

La lucha contra la pobreza y las desigualdades en sus múltiples dimensiones, continúa siendo un desafío global y en particular en América Latina y el Caribe. Aún con algunos progresos importantes en las últimas décadas desde el 2015 se observan retrocesos, particularmente en la incidencia de la pobreza extrema. Esto toma relevancia ya que la región afronta temas coyunturales, pero también otros de corte estructural en la ruta hacia el desarrollo sostenible, tales como bajos niveles de productividad, desigualdad, exclusión social y falta de atención a problemas ambientales (Comisión Económica para América Latina, 2019).

Al respecto la Agenda 2030 orientada al desarrollo sostenible, se constituye en un espacio amplio y de gran consenso para afrontar estos grandes problemas, integrando la trípode de dimensiones del desarrollo; la social, económica y ambiental.

Desde finales del 2019, el panorama se ha complicado con el escenario de la pandemia de la covid-19, alterando todas las magnitudes de las brechas existentes y obligando a replantear las estrategias para abordar los problemas enmarcados en los 17 Objetivos del Desarrollo Sostenible (ODS).

Estudios recientes muestran que la pandemia está erosionando los avances logrados en la lucha contra la pobreza en la última década y sin apoyo coordinado a nivel global, el retroceso se convierte una grave amenaza en el logro de la Agenda 2030. También se considera que se agravará la concentración geográfica de la pobreza, constituyéndose en el principal foco de pobreza extrema en todo el mundo, los países menos desarrollados (Valensisi, 2020). En el mismo sentido también se observa que la pandemia de la covid-19 ha impactado de manera significativa en la pobreza de los hogares, deteriorando su nivel de vida; los estudios también muestran "que existen heterogeneidades de género y de ubicación en relación con el impacto de la COVID-19, siendo las mujeres y los

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habitantes de zonas rurales los más perjudicados" (Bukari et al., 2020, p. 1).

La situación generada por la pandemia ha puesto en relieve el concepto de vulnerabilidad a la pobreza, considerando que el análisis desde el punto de vista estático es insuficiente, al ser la pobreza un fenómeno multidimensional, por lo tanto, el concepto de vulnerabilidad y riesgo ayudan a comprender mejor la dinámica. Analizar el riesgo de caer en la pobreza o de volver a ese estado, "no solo tiene un rol instrumental como una causa de pobreza, sino que, obtener resultados sin reconocer el riesgo y la incertidumbre, puede ser un marco inadecuado para el estudio del bienestar, especialmente en un análisis dinámico de la pobreza" (Garbay Flores, 2019, p. 7).

Actualmente se reconocen hasta tres tipos de shocks que afectan la vulnerabilidad a la pobreza y estos están presenten en el escenario de la pandemia, no sólo por la afectación directa a la salud sino por las acciones colaterales implementados como medidas no farmacéuticas tales como inmovilización social obligatoria con cierre de establecimientos industriales y comerciales que impactan en el empleo y los ingresos de las familias. El primer impacto afecta de forma directa a los activos de las personas, el segundo tipo son los shocks al contexto que las personas utilizan para transformar sus activos en ingresos, lo cual se materializaría en la pérdida del empleo y el tercero se refiere a shocks por la reducción de las transferencias, como son las remesas desde otros países. (Dercon 2001, citado en Barraza et al., 2020).

En ese contexto el objetivo de la presente investigación es sistematizar las experiencias relacionadas con el impacto de la pandemia en las familias de una región del norte peruano. El estudio se centra en categorías de análisis apriorísticas alineadas a la literatura científica previamente seleccionada, tales como: empleo e ingresos, gastos en salud y financiamiento, accesos a servicios de salud, y perspectivas de las familias.

En las siguientes secciones el informe realiza una explicación detallada del proceso metodológico bibliométrico y cualitativo; luego se presentan los resultados de la investigación ordenados de acuerdo a los objetivos del estudio, así como la discusión correspondiente y finalmente las conclusiones de la investigación.

II. Metodología

El estudio se enmarca en una complementariedad metodológica. Por una parte, un análisis cuantitativo bibliométrico, que permite elaborar el estado del arte del fenómeno en estudio, el mismo que se complementa con un diseño fenomenológico dentro del paradigma hermenéutico interpretativo.

El análisis bibliométrico se inició identificando las palabras claves relacionadas con la investigación y mediante conectores del álgebra de Boole se elaboró el protocolo de búsqueda eficiente *(Title-Abs-Key (poverty) and Title-Abs-Key (pandemic))* que permitió identificar 1118 documentos científicos en la base de datos de Scopus entre los años 1989 y 2021, luego la base de datos fue exportada en formato separado por comas, lo cual ha permitido analizar la evolución histórica de publicaciones, países donde se han generado los estudios, filiaciones institucionales de los autores, tipos de publicación y áreas de estudios desde cuales se han realizado las investigaciones. Con la misma información se ha realizado un análisis semántico en el Software VOSviewer que ha permitido observar los *clusters* de palabras claves usadas en las investigaciones, con lo cual se ha determinado las tendencias en el abordaje del estudio de la relación entre pandemia y pobreza. Para revisión exhaustiva de la literatura científica relevante y actualizada se han realizado filtros al protocolo de búsqueda incluyendo criterios de actualidad de la información, tipos de publicaciones y áreas de estudio, por lo que con el siguiente protocolo *(Title-Abs-Key (poverty) and Title-Abs-Key (pandemic)) and (limit-to (pubyear , 2021) or limit-to (pubyear, 2020) or limit-to (pubyear , 2019) or limit-to (pubyear , 2018)) and (limit-to (doctype , "ar") or limit-to (doctype , "re")) and (limit-to (subjarea, "soci") or limit-to (subjarea , "econ") or limit-to (subjarea , "arts") or limit-to (subjarea , "psyc"))* se logró ubicar 215 estudios, al mes de marzo del 2021, los mismos que luego de un análisis de pertinencia y de relación fundamental con la pandemia de la COVID-19 se han revisado diez documentos que dan el fundamento teórico y permiten la discusión de resultados de la investigación.

El enfoque cualitativo del estudio se configuró con el diseño fenomenológico, el mismo que incluye las reflexiones de familias peruanas del norte peruano respecto a cómo están afrontando la pandemia y el impacto de esta en su condición socioeconómica. En una primera etapa se establecieron los criterios de inclusión para escoger a los participantes, tales como: Familias típicas por número de integrantes (4 personas en promedio), en situación de pobreza y vulnerables a la pobreza, tuvieron o tienen por lo menos integrante afectado por la COVID-19.

Luego se diseñó un guion semi estructurado de entrevista a profundidad la misma que incluyó categorías apriorísticas alineadas a la literatura científica previamente seleccionada, tales como: tales como: empleo e ingresos, gastos en salud y financiamiento, accesos a servicios de salud, y perspectivas de las familias.

En un segundo momento, se explicó el objetivo del estudio a los potenciales entrevistados, se alinearon

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las preguntas con las categorías y se procedió a revisar literatura científica para el soporte epistemológico de la investigación. Luego de la aplicación del instrumento se ha procedido a codificar las respuestas de acuerdo a la categorización apriorística realizada y los códigos que emergen de la interacción con los participantes, usando el software ATLAS.ti

Finalmente se procedió a la discusión de resultados y la construcción del discurso teórico en base a la realidad estructurada con la investigación.

III. Resultados y Discusión

El análisis bibliométrico, permite observar que la relación de pandemia y pobreza es un fenómeno que está presente en el quehacer investigativo desde 1989 hasta la actualidad, desde esa fecha hasta el año 2019, según la base de datos Scopus solo existían en promedio 15 estudios por año, sin embargo, en el año 2020 la cifra se eleva hasta 607 estudios, tal como se observa en la figura 1, la misma que se explica por la magnitud del impacto de la pandemia de la COVID-19.



Fuente: Base de datos Scopus

Figura 1: Evolución de las publicaciones sobre pandemias y pobreza (1989-2020)

Respecto a las publicaciones por países se determinó que Estados Unidos de Norteamérica destaca con amplio margen en este rubro entre los años 1989 – 2021, seguido del Reino Unido y Sud África en otro grupo, un tercer bloque que lideran Canadá e India y finalmente una serie de países con menor participación

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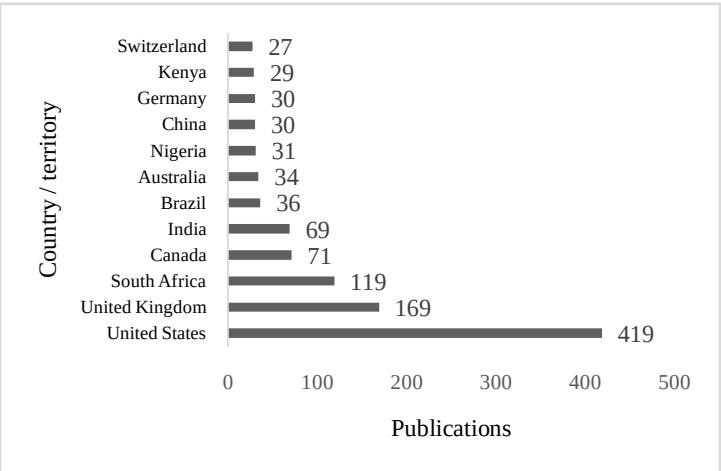

Fuente: Base de datos Scopus

Figura 2: Publicaciones sobre la pandemia y la pobreza por país / territorio (1989-2021)

Los estudios relacionados con la pobreza y pandemia han tenido mayor interés de investigación en algunas ciencias como la medicina y las ciencias sociales. Existe otro grupo de áreas de estudios como la genética y biología molecular, ciencias ambientales, econometría y finanzas, artes y humanidades y enfermería.

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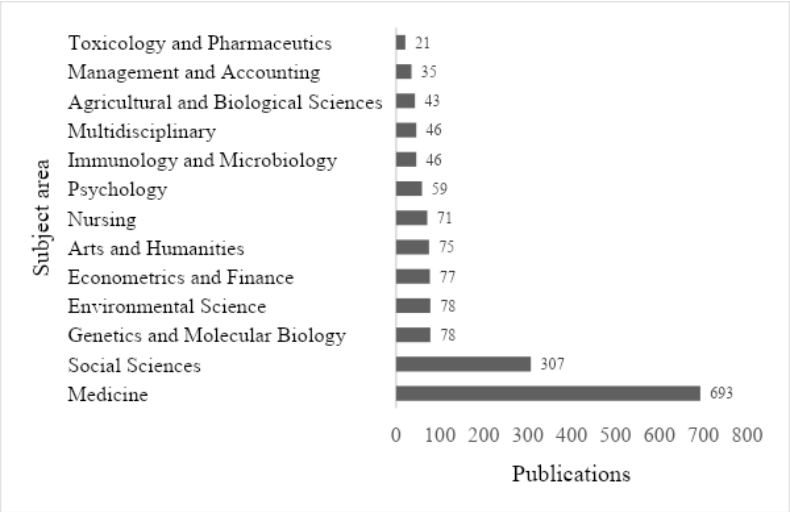
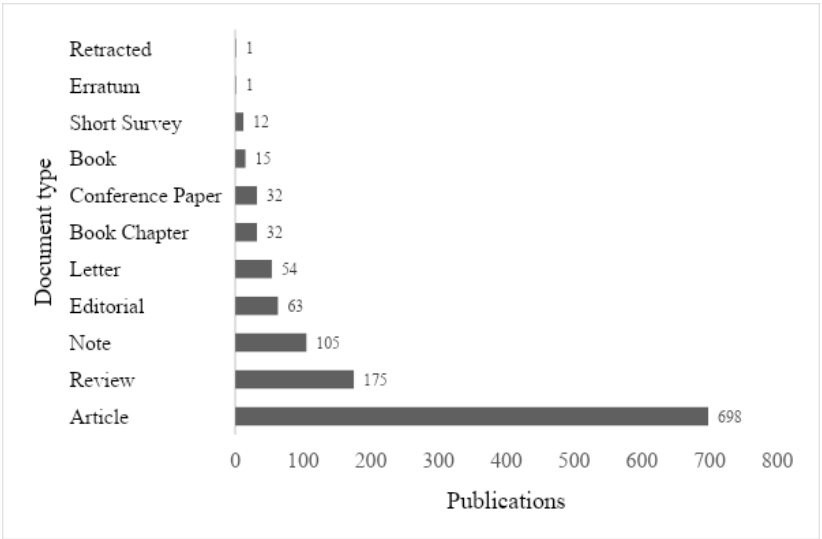


Fuente: Base de datos Scopus

Figura 3: Publicaciones por área temática (1989-2021)

Las publicaciones sobre pobreza y pandemia se realizan fundamentalmente como artículos originales, seguido de artículos de revisión. Las demás modalidades de publicación tienen menor presencia en la base de datos de Scopus.



Fuente: Base de datos Scopus

Figura 4: Publicaciones por tipo de documento (1989-2021)

Las afiliaciones institucionales más destacadas de los autores que publican temas sobre pobreza y pandemia son *Harvard Medical School*, *University of Cape Town* y *London School of Hygiene & Tropical Medicine,* seguido de University of Toronto, Harvard T.H., Chan School of Public Health y University of Oxford. Existe un tercer grupo de instituciones en cabezada por University of KwaZulu-Natal con menor grado de participación.

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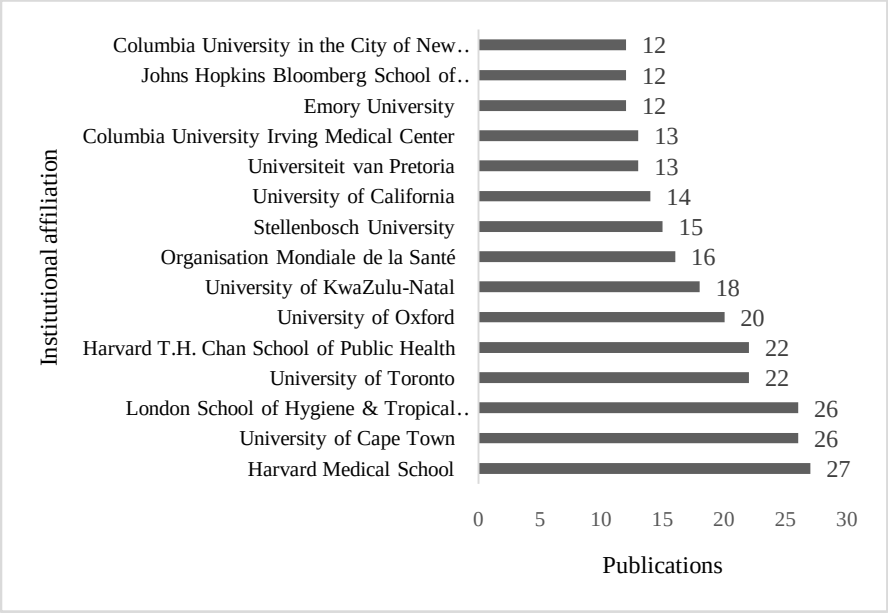
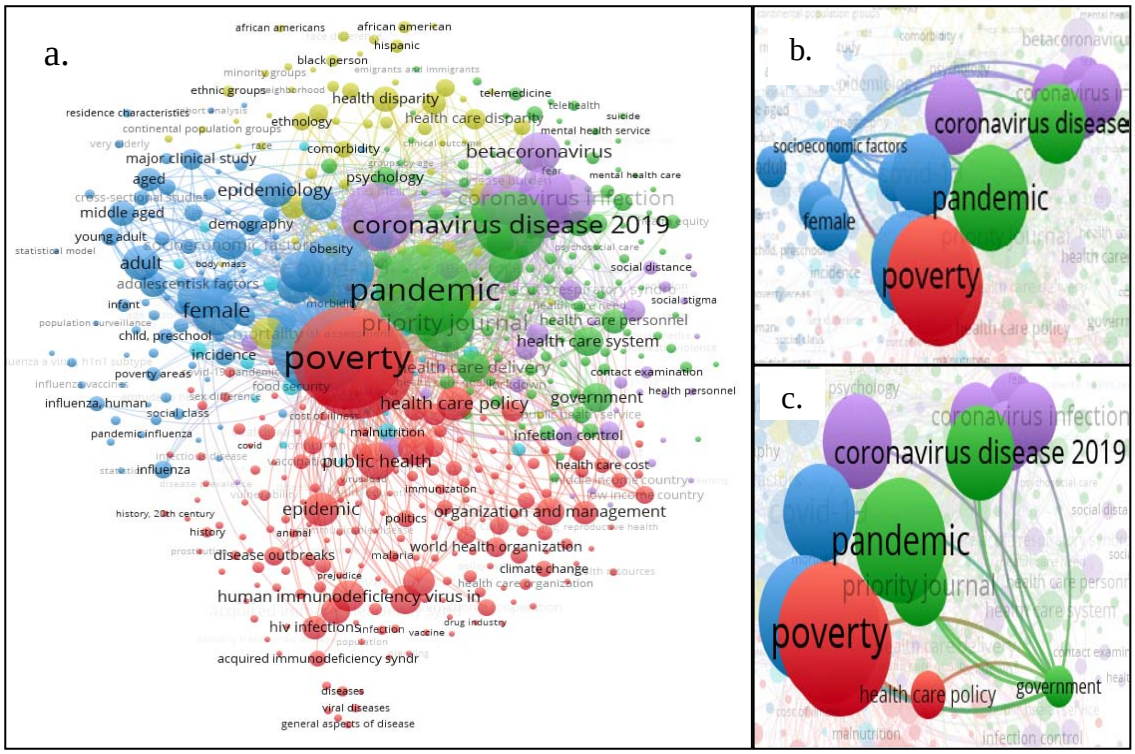


Fuente: Base de datos Scopus

Figura 5: Publicaciones por afiliación institucional (1989-2021)

Las publicaciones científicas realizadas en Scopus, a través de la red semántica de palabras claves confirman una estrecha relación entre pandemia y pobreza (panel a), así mismo revela la importancia de los factores socioeconómicos preexistentes como condicionantes de la relación entre pobreza y pandemia (panel b). Por otro lado, al analizar otro clúster de la red semántica se observa la relación entre las políticas públicas en materia de salud y las acciones gubernamentales en la lucha contra la pandemia



Nota: Red semántica elaborada mediante el programa VOSViewer, importando la base de datos Scopus.

Figura 6: Red semántica relacionada con los estudios sobre la pobreza y la pandemia (1989-2021)

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En la exploración cualitativa se han sistematizado experiencias de familias de una región del norte peruano y la sistematización por categorías se presentan a continuación.

Respecto al empleo e ingresos se puede apreciar que en la zona de análisis existe una gran presencia de autoempleo y trabajos informales, los mismos que durante la pandemia en su mayoría han sido seriamente afectados y en algunos casos estas fuentes de empleo se han perdido y por consiguiente la economía ha sido seriamente afectada, con frecuencia los participantes describen situaciones como la siguiente: "Bueno... en realidad soy comerciante y en los primeros meses de pandemia ya no viajaba mis puntos de venta, pero vendía acá cerca - en Túcume, desde que se agudizó la pandemia hasta el día de hoy ya no he vuelto ni siquiera a Túcume" o también en otros caso en los que han tenido que cambiar de trabajo para adecuarse a las circunstancias, como la descrita por participante 9 "Durante la pandemia mi padre dejó de recibir su pensión mensualmente, ahora solo recibe cada dos meses y como los restaurantes cerraron, dejamos de trabajar y nos hemos mantenido gracias a los ahorros de mi padre. Mis hermanos Cristhian y Javier dejaron la academia para trabajar en una exportadora, como auxiliares de un ingeniero, Manuel y Yo nos dedicamos por ahora a estudiar para terminar la universidad y apoyar a nuestros hermanos". Estos resultados muestran consistencia con estudios realizados en Estados Unidos, donde al analizar la duración de los autoempleos durante la pandemia, encuentran que varias características de los propietarios se relacionan significativamente con la duración del trabajo, especialmente los autónomos, jóvenes, mujeres y no blancos enfrentan un riesgo relativamente alto de desempleo. (Grashuis, 2021). En relación con la categoría del empleo, otro estudio también en Estados Unidos muestra resultados congruentes con la investigación ya que los trabajos de industrias que requieren proximidad y mayor contacto han tenido impactos negativos (Gabe & Florida, 2021).

En relación con los gastos de salud durante la pandemia, se observa que los mismos son desproporcionados con los ingresos y la capacidad de pago actual de las familias, por lo que luego de agotar sus recursos, necesariamente han tenido que recurrir a endeudamientos y apoyos extraordinarios de familiares. La interacción con los participantes ha permitido identificar casos en los que las familias en menos de una semana afrontaron gastos por encima un salario mínimo vital mensual, el participante 4 menciona "mi padre se infectó con el virus, lo sacamos la prueba en la Municipalidad y dio positivo. Hemos pagado 300 soles cada dos días al médico y enfermera (durante 20 días) y se gastó un promedio de 80 soles en medicina diaria. Mi madre fue beneficiada con el Bono del gobierno, pero era insuficiente", en otro participante indica que "los gastos llegaron a 12 mil soles, gracias a Dios que mi esposa tenía un dinero guardado y más unos prestamos hemos podido afrontar la situación". Situaciones más complejas vivieron algunas familias en los momentos de colapso de los hospitales tales como lo manifestado por la participante, quien manifiesta que "en el hospital no se abastecen con los enfermos, el médico reconoce que no puede atenderlos a todos, tiene miedo atender a los enfermos por el contagio, cuando me sacaron del hospital y me dieron la cuarentena me sentía como un animal, como decían mis abuelitos como perritos (llora al hablar), mi esposo me decía, pon el banco y allí ponía la comida y se retiraba. Es muy triste, no lo deseo a nadie, en el caso de mi esposo cuando nos permitieron sacarlo del hospital una ambulancia nos cobró 400 soles de Chiclayo a Íllimo (40 km), luego 200 soles diarios, menos mal que mi hija nos enviaba dinero y Yo había sacado un préstamo". Situaciones como las mencionadas configuran con claridad la naturaleza catastrófica de los gastos de salud, los mismos que cambian el estatus social de manera automática en una familia. En línea con estos resultados están los hallazgos de un estudio realizado en el Perú, donde se menciona que las atenciones en establecimiento públicos de salud no deberían generar altos gastos de bolsillo; sin embargo, la falta de capacidad de respuesta hospitalaria los ha obliga a acudir a centros de salud privados afectado la alicaída economía doméstica. "Aunque en los últimos diez años, los gastos de bolsillo en salud se han reducido, siguen siendo catastróficos para las familias más vulnerables y más aún en un contexto de pandemia debido a la pérdida de muchos empleos y reducción de los ingresos del hogar"(Tenorio-Mucha et al., 2020, p. 267).

Respecto a las perspectivas que tienen las familias, se observa mucha incertidumbre y falta de claridad en sus proyectos de vida, en su mayoría mencionan que no se regresará a una situación de normalidad y que es necesario mantener la unidad familiar para afrontar una situación compleja como la que están viviendo. El participante 9 al respecto menciona lo siguiente: "bueno… para recuperarnos económicamente será un gran proceso, como unos 4 a 5 años, porque muchas empresas se han dado a la quiebra, además aparecen nuevas variantes de la COVID-19 mucho más contagiosas y la vacunación está demorando mucho".

En general los resultados demuestran la presencia de una situación de vulnerabilidad a la pobreza en las familias participantes, las mismas que al haber afrontado gastos catastróficos relacionados con la salud, sumado esto a la pérdida del empleo, han retrocedido en estatus socioeconómico, incrementado así la tasa de pobreza en la zona. Estos resultados son consistentes con los encontrados en la China por Liu et al., (2021) demostrando que, el nivel general del índice

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de vulnerabilidad a la pobreza multidimensional ha variado significativamente en los grupos estudiados, también demuestran que la pandemia incrementó la vulnerabilidad de los hogares agrícolas a la pobreza multidimensional en las regiones afectadas por la pobreza, este indicador aumentó un 27,9%. Finalmente concluyen que el impacto de la Covid-19 en varias dimensiones fue diferente: el mayor se ha producido en la privación de salud, seguido del desarrollo de la industria a la que estaban vinculados, el trabajo y los ingresos.

IV. Conclusiones

La pandemia de la covid-19 ha motivado el interés de investigadores ya que en la base de datos de Scopus se evidencia que a pesar que existen aportes desde el año 1989 en esta temática con un promedio de 15 estudios por año en el 2020 pasó a más de 600 estudios, los mismos que se realizaron en mayor medida en los Estados Unidos de Norteamérica, seguido del Reino Unido y Sud África en otro grupo, un tercer bloque que lideran Canadá e India y finalmente una serie de países con menor participación.

El área que muestran mayor interés en el tema son la medicina y las ciencias sociales, generando publicaciones en su mayor como artículos originales, seguido de artículos de revisión, cuyos autores en su mayoría tienen como filiaciones institucionales a *Harvard Medical School*, *University of Cape Town* y *London School of Hygiene & Tropical Medicine,* seguido de University of Toronto, Harvard T.H., Chan School of Public Health y University of Oxford. Existe un tercer grupo de instituciones en cabezada por University of KwaZulu-Natal con menor grado de participación.

La pandemia de la covid-19 ha generado gastos catastróficos de salud en las familias participantes, cuya situación se ha presentado no solo por la misma naturaleza de afrontar una enfermedad sino porque al colapsar los servicios públicos, los servicios privados han actuado de manera oportunista incrementado los precios. Esta situación se empeora ya que las familias tienen la afectación también por el lado de los ingresos ante la paralización de las industrias y la pérdida de los empleos.

Las familias participantes han estado en una situación de vulnerabilidad a la pobreza y ante los gastos catastróficos de salud han tendido un retroceso inminente en su estado socioeconómico.

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The abstract is the foundation of the research paper. It should be clear and concise and must contain the objective of the paper and inferences drawn. It is advised to not include big mathematical equations or complicated jargon.

Many researchers searching for information online will use search engines such as Google, Yahoo or others. By optimizing your paper for search engines, you will amplify the chance of someone finding it. In turn, this will make it more likely to be viewed and cited in further works. Global Journals has compiled these guidelines to facilitate you to maximize the web-friendliness of the most public part of your paper.

Keywords

A major lynchpin of research work for the writing of research papers is the keyword search, which one will employ to find both library and internet resources. Up to eleven keywords or very brief phrases have to be given to help data retrieval, mining, and indexing.

One must be persistent and creative in using keywords. An effective keyword search requires a strategy: planning of a list of possible keywords and phrases to try.

Choice of the main keywords is the first tool of writing a research paper. Research paper writing is an art. Keyword search should be as strategic as possible.

One should start brainstorming lists of potential keywords before even beginning searching. Think about the most important concepts related to research work. Ask, “What words would a source have to include to be truly valuable in a research paper?” Then consider synonyms for the important words.

It may take the discovery of only one important paper to steer in the right keyword direction because, in most databases, the keywords under which a research paper is abstracted are listed with the paper.

Numerical Methods

Numerical methods used should be transparent and, where appropriate, supported by references.

Abbreviations

Authors must list all the abbreviations used in the paper at the end of the paper or in a separate table before using them.

Formulas and equations

Authors are advised to submit any mathematical equation using either MathJax, KaTeX, or LaTeX, or in a very high-quality image.

Tables, Figures, and Figure Legends

Tables: Tables should be cautiously designed, uncrowned, and include only essential data. Each must have an Arabic number, e.g., Table 4, a self-explanatory caption, and be on a separate sheet. Authors must submit tables in an editable format and not as images. References to these tables (if any) must be mentioned accurately.

Figures

Figures are supposed to be submitted as separate files. Always include a citation in the text for each figure using Arabic numbers, e.g., Fig. 4. Artwork must be submitted online in vector electronic form or by emailing it.

Preparation of Eletronic Figures for Publication

Although low-quality images are sufficient for review purposes, print publication requires high-quality images to prevent the final product being blurred or fuzzy. Submit (possibly by e-mail) EPS (line art) or TIFF (halftone/ photographs) files only. MS PowerPoint and Word Graphics are unsuitable for printed pictures. Avoid using pixel-oriented software. Scans (TIFF only) should have a resolution of at least 350 dpi (halftone) or 700 to 1100 dpi (line drawings). Please give the data for figures in black and white or submit a Color Work Agreement form. EPS files must be saved with fonts embedded (and with a TIFF preview, if possible).

For scanned images, the scanning resolution at final image size ought to be as follows to ensure good reproduction: line art: >650 dpi; halftones (including gel photographs): >350 dpi; figures containing both halftone and line images: >650 dpi.

Color charges: Authors are advised to pay the full cost for the reproduction of their color artwork. Hence, please note that if there is color artwork in your manuscript when it is accepted for publication, we would require you to complete and return a Color Work Agreement form before your paper can be published. Also, you can email your editor to remove the color fee after acceptance of the paper.

Tips for writing a good quality Social Science Research Paper

Techniques for writing a good quality homan social science research paper:

1. Choosing the topic: In most cases, the topic is selected by the interests of the author, but it can also be suggested by the guides. You can have several topics, and then judge which you are most comfortable with. This may be done by asking several questions of yourself, like "Will I be able to carry out a search in this area? Will I find all necessary resources to accomplish the search? Will I be able to find all information in this field area?" If the answer to this type of question is "yes," then you ought to choose that topic. In most cases, you may have to conduct surveys and visit several places. Also, you might have to do a lot of work to find all the rises and falls of the various data on that subject. Sometimes, detailed information plays a vital role, instead of short information. Evaluators are human: The first thing to remember is that evaluators are also human beings. They are not only meant for rejecting a paper. They are here to evaluate your paper. So present your best aspect.

2. Think like evaluators: If you are in confusion or getting demotivated because your paper may not be accepted by the evaluators, then think, and try to evaluate your paper like an evaluator. Try to understand what an evaluator wants in your research paper, and you will automatically have your answer. Make blueprints of paper: The outline is the plan or framework that will help you to arrange your thoughts. It will make your paper logical. But remember that all points of your outline must be related to the topic you have chosen.

3. Ask your guides: If you are having any difficulty with your research, then do not hesitate to share your difficulty with your guide (if you have one). They will surely help you out and resolve your doubts. If you can't clarify what exactly you require for your work, then ask your supervisor to help you with an alternative. He or she might also provide you with a list of essential readings.

4. Use of computer is recommended: As you are doing research in the field of homan social science then this point is quite obvious. Use right software: Always use good quality software packages. If you are not capable of judging good software, then you can lose the quality of your paper unknowingly. There are various programs available to help you which you can get through the internet.

5. Use the internet for help: An excellent start for your paper is using Google. It is a wondrous search engine, where you can have your doubts resolved. You may also read some answers for the frequent question of how to write your research paper or find a model research paper. You can download books from the internet. If you have all the required books, place importance on reading, selecting, and analyzing the specified information. Then sketch out your research paper. Use big pictures: You may use encyclopedias like Wikipedia to get pictures with the best resolution. At Global Journals, you should strictly follow here.



6. Bookmarks are useful: When you read any book or magazine, you generally use bookmarks, right? It is a good habit which helps to not lose your continuity. You should always use bookmarks while searching on the internet also, which will make your search easier.

7. Revise what you wrote: When you write anything, always read it, summarize it, and then finalize it.

8. Make every effort: Make every effort to mention what you are going to write in your paper. That means always have a good start. Try to mention everything in the introduction—what is the need for a particular research paper. Polish your work with good writing skills and always give an evaluator what he wants. Make backups: When you are going to do any important thing like making a research paper, you should always have backup copies of it either on your computer or on paper. This protects you from losing any portion of your important data.

9. Produce good diagrams of your own: Always try to include good charts or diagrams in your paper to improve quality. Using several unnecessary diagrams will degrade the quality of your paper by creating a hodgepodge. So always try to include diagrams which were made by you to improve the readability of your paper. Use of direct quotes: When you do research relevant to literature, history, or current affairs, then use of quotes becomes essential, but if the study is relevant to science, use of quotes is not preferable.

10. Use proper verb tense: Use proper verb tenses in your paper. Use past tense to present those events that have happened. Use present tense to indicate events that are going on. Use future tense to indicate events that will happen in the future. Use of wrong tenses will confuse the evaluator. Avoid sentences that are incomplete.

11. Pick a good study spot: Always try to pick a spot for your research which is quiet. Not every spot is good for studying.

12. Know what you know: Always try to know what you know by making objectives, otherwise you will be confused and unable to achieve your target.

13. Use good grammar: Always use good grammar and words that will have a positive impact on the evaluator; use of good vocabulary does not mean using tough words which the evaluator has to find in a dictionary. Do not fragment sentences. Eliminate one-word sentences. Do not ever use a big word when a smaller one would suffice.

Verbs have to be in agreement with their subjects. In a research paper, do not start sentences with conjunctions or finish them with prepositions. When writing formally, it is advisable to never split an infinitive because someone will (wrongly) complain. Avoid clichés like a disease. Always shun irritating alliteration. Use language which is simple and straightforward. Put together a neat summary.

14. Arrangement of information: Each section of the main body should start with an opening sentence, and there should be a changeover at the end of the section. Give only valid and powerful arguments for your topic. You may also maintain your arguments with records.

15. Never start at the last minute: Always allow enough time for research work. Leaving everything to the last minute will degrade your paper and spoil your work.

16. Multitasking in research is not good: Doing several things at the same time is a bad habit in the case of research activity. Research is an area where everything has a particular time slot. Divide your research work into parts, and do a particular part in a particular time slot.

17. Never copy others' work: Never copy others' work and give it your name because if the evaluator has seen it anywhere, you will be in trouble. Take proper rest and food: No matter how many hours you spend on your research activity, if you are not taking care of your health, then all your efforts will have been in vain. For quality research, take proper rest and food.

18. Go to seminars: Attend seminars if the topic is relevant to your research area. Utilize all your resources.
Refresh your mind after intervals: Try to give your mind a rest by listening to soft music or sleeping in intervals. This will also improve your memory. Acquire colleagues: Always try to acquire colleagues. No matter how sharp you are, if you acquire colleagues, they can give you ideas which will be helpful to your research.

19. Think technically: Always think technically. If anything happens, search for its reasons, benefits, and demerits. Think and then print: When you go to print your paper, check that tables are not split, headings are not detached from their descriptions, and page sequence is maintained.

20. Adding unnecessary information: Do not add unnecessary information like "I have used MS Excel to draw graphs." Irrelevant and inappropriate material is superfluous. Foreign terminology and phrases are not apropos. One should never take a broad view. Analogy is like feathers on a snake. Use words properly, regardless of how others use them. Remove quotations. Puns are for kids, not grunt readers. Never oversimplify: When adding material to your research paper, never go for oversimplification; this will definitely irritate the evaluator. Be specific. Never use rhythmic redundancies. Contractions shouldn't be used in a research paper. Comparisons are as terrible as clichés. Give up ampersands, abbreviations, and so on. Remove commas that are not necessary. Parenthetical words should be between brackets or commas. Understatement is always the best way to put forward earth-shaking thoughts. Give a detailed literary review.

21. Report concluded results: Use concluded results. From raw data, filter the results, and then conclude your studies based on measurements and observations taken. An appropriate number of decimal places should be used. Parenthetical remarks are prohibited here. Proofread carefully at the final stage. At the end, give an outline to your arguments. Spot perspectives of further study of the subject. Justify your conclusion at the bottom sufficiently, which will probably include examples.

22. Upon conclusion: Once you have concluded your research, the next most important step is to present your findings. Presentation is extremely important as it is the definite medium though which your research is going to be in print for the rest of the crowd. Care should be taken to categorize your thoughts well and present them in a logical and neat manner. A good quality research paper format is essential because it serves to highlight your research paper and bring to light all necessary aspects of your research.

.

Informal Guidelines of Research Paper Writing

Key points to remember:

- Submit all work in its final form.
- Write your paper in the form which is presented in the guidelines using the template.
- Please note the criteria peer reviewers will use for grading the final paper.

Final points:

One purpose of organizing a research paper is to let people interpret your efforts selectively. The journal requires the following sections, submitted in the order listed, with each section starting on a new page:

The introduction: This will be compiled from reference matter and reflect the design processes or outline of basis that directed you to make a study. As you carry out the process of study, the method and process section will be constructed like that. The results segment will show related statistics in nearly sequential order and direct reviewers to similar intellectual paths throughout the data that you gathered to carry out your study.

The discussion section:

This will provide understanding of the data and projections as to the implications of the results. The use of good quality references throughout the paper will give the effort trustworthiness by representing an alertness to prior workings.

Writing a research paper is not an easy job, no matter how trouble-free the actual research or concept. Practice, excellent preparation, and controlled record-keeping are the only means to make straightforward progression.

General style:

Specific editorial column necessities for compliance of a manuscript will always take over from directions in these general guidelines.

To make a paper clear: Adhere to recommended page limits.



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Mistakes to avoid:

- Insertion of a title at the foot of a page with subsequent text on the next page.
- Separating a table, chart, or figure—confine each to a single page.
- Submitting a manuscript with pages out of sequence.
- In every section of your document, use standard writing style, including articles ("a" and "the").
- Keep paying attention to the topic of the paper.
- Use paragraphs to split each significant point (excluding the abstract).
- Align the primary line of each section.
- Present your points in sound order.
- Use present tense to report well-accepted matters.
- Use past tense to describe specific results.
- Do not use familiar wording; don't address the reviewer directly. Don't use slang or superlatives.
- Avoid use of extra pictures—include only those figures essential to presenting results.

Title page:

Choose a revealing title. It should be short and include the name(s) and address(es) of all authors. It should not have acronyms or abbreviations or exceed two printed lines.

Abstract: This summary should be two hundred words or less. It should clearly and briefly explain the key findings reported in the manuscript and must have precise statistics. It should not have acronyms or abbreviations. It should be logical in itself. Do not cite references at this point.

An abstract is a brief, distinct paragraph summary of finished work or work in development. In a minute or less, a reviewer can be taught the foundation behind the study, common approaches to the problem, relevant results, and significant conclusions or new questions.

Write your summary when your paper is completed because how can you write the summary of anything which is not yet written? Wealth of terminology is very essential in abstract. Use comprehensive sentences, and do not sacrifice readability for brevity; you can maintain it succinctly by phrasing sentences so that they provide more than a lone rationale. The author can at this moment go straight to shortening the outcome. Sum up the study with the subsequent elements in any summary. Try to limit the initial two items to no more than one line each.

Reason for writing the article—theory, overall issue, purpose.

- Fundamental goal.
- To-the-point depiction of the research.
- Consequences, including definite statistics—if the consequences are quantitative in nature, account for this; results of any numerical analysis should be reported. Significant conclusions or questions that emerge from the research.

Approach:

- Single section and succinct.
- An outline of the job done is always written in past tense.
- Concentrate on shortening results—limit background information to a verdict or two.
- Exact spelling, clarity of sentences and phrases, and appropriate reporting of quantities (proper units, important statistics) are just as significant in an abstract as they are anywhere else.

Introduction:

The introduction should "introduce" the manuscript. The reviewer should be presented with sufficient background information to be capable of comprehending and calculating the purpose of your study without having to refer to other works. The basis for the study should be offered. Give the most important references, but avoid making a comprehensive appraisal of the topic. Describe the problem visibly. If the problem is not acknowledged in a logical, reasonable way, the reviewer will give no attention to your results. Speak in common terms about techniques used to explain the problem, if needed, but do not present any particulars about the protocols here.

The following approach can create a valuable beginning:

- Explain the value (significance) of the study.
- Defend the model—why did you employ this particular system or method? What is its compensation? Remark upon its appropriateness from an abstract point of view as well as pointing out sensible reasons for using it.
- Present a justification. State your particular theory(-ies) or aim(s), and describe the logic that led you to choose them.
- Briefly explain the study's tentative purpose and how it meets the declared objectives.

Approach:

Use past tense except for when referring to recognized facts. After all, the manuscript will be submitted after the entire job is done. Sort out your thoughts; manufacture one key point for every section. If you make the four points listed above, you will need at least four paragraphs. Present surrounding information only when it is necessary to support a situation. The reviewer does not desire to read everything you know about a topic. Shape the theory specifically—do not take a broad view.

As always, give awareness to spelling, simplicity, and correctness of sentences and phrases.

Procedures (methods and materials):

This part is supposed to be the easiest to carve if you have good skills. A soundly written procedures segment allows a capable scientist to replicate your results. Present precise information about your supplies. The suppliers and clarity of reagents can be helpful bits of information. Present methods in sequential order, but linked methodologies can be grouped as a segment. Be concise when relating the protocols. Attempt to give the least amount of information that would permit another capable scientist to replicate your outcome, but be cautious that vital information is integrated. The use of subheadings is suggested and ought to be synchronized with the results section.

When a technique is used that has been well-described in another section, mention the specific item describing the way, but draw the basic principle while stating the situation. The purpose is to show all particular resources and broad procedures so that another person may use some or all of the methods in one more study or referee the scientific value of your work. It is not to be a step-by-step report of the whole thing you did, nor is a methods section a set of orders.

Materials:

Materials may be reported in part of a section or else they may be recognized along with your measures.

Methods:

- Report the method and not the particulars of each process that engaged the same methodology.
- Describe the method entirely.
- To be succinct, present methods under headings dedicated to specific dealings or groups of measures.
- Simplify—detail how procedures were completed, not how they were performed on a particular day.
- If well-known procedures were used, account for the procedure by name, possibly with a reference, and that's all.

Approach:

It is embarrassing to use vigorous voice when documenting methods without using first person, which would focus the reviewer's interest on the researcher rather than the job. As a result, when writing up the methods, most authors use third person passive voice.

Use standard style in this and every other part of the paper—avoid familiar lists, and use full sentences.

What to keep away from:

- Resources and methods are not a set of information.
- Skip all descriptive information and surroundings—save it for the argument.
- Leave out information that is immaterial to a third party.



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Results:

The principle of a results segment is to present and demonstrate your conclusion. Create this part as entirely objective details of the outcome, and save all understanding for the discussion.

The page length of this segment is set by the sum and types of data to be reported. Use statistics and tables, if suitable, to present consequences most efficiently.

You must clearly differentiate material which would usually be incorporated in a study editorial from any unprocessed data or additional appendix matter that would not be available. In fact, such matters should not be submitted at all except if requested by the instructor.

Content:

- Sum up your conclusions in text and demonstrate them, if suitable, with figures and tables.
- In the manuscript, explain each of your consequences, and point the reader to remarks that are most appropriate.
- Present a background, such as by describing the question that was addressed by creation of an exacting study.
- Explain results of control experiments and give remarks that are not accessible in a prescribed figure or table, if appropriate.
- Examine your data, then prepare the analyzed (transformed) data in the form of a figure (graph), table, or manuscript.

What to stay away from:

- Do not discuss or infer your outcome, report surrounding information, or try to explain anything.
- Do not include raw data or intermediate calculations in a research manuscript.
- Do not present similar data more than once.
- A manuscript should complement any figures or tables, not duplicate information.
- Never confuse figures with tables—there is a difference.

Approach:

As always, use past tense when you submit your results, and put the whole thing in a reasonable order.

Put figures and tables, appropriately numbered, in order at the end of the report.

If you desire, you may place your figures and tables properly within the text of your results section.

Figures and tables:

If you put figures and tables at the end of some details, make certain that they are visibly distinguished from any attached appendix materials, such as raw facts. Whatever the position, each table must be titled, numbered one after the other, and include a heading. All figures and tables must be divided from the text.

Discussion:

The discussion is expected to be the trickiest segment to write. A lot of papers submitted to the journal are discarded based on problems with the discussion. There is no rule for how long an argument should be.

Position your understanding of the outcome visibly to lead the reviewer through your conclusions, and then finish the paper with a summing up of the implications of the study. The purpose here is to offer an understanding of your results and support all of your conclusions, using facts from your research and generally accepted information, if suitable. The implication of results should be fully described.

Infer your data in the conversation in suitable depth. This means that when you clarify an observable fact, you must explain mechanisms that may account for the observation. If your results vary from your prospect, make clear why that may have happened. If your results agree, then explain the theory that the proof supported. It is never suitable to just state that the data approved the prospect, and let it drop at that. Make a decision as to whether each premise is supported or discarded or if you cannot make a conclusion with assurance. Do not just dismiss a study or part of a study as "uncertain."



Research papers are not acknowledged if the work is imperfect. Draw what conclusions you can based upon the results that you have, and take care of the study as a finished work.

- You may propose future guidelines, such as how an experiment might be personalized to accomplish a new idea.
- Give details of all of your remarks as much as possible, focusing on mechanisms.
- Make a decision as to whether the tentative design sufficiently addressed the theory and whether or not it was correctly restricted. Try to present substitute explanations if they are sensible alternatives.
- One piece of research will not counter an overall question, so maintain the large picture in mind. Where do you go next? The best studies unlock new avenues of study. What questions remain?
- Recommendations for detailed papers will offer supplementary suggestions.

Approach:

When you refer to information, differentiate data generated by your own studies from other available information. Present work done by specific persons (including you) in past tense.

Describe generally acknowledged facts and main beliefs in present tense.

The Administration Rules

Administration Rules to Be Strictly Followed before Submitting Your Research Paper to Global Journals Inc.

Please read the following rules and regulations carefully before submitting your research paper to Global Journals Inc. to avoid rejection.

Segment draft and final research paper: You have to strictly follow the template of a research paper, failing which your paper may get rejected. You are expected to write each part of the paper wholly on your own. The peer reviewers need to identify your own perspective of the concepts in your own terms. Please do not extract straight from any other source, and do not rephrase someone else's analysis. Do not allow anyone else to proofread your manuscript.

Written material: You may discuss this with your guides and key sources. Do not copy anyone else's paper, even if this is only imitation, otherwise it will be rejected on the grounds of plagiarism, which is illegal. Various methods to avoid plagiarism are strictly applied by us to every paper, and, if found guilty, you may be blacklisted, which could affect your career adversely. To guard yourself and others from possible illegal use, please do not permit anyone to use or even read your paper and file.

Criterion for Grading a Research Paper (Compilation) by Global Journals

Please note that following table is only a Grading of "Paper Compilation" and not on "Performed/Stated Research" whose grading solely depends on Individual Assigned Peer Reviewer and Editorial Board Member. These can be available only on request and after decision of Paper. This report will be the property of Global Journals

Topics	Grades		
	A-B	**C-D**	**E-F**
Abstract	Clear and concise with appropriate content, Correct format. 200 words or below	Unclear summary and no specific data, Incorrect form Above 200 words	No specific data with ambiguous information Above 250 words
Introduction	Containing all background details with clear goal and appropriate details, flow specification, no grammar and spelling mistake, well organized sentence and paragraph, reference cited	Unclear and confusing data, appropriate format, grammar and spelling errors with unorganized matter	Out of place depth and content, hazy format
Methods and Procedures	Clear and to the point with well arranged paragraph, precision and accuracy of facts and figures, well organized subheads	Difficult to comprehend with embarrassed text, too much explanation but completed	Incorrect and unorganized structure with hazy meaning
Result	Well organized, Clear and specific, Correct units with precision, correct data, well structuring of paragraph, no grammar and spelling mistake	Complete and embarrassed text, difficult to comprehend	Irregular format with wrong facts and figures
Discussion	Well organized, meaningful specification, sound conclusion, logical and concise explanation, highly structured paragraph reference cited	Wordy, unclear conclusion, spurious	Conclusion is not cited, unorganized, difficult to comprehend
References	Complete and correct format, well organized	Beside the point, Incomplete	Wrong format and structuring

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