Analysis of the Impact Fiscal Fundamentals on Unemployment in Nigeria. Imperatives for Covid 19, Era

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ABSTRACT: The study examined the impact of fiscal fundamental on unemployment rate in Nigeria from 1980 to 2020 focusing on COVID-19 imperatives. The research work embraces OLS estimating techniques to estimate the relationship between the variables. The result of the analysis revealed that government expenditure had positive and significant effect on the rate of unemployment. Also government revenue had a positive but insignificant impact on unemployment during. The implication of these findings for COVID-19 is that the narrative which is obtained from the analysis needs to be changed. Government revenue should be made to have significant impact on unemployment. The pandemic has led to a lot of job lost and the unemployment rate in Nigeria has risen by about 55% peaking at 36% youth unemployment rate as at last quarter of 2020. The study therefore, recommends that government should refocus expenditure and revenue in the country in such a way it will target development of infrastructural facilities so as to increase productivity and in turn facilitate employment generation.

KEYWORDS: Fiscal Policy, Unemployment, COVID-19, Government Expenditure.

INRODUCTION

Nigerian government over the years had reliably set out on different macroeconomic policy options in order to straight the economy on the way of growth and development. One of the policy option the government frequently utilized is the fiscal policy. Fiscal policy alludes to a deliberate effort by the government to operate its expenditure, taxes and public debts to complete macroeconomic goals of the governments among which are economic growth. Several factors have militated against the development and growth of the economy which include high rate of unemployment, inflation, poor infrastructures and a host of other issues which required the regular government mediation in the management of the economy through its fiscal policies. Fiscal policy is indisputably one of the profoundly admired policies utilized by the government to monitor and accomplish 'macroeconomic stability of the economy of most developing nations (Siyan and Debayo, 2005).

Fiscal policy thus is the means by which a government modifies its level of spending in order to monitor and control a country's economy. It is utilized alongside the monetary policy which the central bank uses to control money supply in a country. These two approaches (fiscal policy and monetary policy) are utilized to accomplish macroeconomic objectives in a country. In other words, fiscal policy is a key economic stabilization weapon that includes measure taken to regulate and control the volume, cost and accessibility and in addition heading of money in an economy to accomplish some predetermined macroeconomic policy objective and to offset undesirable trends in the Nigerian economy (Gbosi, 1998). Consequently, they cannot be left to the market forces of demand and supply and in addition different instruments of stabilization, for example, monetary and exchange rate policies among others are used to offset problems identified such as inflation and high rate of unemployment (Ndiyo and Udah, 2003).

One of the objectives of a modern government is to moderate unemployment and make the environment favorable for investors to put resources into other to make work or create job and ensure price stability in the economy through compelling and appropriate accomplishment of fiscal policies. Fiscal policy is the government's management of the economy through the control of its wage and spending energy to complete some pursued macroeconomic goals amongst which are price stability, negligible unemployment rate and economic growth (Ozurumba, 2012). Fiscal policy is the methods by which a government adjusts its level of spending to curtain and impact a country's economy. It is utilized alongside the monetary policy, which the central bank utilized to influence money supply in a country. These two policies (fiscal policy and monetary policy) are utilized to accomplish macroeconomic objectives in a country. These objectives incorporate price stability, full employment, reduction of poverty levels, high and sustainable economic growth, favorable balance of payment, and reduction country's debt.

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Unemployment on the other hand is one of the major fundamental development challenges confronting Nigeria right now. Investigation have demonstrated that unemployment was high in the 1980s, yet the accessible reports from different local and universal bodies, and the glaring proof of joblessness in this decades are clear signs that there was no time in Nigeria's checkered history where unemployment is as serious as now. However, the outbreak of covid-19 has equally worsened the situation of unemployment in the economy. Through different intervention programme, government has put in effort to create jobs yet unemployment rate has risen to 27.1% in second quarter of 2020 due to the outbreak of Covid-19 pandemic compared to third quarter of 2018. The rising of unemployment rate in the country during pandemic is as result of increasing difficulty over the years in diversifying the economy from oil and gas sector. The number of job lost during the outbreak of covid-19 worsened the unemployment rate in the economy which on the account of low economic activities as a result of lockdown (CBN, 2020).

One cannot generally presume that the governments at one level or the other have not done anything at one time or the other, to lessen unemployment in Nigeria. For example, the formation of National Directorate of Employment (NDE) and its aptitudes acquisition programs, NAPEP, PAP, the SURE-P,YOUWIN, just to specify a couple, are a portion of the different arbitration components aimed at ensuring economic growth that is rich with job creation opportunities (Aganga, 2010 and Ogunmade, 2013). Unemployment has been prescribed as one of the serious obstacles to social advance. Aside from representing a massive waste of a country's labor assets, it creates welfare misfortune as far as lower output in this manner prompting to lower income and well-being (Raheem, 1993).

Consequently, over the years unemployment has increased tremendously in Nigeria. It is a social and economic malady that has eaten deep into the Nigerian economy. The effect is extremely disastrous on the government and her citizens. It decreases the way of life of individuals from the society. It has been confirmed that the instability, revolt and psychological oppression assaulting the North East region of Nigeria and also militancy, abducting, sea piracy and pipe line vandalism in the Niger Delta are as a result of high rate of unemployment in the nation (Egbulonu and Amadi 2016). Unemployment alludes to the condition and degree of joblessness within an economy, and is measured as far as the unemployment rate, which is the number of unemployed people who are ready and capable to work divided by the total civilian labor force. Notably, Gbosi (1997) denote that unemployment is a condition in which individuals who are willing to work at the prevailing wage rate are incompetent to find jobs. Unemployment is as a consequence of the inability to cultivate and exploit the nations manpower resources effectively particularly in the rural sector (Fadayami, 1992; Osimubi, 2006).

Examining the time series data on unemployment in Nigeria in the vicinity of 1960 and to mid-1980. Nigeria was at a time of economic boom, which infers unemployment was something no one could have dreamt about. However, today unemployment has turned out to be severe to the point that no one jumps at the chance to grip it. Past governments in their own particular limits have been setting out on different strategies to control inflation and lessen the level of unemployment in the country. Though, government efforts have not yielded the required outcomes as these issues are known to skyrocketing instead of plummeting.

Over the years, the Nigerian Government had embraced different fiscal policy measures to decrease the issue of unemployment, yet the issue has been on the upsurge. The downturn in worldwide demand for crude oil, in the midst of oil glut and the impact of the COVID-19 pandemic on economic activities had significantly impaired government revenue in the first half of 2020. In addition, the Russia-Saudi trade disagreement triggered oil glut, depressed crude oil price from US$66.7 per barrel (pb) in January 2020 to US$14.3 pb in April 2020 and dip in worldwide demand as a result of COVID-19 restrictions (CBN, 2020).

Regardless the lofty place of fiscal policy in the management of the economy, the Nigerian economy is yet to come on the path of sound growth and development. For instance, scholars like Agiobenebo (2003), Gbosi (2002) and Okona (1997) demonstrate that the economy is still hitched by chronic unemployment, rising rate of inflation, reliance on outside innovation (foreign technology), monoculture foreign exchange earnings from unrefined petroleum (crude oil), and more. Moreover, stagnating revenue mobilization specifically and some upward movements in expenditures led to a reversal of the fiscal stabilization procedure since the second half of the Nineties. An enhanced fiscal performance amid 2003-2004 induced by control of the non-planned expenditures and supported by high revenue mobilization on the back of bright genuine activity made ready for re-established commitment towards fiscal alliance in Nigeria. The present study is aimed at further examination of how fiscal fundamentals contributed to unemployment in Nigeria during COVID-19 era. In achieving the aforementioned objectives the study seeks to provide answers to the following questions: what is the effect of government expenditure and government revenue on unemployment rate and wagt are the implications for COVID-19 era

The fundamental target of the study is to evaluate the impact of fiscal fundamental via (taxation, public debt, and government expenditure) on unemployment in Nigeria from 1981-2020. The will also ascertain the causal relation between fiscal policy and rate of unemployment in Nigeria.

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LITERATURE REVIEW

Fiscal policy has been defined as the preparation of revenue and expenditure levels and decoration by government to control the circular flow, or particularly to advance full employment production, price stability and national welfare (Fashola, 2001). This constitutes essentially the goals of fiscal policy. These goals are to be accomplished through expansionary or contractionary fiscal policies. Governments directly and indirectly control the way assets are utilized as a part of the economy. Fiscal policy that aggregate demand directly through an expansion in government spending is often called expansionary or "loose." In addition, fiscal policy is often considered contractionary or "tight" if it " on the off chance that it reduces demand by means of lower spending (Horton and El-Ganainy, 2009). Horton and El-Ganainy (2009), survey that, other than providing goods and services, fiscal policy goals differ. In the short term, governments may concentrate on macroeconomic stabilization.

Adawo et al. (2012) reviewed matters relating with high unemployment rate in Nigeria. The review surveyed that labor force in Nigeria matured at more or less a steady rate of 0.3% consistently gross domestic product (GDP) growth rate matured at 3.5% over a time of 33 years, recommending that the Nigerian economy encountered a jobless progress. The review likewise noticed that the reasons for unemployment in Nigeria include: poor infrastructure; non-diversification of the economy; insecurity and poor educational system that does not promptly deliver employable graduates. The review prescribed that legislatures at all levels ought to cooperate with the private part and enhance the economy keeping in governments at all levels should partner with the private sector and diversify the economy in order to create jobs.

Danjuma and Bala (2012) investigated role of governance in employment generation in Nigeria. The review employed primary data obtained using interviews. The findings of the study demonstrated that unemployment rate in Nigeria had made pressure and hatred between those who are well off and have not prompting to mutual conflicts; brought about the emergence of militants groups (like the Boko Haram order and Niger Delta militant), prostitution, armed robbery and child trafficking, constituting hiccups to security of lives and properties. The review prescribed that investment in education will help in skills development and training.

Meanwhile, Obayori (2014) opined that the reduction in the rate of unemployment is the most difficult challenge facing any country in the developing world where on the average majority of the population is considered poor. Evidence in Nigeria shows that the number of those in poverty has continued to increase. For example the number of those in poverty increased from 27 percent in 1980 to 46 percent in 1985; it declined slightly to 42 percent in 1992, and increased very sharply to 67 percent in 1996 by 1999 it estimates had it that more than 70 percent of Nigerians lived in poverty (Gbosi, 2015). The increase in poverty level is accounted for by high rate of unemployment.

Over the years there has been an attempt to solve the case of unemployment in Nigeria. In 1986, the Babangida administration introduced the national directorate of employment (NDE) programme that aimed at creating job for the youths, thereby reducing the incidence of unemployment in the country. Others are; the rural electrification scheme, rural banking scheme, agricultural development programme, family support programme etc

Elizabeth (2013) examined fiscal deficit and macroeconomic aggregates in Nigeria for the period 1980 to 2010. The study employed the Ordinary Least Square in estimating the equation and the co-integration test using the Engle Granger procedure. The empirical findings showed that fiscal deficits did not significantly affect macroeconomic output. The result also shows a bilateral causality relationship between government deficit and unemployment.

Owolabi (2011) examined the relative effectiveness of fiscal policy management in Nigeria, between 1970 and 2007. The study employed reduced forms model in addition to Beta coefficient, Theil"s inequality and Root Means Square Error (RMSE) techniques to investigate the satiability and effectiveness of the estimated fiscal model, which represent government spending, during and after estimation periods. The results revealed stability of the models and further confirmed the fact that government spending is the major determinant, which influences and predict Nigeria macroeconomic activity. There is what appears to be a manifestation of the so-called "crowding out" effects of fiscal policy actions in Nigeria. These are associated with the negative sings assumed by coefficients of the lagged fiscal policy variables (except recurrent expenditures).

METHODOLOGY

This chapter focuses on the methodology and the model that is estimated in this study. The definitions of the variables used in the model, and also explains data sources and types of data employed. Also, this chapter sets the econometric analytical framework used in this study.

This appraisal embraces ordinary least square estimation technique to evaluate the relationship between variables. Finally it presents the estimation result using the econometric methodology discussed on this chapter. The time series data on government expenditure, taxation, interest rate, and public debt for the period under review (1981-2015) and its implication on unemployment rate in Nigeria. The secondary data shall be used in this studies and the data was gotten from the Central Bank of

Nigeria Statistical Bulletin. The model that demonstrates the relationship among unemployment rate (UEP), Government Expenditure (GX), Taxation (TT), Interest Rate (IR), and Public Debt (PDT) is indicated as:

$$UEP_t = \alpha_0 + \alpha_1 GX_t + \alpha_2 TT_t + \alpha_3 IR_t + \alpha_4 PDT_t + U_t \dots\dots\dots\dots\dots\dots\dots\dots\dots (1)$$

α_0 Is the constant term, α_1, α_2, α_3, and α_4 are the slope parameters, "t" is the time trend, and "U" is the random error term. On the apriori, it is expected that; $\alpha_1 < 0$, $\alpha_2 < 0$, and $\alpha_3 < 0$

ESTIMATION TECHNIQUES

Regression Analysis: The estimating technique adopted for this research work is the Ordinary Least Square Estimating technique, precisely the multiple regression version. Two models are employed in order to empirically investigate the impact of fiscal fundamentals on unemployment rate in Nigeria. The ordinary least square (OLS) method of multiple regression is adopted because the OLS appears appropriate as it yields estimator which are best linear, um-biased and efficient. The following are the reasons for employing the OLS method. The mechanisms of OLS are easy to understand, the OLS interpretation procedure is fairly simple, the OLS has been used in a wide range of economic relationship with fairly satisfactory results and OLS is an essential component of most other econometric techniques.

Following the model in equation 3.3 where all the variables are as previously defined, a number of standard assumptions are made about the error term or the stochastic variable, some of which are stated thus:

(i) The error term is a random variable whose summation equal to Zero i.e. U_t = O, that is to say that the value which it may assume in any one period depends on chance, this could be normality: thus implies that the error term (U_t) is normally and systematically distributed around its mean.

(ii) Hanosk elasticity: this implies that the variances of the error term is a constant with an unknown value, i.e. the parameter estimates which is β_1 to β_7 are estimated using the stata 11 econometric software. The standard error R square value and the t statistics value and their P values are also computed by the same software stata 11.

The R square shows the variation in exchange rate that is explained by the identified determinants. The R^2 which is the square of correlation co-efficient or as it popularly known as the co-efficient of determination will show the percentage of the total variation of the dependant various being explained by the changes of the explanatory variables. It measures the goodness of fit of the model i.e., it measures the extent to which the explanatory variables are responsible for the changes in the dependent variable. The standard error test which is a measure of the dispersion of the estimates around the true parameter will be carried out, this judges the reliability or significance of the estimates, of the regression co-efficient i.e. the parameter estimates. The standard "t" ration performs the same function with the standard error test but given due consideration to the level of significance which are traditionally 95% and 99% level.

Again the validity of the model used in this study can be tested by conducting the 'F' test, which describes the overall significance of the model; it would also be used in this study. Tests shall basically be econometric in nature, which also extends to the test for presence of multicollinearity. This is the consideration of the co-efficient of determination "R" and correlation co-efficient 'r' if r> R^2, it means there is problem of multicollinearity which means that the explanatory variables are correlated.

RESULTS AND DISCUSION

This chapter presents results of analyses conducted in the study in the quest to track the impact of fiscal fundamentals on the rate of unemployment in Nigeria. Presented in this chapter include correlation analysis of variables, regression analysis of variables and analysis of granger causality between fiscal fundamental and unemployment rate in Nigeria, followed by discussion of major findings

Table 4.1: Correlation Matrix

	UEP	GX	GR	IR	PDT
UEP	1				
GX	0.48866697	1			
GR	0.48719795	0.96189507	1		
IR	0.09285503	-0.44094372	-0.4166455	1	
PDT	0.410419845	0.86837828	0.8202015	-0.1363067	1

Source: Author's Computation, (2020)

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Table 4.1 presents correlation coefficient for pairs of variables used in the study. Specifically the table reported correlation statistics of 0.48866697, 0.48719795, 0.09285503, 0.410419845, 0.96189507, -0.44094372, 0.86837828, -0.4166455, 0.8202015, -0.1363067 for UEP and GX, UEP and GR, UEP and IR, UEP and PDT, GX and GR, GX and IR, GX and PDT, GR and IR, GR and PDT, IR and PDT respectively. The result revealed that there is positive relationship between most pairs of all variables used in the study, with few pair including GX and IR, GR and IR, IR and PDT showing negative correlation.

Table 4.2: Regression Analysis

Variable	Coefficient	Std Error	t-statistics	Prob.
C	5.683718	2.817836	2.017051	0.0527
GX	0.042212	0.012018	3.512398	0.0000
GR	9.07E-05	0.000754	0.120180	0.9051
IR	0.320942	0.159138	2.016752	0.0085
PDT	0.000628	0.000598	1.051260	0.3015

R-Squared=0.731319, Adjusted R-Square=0.728828, F-statistics=12.256968, Prob (F-statistics) = 0.006394

Regression estimation presented in table 4.2 revealed coefficient estimates of 0.042212, 9.07E-05, 0.320942, 0.000628 alongside probability values of 0.0000, 0.9051, 0.0085, and 0.3015 respectively for government expenditure, government revenue, interest rate and public debt. The result revealed that all the explanatory variables exert positive impact on unemployment, with government expenditure and interest rate showing significant impact on the rate of unemployment in the country. Estimation result revealed that unemployment over the years increase with increase in government expenditure, revenue, interest rate and public debt. In specific terms the result showed that unemployment rate in Nigeria rise by 4% for every billion naira increase in government expenditure, and an increase of 32% for every 1% increase in interest rate. R-square statistics reported in table 4.2 stood at 0.731319, which implies that about 73% of the systematic variation in unemployment rate in the country can be explained by variation in all the explanatory variables combined. F-statistics and probability values reported in table 4.2 reflect that the model is a good fit, with the probability value of the reported statistics less than 0.05

Post Estimation Test

Post estimation test conducted in the study include linearity test (using Ramsey Reset Test). Normality test (using Jarque-Bera test), serial correlation test (using LM test) and heteroscedasticity test (using Breusch-Pagan Godfrey test). Summary of the aforementioned post estimations are presented in table 4.3 below

Table 4.3: Post Estimation Test Result

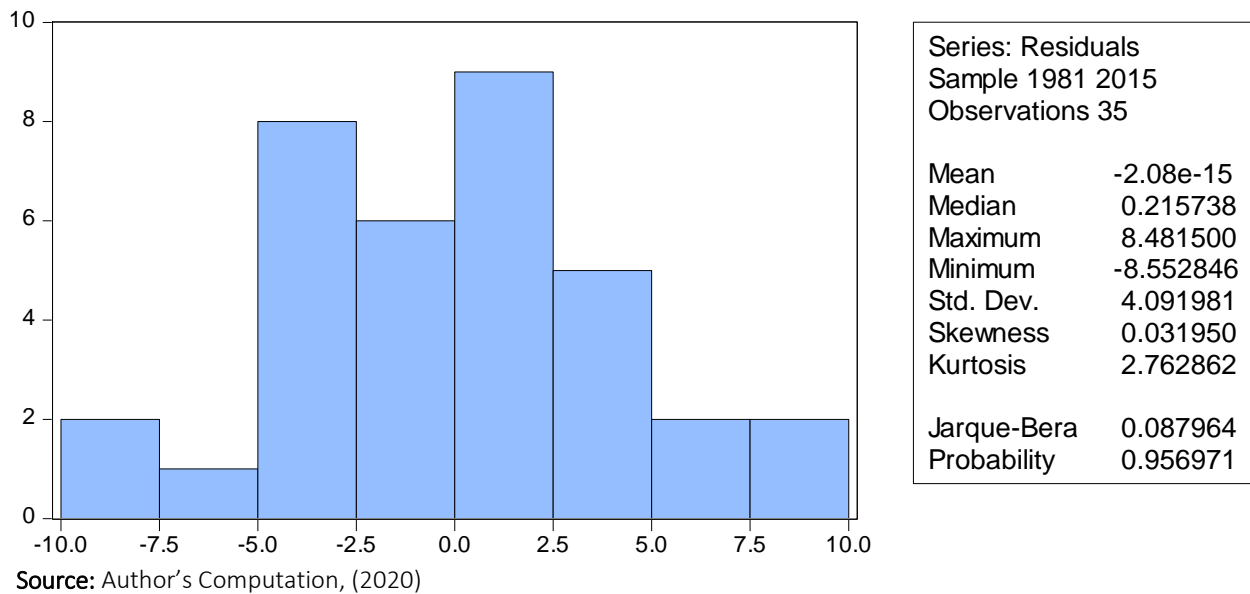| Linearity Test		
Statistics	Values	Probability
T-statistic	0.963820	0.3431
F-statistic	0.928950	0.3431
Likelihood ratio	1.103564	0.2935
Normality Test		
Statistics	Values	Probability
Jarque-Bera Stat	0.087964	0.956971
Serial Correlation LM Test		
Statistics	Values	Probability
F-statistic	4.35427	0.2341
Heteroscedasticity Test		
Statistics	Values	Probability
F-statistic	1.09738	0.6489

Source: Author's Computation, (2020)

Result of Ramsey test presented in table 4.3 report three statistics including t-statistics, f-statistics and likelihood ratio statistic, alongside their respective probability values. Specifically table 4.3 reported t-statistics of 0.963820, f-statistics of 0.928950, and likelihood ratio statistics of 1.103564 alongside respective probability values of 0.3431, 0.3431 and 0.0739. Hence overview of the

reported statistics and their corresponding probability values revealed that there is no enough evidence to reject the null hypothesis that the model is correctly specified. As such the test established that there is linear relationship between the unemployment and fiscal fundamentals like government expenditure, government revenue, interest rate and public debt in Nigeria

The Jarque-bera statistics and probability values of the estimated models, stood at 0.087964, and 0.956971. The result revealed that there is no enough evidence to reject the null that the error term of the estimated model is normally distributed, given the probability value that is greater than 0.05, thus confirming that the error term normally distributed. The histogram of the distribution is presented in the following figure 4.1

Figure 4.1: Normality test

Series: Residuals	
Sample 1981 2015	
Observations 35	
Mean	-2.08e-15
Median	0.215738
Maximum	8.481500
Minimum	-8.552846
Std. Dev.	4.091981
Skewness	0.031950
Kurtosis	2.762862
Jarque-Bera	0.087964
Probability	0.956971

Source: Author's Computation, (2020)

The result displayed is an indication that the error term is normaly distributed and the estimated model is in order.

Breusch-Godfrey serial correlation LM test result presented in table 4.3 revealed f-statistics and probability values of 4.35427 and 0.2341 respectively. The statistics showed that there is no evidence to reject the null hypothesis of no serial correlation between successive values of error terms of the estimated models. Hence there is no problem of serial autocorrelation in the estimated models.

Table 4.3 report f-statistics and probability values of 1.09738 and 0.6489. Given the probability of the reported f-statistics it stands that there is no evidence to reject the null hypothesis of constant variance of the error term (homoscedasticity). Hence the test confirmed that there is no problem of heteroscedasticity in the error term of the estimated models.

Granger Causality Analysis

Table 4.4: Pairwise Granger Causality Test Result

Null Hypothesis	F-statistics	Probability
GX does not Granger Cause UEP	0.02560	0.9747
UEP does not Granger Cause GX	5.78880	0.0079
PDT does not Granger Cause UEP	0.01704	0.9831
UEP does not Granger Cause PDT	0.27061	0.7649
GR does not Granger Cause UEP	1.56989	0.2258
UEP does not Granger Cause GR	9.02471	0.0009

Source: Author's Computation, (2020)

Result of granger causality test conducted in the study as presented in table 4.4 revealed that there is unidirectional causality running from unemployment to government expenditure, and from unemployment to government revenue, which implies that

pass values of unemployment rate in the country has significant impact on the current level of government expenditure and revenue in Nigeria. Thus the study established that unemployment granger cause fiscal fundamentals in Nigeria.

CONCLUSIONS AND RECOMMENDATIONS

Analysis conducted in an attempt to ascertain the impact of fiscal fundamentals on unemployment rate in Nigeria revealed the following: the study discovered that government expenditure exert significant positive impact on the rate of unemployment in Nigeria, meaning increase in government expenditure will significant culminate into increase in unemployment in the country. Sustaining the trend is very imperative for COVID-19 era... The study found that government revenue has positive but insignificant impact of the rate of unemployment in the country. Thus reflecting that over time increase in government revenue has further engenders rise in the rate of unemployment.. This discovery can be validated based on the fact that over time increase in government revenue especially revenue from taxation has left both individual, as well as corporate organization worse off, the situation only become worsen during COVID-19 period.. Government charge statutory 30% tax on companies to which they render little or no service to in terms of provision of infrastructural facilities and or protection from threat from factors within and outside the country. Public debt was also found to influence the rate of unemployment in Nigeria positively, as higher public debt culminates into increase in the rate of unemployment. Argument supporting this discovery is not far fetch because increase in public debt (domestic and external debt) implies increase in government expenses on debt servicing, which often time attract resources that could have been channelled toward development projects, and programmes in the country. This study also established that there is unidirectional causal relationship running from unemployment to fiscal fundamentals such as government expenditure and government revenue in Nigeria. The above discoveries established that the role of fiscal fundamentals cannot be undermined in a country like Nigeria, with fiscal fundamentals such as government expenditure, government revenue and public debt spurring unemployment rate in the country. It becomes evidence therefore that the null hypothesis that fiscal policy instruments has no significant effect on the rate of unemployment, and the hypothesis that there is no significant relationship between government expenditure and unemployment rate in Nigeria can be rejected, in favour of the alternative hypothesis that fiscal policy instruments has significant effect and relationship with unemployment rate in Nigeria.

From discoveries made in the study it can be concluded that fiscal fundamentals such as government expenditure, government revenue and public debt has been explosive influence on the rate of unemployment in Nigeria, with increases in the values of each of these variables culminating into increases in the rate of unemployment in the country. it was concluded that fiscal fundamentals does not ganger cause the rate of unemployment in the country, reflecting therefore that the pass values of government expenditure, government revenue and public debt does not significantly influence rate of unemployment in the country.

RECOMMENDATIONS

The study thus recommends that:

(1)   Government should refocus expenditure in the country to areas such as development of infrastructural facilities so as to increase the rate of productivity in the country and bate economic growth necessary for increase employment of labour.

(2)   Government should also design framework that will ensure effective implementation and completion of projects and programs in the country so as to ensure that objectives of each project and programme is achieved most effectively and efficiently.

(3)   Government should also redefine its priority to include harnessing of other courses of revenue generation that will boost the aggregate and international relevance of the country, such as massive investment in the exportable agricultural products in the country.

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