Economic Growth, Unemployment and Poverty in Nigeria

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Abstract

In an attempt to affirm the theoretical linkage between economic growth, unemployment, and poverty surge in Nigeria, this study relies on Pearson correlation, Granger causality test, and the impulse response function (IRF). The result of the trend and correlation analysis supports a weak negative relationship between economic growth and poverty (-0.21) and then economic growth and unemployment (-0.36). A moderate negative relationship exists between poverty and unemployment rate. Surprisingly, the Granger causality test and impulse response function conducted support the findings above since it reveals that growth is pro-poor; while the latter reveals that unemployment and poverty do not respond to shock in economic growth. In line with the foregoing, the study concludes that output growth is exclusive of the poor. Thus, there is a need for stable macroeconomic policies that would ensure equal distribution of income, which attracts the poor and unemployed into the mainstream, thus promotes inclusive growth.

Introduction

Nigeria like many other developing economies in the world is in the pursuit of sustainable development with focus on attaining a high level of economic growth, providing a conducive macroeconomic environment for both domestic and foreign investments, creation of jobs, and poverty reduction. This has led to the aggressive adoption of poverty alleviation and unemployment reduction policies by the Nigerian government. Some of the policies adopted by the government include the National Home-Grown School Feeding Program for children with the aim of feeding over 24 million school children. This has encouraged poor parents to send their children to school just to enjoy free meals in school. Also, policies like N-Power has helped in poverty and unemployment reduction by creating jobs for the youths. Other policies include the Conditional Cash Transfer Program and Trader Moni initiatives. These policies have been beneficial and have helped in lifting some of the citizens out of the poverty line, yet, much needs to be done as the economy still shows signs of sluggishness in its growth trajectory since the 2016 recession. Nigeria's growth rate in 2019 stands at 2.3% which is below the projection of 4.5% by the Economic Recovery and Growth Plan (ERGP).

According to the World Bank report, Nigeria was ranked the highest country with poor population in 2018 and has been projected to increase by more than 30 million by 2030 which would account for about 25% of the world's extremely poor population. Similarly, the unemployment rate is on the rise and is estimated at 23.1% as of 2018.

Several other factors such as low inflow of foreign investment, declining foreign reserve, rising inflationary pressure, fiscal indiscipline, and rising debt levels have plagued the economy and have been identified to be equally responsible for the slow recovery growth path of the country. The current position of the Nigerian economy is highly fragile and it is vulnerable to both domestic and external shocks such as oil price fluctuations and tardiness in growth response. This clearly suggests that policymakers and the government need to adopt a different approach from the conventional and existing poverty alleviation and unemployment reduction policies to adequately tackle the social menace. With the poor growth path, financing poverty reduction strategies becomes almost impossible and this renders most of the masses unemployed.

The study thus seeks to examine the relationship between unemployment, poverty, and economic growth in Nigeria. The study seeks to answer the question if Nigeria's economic growth can efficiently reduce poverty and unemployment menace?

Empirical literature documents divergent views on the relationship between unemployment and economic growth in Nigeria. While some studies opined a positive relationship (Ademola & Badiru 2016; Akeju & Olanipeun 2014; Arewa & Nwakanma, 2012); others observed a negative relationship (Njoku & Ihugba, 2011) and others, found mixed evidence (Sodipe, 2008). Similarly, the relationship between poverty and unemployment in Nigeria remains inconclusive (Hassan, 2015; EPAR, 2016; Aigbokhan, 2008; Ijaiya, Ijaiya, Bello, & Ajayi, 2011; Oyegoke & Wasiu, 2018). This study provides new empirical evidence on the actual relationship between these variables considering the recent slow pace in growth. The study further suggests policies that can ensure that the gains from growth translate into unemployment and poverty reduction. The study uses data available for the period 1991 till 2019. The remaining section of this paper reviews relevant literature; thereafter, the methods employed are described, this is followed by findings, policy recommendations, and conclusion.

Review of Relevant Literature

It is very crucial to state that we do not intend to provide an exhaustive review of literature, but rather, we present selected studies considered crucial to our study. Akeju and Olanipeun (2014) tested the validity of Okun's law in Nigeria by examining the relationship between unemployment rate and economic growth, using Error Correction Model (ECM) and Johansen cointegration. Their findings showed a positive relationship between unemployment and economic growth in Nigeria. They also found a short and long-run relationship between unemployment rate and output growth in Nigeria. They, therefore, advocated for increasing foreign direct investment (FDI) attraction that has the possibility of reducing the high rate of unemployment in the country.

Conversely, Airi, Ounakpo, and Anebi-Atede, (2016) explored the impact of unemployment on the Nigerian economy from 1980 to 2010 using the ordinary least squares method (OLS) and they found that unemployment has a negative effect on GDP of the economy. In the same vein, Imoisi, Amba, and Okon (2017), examined the impact of unemployment on economic growth in Nigeria using the ordinary least square (OLS) multiple regression from 1980 – 2016. They found that unemployment, population, and labour force significantly impact Nigeria's economic growth, while minimum wage has no significant impact. They recommended that job creation should be a primary objective of the government, subsidy should be given to the private sector, and the labour market should be deregulated. Lastly, Onwachuwu (2015) employed the OLS approach to examine the impact of unemployment on economic growth in Nigeria spanning from 1985 to 2010. They found that unemployment has no significant impact on Nigeria's economic growth.

Hassan (2015) examined the impact of gross domestic product (GDP) growth rate on poverty reduction in Nigeria from 1986-2012. They employed the OLS regression and found a positive relationship between unemployment rate (which was used as a proxy for poverty) and GDP. They, therefore, recommended that key sectors like agriculture and industries should be prioritized in generating more employment and absorb more labour, and thus reduce poverty in the country.

More recently, Dauda (2016) examined the paradox of rising poverty amid high economic growth in Nigeria. They found that jobless growth, a non-pro poor growth, and failure of poverty alleviation initiatives are the reasons for this absurdity. The author recommended that priority should be placed on structural transformation which necessitates good governance, anti-corruption practices, and provision of social protection for the poor and vulnerable.

Research Methods

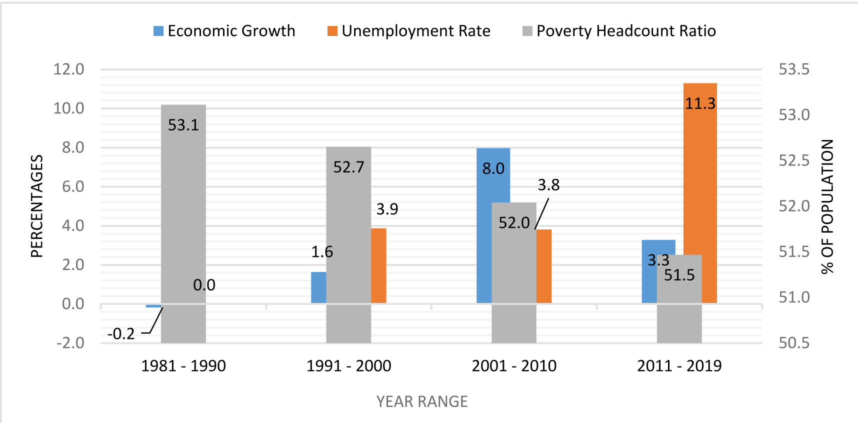
This section explains the empirical strategy employed in establishing the relationship that exists between economic growth, unemployment, and poverty in Nigeria; three approaches are employed in achieving this. The first method employed is by conducting a correlation statistic among economic growth, unemployment, and poverty. The Pearson correlation coefficient ranges between -1 and 1 with -1 interpreted as a perfect negative relationship between the bivariate variables; 1 is interpreted as a perfect positive relationship; with 0 implying no relationship exists between them. The second approach is by conducting a long-run causality test as developed by Granger (1969), and the short-run causality test between the bivariate variables. The causality test seeks to establish whether economic growth causes a change in unemployment or the reverse is the scenario; this causality test is also conducted between other variables (economic growth, unemployment, and poverty). The third approach employed is the estimation of the impulse response function (IRF) together with a variance decomposition (VDC) as developed by Sims' (1980) Vector Autoregression model. The IRF and VDC will help to show how poverty and unemployment respond to shocks or sudden changes in economic growth.

Economic growth is measured by estimating the change in real gross domestic product for the Nigerian economy while unemployment rate is measured using the total unemployed as a percentage of total labour force using the International Labour Organisation's (ILO's) model. Poverty is measured using the poverty headcount ratio at $1.90 a day. All the data are sourced from the World Development Indicator (2019).

Analysis and Findings

This section evaluates the data retrieved, and presents the result of the analyses carried out. The purpose of presenting this analysis is to help in formulating policies that will aid the poverty cum unemployment reduction.

Figure 1: Economic Growth, Unemployment and Poverty Headcount Ratio



Source: World Development Indicators (2019)

Figure 1 shows the trend of economic growth rate between the periods. It is evident that between the periods 1981 till 1990, the economic growth rate contracted by 0.2% within the decade and as at then, about 53.1% of the citizens were living below $1.90 per day while no information was available for unemployment rate. The economy experienced positive growth between the period 1991 and 2000 by expanding with 1.6% while this reduced the number of people living below $1.90 per day by meagre 0.4%. As at the period between 2011 and 2019, the growth declined to 3.3% from 8% recorded between 2001 and 2010; the poverty ratio was 51.5%; while 11.3% of the labour force were unemployed.

Further test done is the correlation between the measures, and the result shows that there is a weak negative relationship between economic growth and poverty (-0.2); economic growth and unemployment rate (-0.36); while there is a moderate negative relationship between poverty and unemployment rate. The implication of this suggests that economic growth is a weak repellant of unemployment menace and poverty incidence. The Granger causality test conducted reveals that economic growth does not cause a change in unemployment rate or poverty reduction, neither does any of them cause a change in economic growth. This decision was reached as the probability value of the F-statistics were above 5%, thereby failing to reject the hypothesis of no relationship. This result further strengthens the weak relationship found between growth and unemployment cum poverty.

The result from Figure 2 reveals that unemployment responds negatively when there is a shock in economic growth and this is felt mostly after the 4th period while it reveals that poverty does not respond to shock in economic growth for the entire period. The implication of these findings is that poverty headcount ratio does not respond to shocks in economic growth except unemployment rate. Conclusively, the economic growth in Nigeria experienced thus far cannot cause changes in poverty reduction.

Conclusion

Results support the presupposition that economic growth in Nigeria is pro-poor. This is because, the aforementioned results show that unemployment surge and poverty head count respond weakly to increasing output growth. However, it is only employment that moderately influences poverty. Similarly, the impulse response function upholds that unemployment and poverty do not respond to shocks in economic growth. Therefore, the study concluded that within these periods of examination, growth is yet to be inclusive of the poor and unemployed groups. Drawing from this intellectual exposition, it is pertinent for government and other stakeholders to fashion out workable framework, timelines and trajectory through which the poor and unemployed can be driven into the mainstream sectors; hence, transforming economic growth into one that is inclusive via the underlining pathways.

Figure 2: Impulse-Response Function of Poverty, Unemployment and Growth

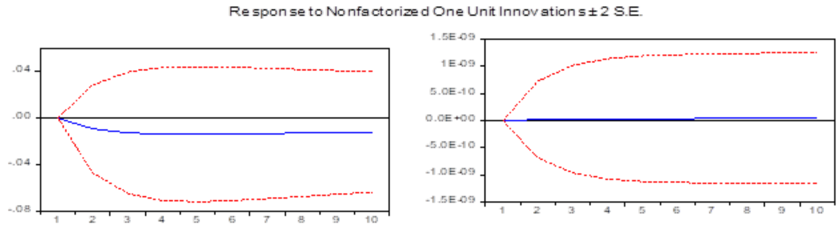


Fig. 4.2a: Response of unemployment rate to shocks from economic growth

Figure 4.2b: Response of poverty to economic growth

Note: The first graph shows the response of unemployment to growth shocks, while the second graph shows the response of poverty to growth shocks.
Source: Author's Estimation

Policy Recommendation

Based on the findings from this study, the following recommendations are highlighted:

1. The surge of unemployment and poverty can be ameliorated if the Federal government supports value creation in mainstream sectors of the Nigerian economy which employs large labour forces, such as the agriculture and industry sectors, in order to make growth pro-poor.

2. The monetary and fiscal authorities should ensure a good blend of both sound fiscal and monetary policies aimed at creating a conducive environment for private and public investments to thrive; hence, promoting inclusive and transformative growth.

3. Also, there is a need for policy stability and continuity especially one that would ensure equitable distribution of income and opportunities between the rich and poor.

4. Furthermore, to reap the benefits of a positive external shock, there is a need to improve on the level of competitiveness and productive capacity within the country.

5. It cannot be overemphasized that investment in basic infrastructure such as power and roads especially in the rural settlements would be a tactical strategy at promoting inclusive and sustainable growth in Nigeria.

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