

PRIVATE INVESTMENT AND UNEMPLOYMENT REDUCTION IN NIGERIA

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ABSTRACT

According to the World Development Report (1990), unemployment is a situation whereby people who are willing and able to work cannot get jobs. Whereby, Private Investment is simply investment made by the private sector in an economy. This study tries to examine empirically the relationship between Private Investment and unemployment level in Nigeria. This means private sector participation must increase. However, Private Investment in Nigeria is weak, unproductive, unexposed and contributing very low to the GDP. The analysis was carried out between the periods of 1990-2009. The estimated result showed a negative relationship between private investment and poverty level with a significant positive relationship between them. Therefore, it is necessary that government intervene with the aid of its various institutions to encourage private investment from the grass roots and tackle all loopholes of possible exploitation.

1.1 Introduction

According to the world development report (2010), unemployment is defined as a situation where-by people that are willing and able to work do not get jobs. Unemployment rate is a measure of the existence of unemployment and it is calculated by dividing the number of all individuals currently in the labour force by unemployed individuals (Anyanwuocha, 2006). Unemployment is the greatest challenge to underdeveloped and developing countries.

Types of Unemployment

There are several types of unemployment, each one defined in terms of cause and severity.

- i. **Cyclical Unemployment:** Cyclical unemployment exists when individuals lose their jobs as a result of a downturn in aggregate demand (AD). If the decline in aggregate demand is persistent, and the unemployment is long-term, it is called either demand

- deficient or Keynesian unemployment. During depression, demand decline considerably as a result, investment activities get discouraged. The entrepreneurs have to cut down their output, and in certain cases, they have also to close down the plant. Consequently, the demand for labour declines (Didia, N.D).
- ii. **Structural Unemployment:** This occurs when certain industries decline because of long term changes in market conditions. Globalisation is a significant cause of structural unemployment in many countries. However the factors of production are not perfectly mobile, it takes time for readjustment and some workers may have to be laid off.

When structural unemployment affects local areas of an economy, it is called regional unemployment (Anyanwuocha, 2006).

- iii. **Seasonal Unemployment:** Seasonal unemployment exists because certain industries only produce or distribute their products at certain times of the year. Industries where seasonal unemployment is common include farming, tourism, and construction. Seasonal unemployment could also be found in those industries, which depends on agriculture for the supply for their raw materials. For example, sugar industry, rice mills, ice-factory, etc., for about 5 to 6 months in a year (Didia, N.D).
- iv. **Frictional Unemployment:** Frictional unemployment, also called search unemployment, occurs when workers lose their current job and are in the process of finding another one. This suggests that full employment is impossible at any one time because some workers will always be in the process of changing jobs. (Anyanwuocha, 2006)
- v. **Voluntary Unemployment:** Voluntary unemployment is defined as a situation when workers choose not to work at the current equilibrium wage rate. For one reason or another, workers may elect not to participate in the labour market. There are several reasons for the existence of voluntary unemployment including excessively generous welfare benefits and high rates of income tax. Voluntary unemployment is likely to occur when the equilibrium wage rate is below the wage necessary to encourage individuals to supply their labour (Anyanwuocha, 2006).
- vi. **Residual Unemployment:** This type of unemployment includes all those who cannot work due to physical or mental disabilities. There are many handicapped people who are not capable of working (Anyanwuocha, 2006).

Nigeria as a country is often described as a rich country but majority of the population are poor citizens where 50% of the Citizens live below poverty level. Unemployment has been a problem in Nigeria, especially since 1980, when the nation's economy took a turn for the worse as world petroleum prices tumbled, the Nigerian currency became devalued; corruption became rampant resulting to high rate of poverty level (Tokunbo, 2004). Many decades ago, Nigeria was perceived one of the richest countries in Africa because of her great petroleum reserves and large population. Ironically, the most dominant feature of the Nigerian economy is unemployment and poverty (Akewusola, 2007).

There is a need for a development plan that will revitalize the economy of Nigeria, and thereby provide relevant strategies for combating unemployment and poverty in Nigeria. This is where the need for private investment comes in.

Private investment simply means investment made by the private sector in an economy. Any investor, domestic or foreign, expects to have an increased income over a certain period of time as a result of his investment activity. It is widely assumed that growth in Africa would be greatly increased if investment is increased (Iyoha, 1998). However, private investment in Nigeria is weak, unproductive, unexposed, and contributing very low to the GDP. When private investment is encouraged, the economic variable it affects first is employment resulting to improvement in standard of living and per capita income (PCI). Private investment is affected by real GDP, trade flows, inflation rate, external debt, exchange rate, the public sector and ability to borrow from the domestic financial system (Greene and Vittanera, 1991).

1.2 PROBLEM STATEMENT

Nigeria has an abundance of diverse human and natural resources but the inefficient utilization of these resources is the main reason there is such an extent of unemployment in Nigeria (Ibiyemi, 2010).

Unemployment has the tendency of causing high level of poverty which is a pathway to crime, prostitution, loss of confidence in the economy and increase in the level of frustration.

Considering the trend in the Nigeria's gross domestic product, it is sufficient to say that economic growth is not enough to reduce unemployment. Most of government's effort at tackling issue of unemployment have either failed totally, or, have been partially archived. In industry, Nigeria ranks 44th worldwide and 3rd in Africa according to the world development report (2010). This statistics shows that the industrial sector is highly rated; this is mainly due to the contribution of the oil and gas industry. With this high rating of the Nigeria industrial sector, the employment rate in the country is nothing to write home about.

Tactically, the country possesses many attributes for carefully targeted investment and will increase the level of employed work force if the right policies are put in place regarding private investment (Allafrica.com, 2010). Therefore this work seeks to analyse the effect of private investment on the level of unemployment in Nigeria, and to examine the major causes of unemployment and solutions to unemployment in Nigeria. The period of 1990-2009 (20 years) is used to analyse the impact of private investment on unemployment level in Nigeria.

1.7 DEFINITION OF TERMS

i. UNEMPLOYMENT: It is the state of an individual looking for a paying job but not having one. Unemployment does not include full-time students, the retired, children, or those not actively looking for a paying job.

ii. INVESTMENT: It is the act of placing resources into a project or business with the intent of making profit. It can also be referred to as a contribution of something such as time, energy, or effort to an activity, project, or undertaking, in the expectation of a benefit.

iii. PRIVATE INVESTMENT: They are investment that is not sold publicly. It is the money investment by companies, financial organizations, or other investors rather than the government.

iv. PRIVATIZATION: It is the transfer of ownership of property or businesses from the government to a private owned entity.

v. COMMERCIALIZATION: It is the process of introducing a new product or production method into the market.

vi. POVERTY ALLEVIATION: It is the act of creating policies which are implemented to reduce poverty.

vii. NOMINAL EFFECT EXCHANGE RATE: The unadjusted weighted average value of a country's currency relative to all major currencies being traded within an index or pool of currencies. The weights are determined by the importance a home country places on all other currencies traded within the pool.

viii. GROSS FIXED CAPITAL FORMATION: It measures the value of acquisitions of new or existing fixed assets by the business sector. It is a component of the expenditure on GDP, and thus shows something about how much of the new value added in the economy is invested rather than consumed. It is called "gross" because the measure does not make any adjustments to deduct the consumption of fixed capital (depreciation of fixed assets) from the investment figure.

CHAPTER 2 REVIEW OF RELATED LITERATURE

2.1 Review of Related Studies

The term Unemployment is an elusive concept because it affects many aspects of human conditions including physical, moral and psychological. It is therefore accepted that unemployment is a complex phenomenon. Unemployment is referred to a situation where an individual who is physically able, mentally alert and intellectually sound is willing to employ these qualities to earn a living lacks the opportunity to do so (Lawanson, 2007).

A nation can enjoy a high standard of living if it can produce more job opportunity needed by the people. The productivity of a society is determined by many factors which include physical capital, human capital, natural resources and technological knowledge (Bello, 2003).

Bannock (1998) defined unemployment as a condition (being out of work), an activity (desiring a job under certain conditions) and a need (needing a job).

According to Osinubi (2004) unemployment refers to workers available for employment whose contrast of employment has been terminated or has been suspended temporarily and who is without job and seeking paid employment. According to Umo (1996), unemployment is the difference between the amounts of labour employed at current wage levels and working conditions and the amount of labour not hired at these levels.

Okigbo (1991) defined unemployment as a situation in which people who are willing to work at the prevailing wage rate are unable to find jobs.

The International Labour Organisation (ILO) is said to be more encompassing, they defined the unemployed as a member of the economically active population who are without work but available and seeking for work, including people who have lost their jobs and those who have voluntarily left work (World Bank, 1998).

A couple of recent studies have attempted to examine the contributions of informal sector to employment creation. Bello (2003) examined the efficiency of micro enterprises in the Nigerian economy using a sample of 180 micro enterprises. They reported evidence of wide variation in technical and allocated efficiencies, both within and across industries. They also found that education of owner of a business enterprise was a significant factor influencing efficiency. They concluded that the evidence of variations in efficiency is indicative of the need for more

proactive actions to raise the level of efficiency and employment among the firms in the sample. Also, Lawanson (2007) used a sample of 360 firms in Kano and it is comparison to large firms, small firms and relatively better at creation of employment opportunities. Their results were positive in that small firms were found to be relatively better, and conclusion they derived was that a policy that gives special preferences to small firms is justified.

According to Central bank of Nigeria (2003), the national unemployment rate rose from 4.3% in 1970 to 6.4% in 1980. The high rate of unemployment observed in 1980 was attributed largely to depression in the Nigerian economy during the late 1970s. Specifically, the economic downturn led to the implication of stabilization measures which included restriction on exports, which caused import dependency of most Nigerian manufacturing enterprises, which in turn resulted in operation of many industries while the survived few were forced to retrench a large proportion of their work force, furthermore, the Nigerian government also paid an embargo on employment.

2.1.1 Causes of Unemployment

Unemployment in different countries exists due to different reasons. The main causes of unemployment in Nigeria are as follows:

- i. **Underdevelopment:** Many countries of the world are still in state of backwardness. These countries possess vast natural and human resources but these resources have not been fully utilized (Didia, N.D).
- ii. **Increase in population:** Population has increased in most countries of the world but its rate is strikingly high in the developing countries. Increase in population brings enormous increase in the supply of labour force but the new job opportunities do not increase in the same proportion (Didia, N.D).
- iii. **Immobility of labour:** Occupational and geographical immobility of labour compounds the problem of unemployment. Immobility of labour arises from factors such as tribalism and state consciousness, the unattractiveness of rural areas due to a low wage structure, the lack of economic and social infrastructure, trade union regulations, etc. the result is that there is scarcity of labour in some areas and serious unemployment in other areas. To solve this problem, the obstacles of labour should be removed (Anyanwuocha, 2006).
- iv. **Social structure:** Developing economies have a rigid social structure. There is complete absence of alternative occupations. Regional diversities, climate, language, family attachment, etc. restrict the free mobility of labour to gainful occupations (Didia, N.D).
- v. **Use of capital-intensive methods of production:** The technique of production in modern industry which tends to emphasize a greater use of capital than of labour encourages labour unemployment. Many of the machines which are used in industry are imported and not suited to the Nigerian situation. Most of the imported machines are highly automated and labour-saving (because of the relative scarcity of labour in advanced countries). Their use in the Nigerian situation means that labour (most especially unskilled and semi-skilled) is made redundant (Anyanwuocha, 2006).
- vi. **Industrialization:** since industrialization symbolizes growth, many developing economies have started on the course of industrialization. In industrialization, machinery substitute's mankind and a large part of the labour force is rendered employed (Didia, N.D).

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- vii. Defective Educational System:** The sort of education imparted to youth in the colleges and universities just helps them to acquire knowledge about different subjects and does not prepare them to get specialized jobs. The system of education is not job-oriented; the nature of the courses taught in the educational institutions is theoretical and has no relevance in the business field. Defective educational system creates the problem of educated unemployment (Didia, N.D).
- viii. Peculiarity of the Nigerian Agriculture:** In most of the developing economies agriculture is the main occupation. Wages system has not developed so far in these economies. Instead of hired labour, the family members perform the agricultural operations. New members of the family are absorbed on the same piece of land. Apparently, everyone is doing some work in reality some of them are disguisedly unemployed (Didia, N.D).

2.1.2 Trends in Unemployment

The problem of unemployment has fossil a great challenge to many countries (both developed and developing. In recent, the incidence of unemployment in Nigeria has been deep and widespread, cutting across facts of age groups, educational strata and geographical entities. One peculiar feature of the unemployment problem in Nigeria is that it was more endemic in 1980s than any other period (a la official statistics).

For instance, the unemployment rate rose from 4.3% in 1970 to 6.4% in 1980. Though it recorded some marginal decline between 1981 and 1986, the rates were respectively higher than what obtained in the 1960s and 1970s. The unemployment rate oscillated between 5.3% and 6.4% during 1980-1985 periods. The development was a result of lull in the economy during the periods

The economic down-turn encouraged private investment and also forced government to implement stabilization measures including restrictions on importation. Given the high import dependency of most manufacturing enterprises, the import restriction forced many companies to operate below installed capacity, causing most of them to close down or retrench a significant proportion of their workforce. For instance, the survey of manufacturing companies undertaken by the Manufacturers Association of Nigeria (MAN) showed that 61.0% of the companies surveyed were shut down for different periods of not less that 3months while between 62.0 and 63.9% of them disengaged over 100 workers (Obadan and Ayodele, 2007). This development made job placement for fresh school leavers to be exceedingly difficult. In addition, the government also placed embargo on employment from September 1981, though relaxed in some periods (e.g. November 1982). This was implemented pari-passu with the Federal Civil Service rose from 2,724 in 1980 to 6,294 in 1984. The structural Adjustment Programme (SAP), adopted in 1986, had serious implications for the short-run unemployment problem. Contrary to the expectations of SAP, which was geared towards encouraging greater employment opportunities in the private sector (especially among the small-medium enterprises), the unemployment rate rose from 5.3% in 1986 to 7.0% in 1987.

This was partly accounted for by the organizational down-sizing, re-engineering and nationalization policies which accompanied the continuation of staff retrenchment and placement of embargo on employment in the public sector. Besides, the new policy orientation brought about some structural changes within the Nigerian Labour Market. Sectors such as the oil,

banking and external sectors become the "blue chips" as against the public and industrial sectors which used to be the "prime" of the labour market prior to the adoption of SAP in 1986. The development consequence created some structural and frictional unemployment problems in the country. When this structural and frictional unemployment is considered along with the lack of job placement for fresh graduates, the situation becomes more precarious. As pointed out by Umo (1996), an annual average of about 2.8 million fresh graduates enter the Nigerian Labour Market; with only about 10% of them getting employment. This, no doubt portrays unemployment as a very serious problem in the country.

Unemployment fell very significantly after 1987. It fell consistently from 7.0% in 1987 to 3.1% in 1991. Although it rose marginally to 3.4% in 1992, the unemployment rate, however, consistently declined appreciably to 1.8% in 1995 before rising to 3.4 and 4.5% in 1996 and 1997, respectively. However, the estimated unemployment gap for Nigeria indicated that the unemployment rate varied between 7.27 and 8.0 between 1990 and 1998 (Fabayo and Akindele, 2007).

Lawson (2007) used data collected from the Federal Office of Statistics Lagos to analyse the unemployment situation in Nigeria. He found out that there has been no consistent trend in unemployment rates in Nigeria. An increase in one or two years is sometimes followed by a decline in the subsequent years. For instance, in 1976, the unemployment rate was 4.3% and it rose to 6.4 in 1980. By 1983, it declined to 3.4% and by 1986 and 1987; it had risen against 5.6% and 6.2% respectively (Lawanson, 2007). After the introduction of the Structural Adjustment Programme (SAP) in 1986, Lawanson observed that labour statistics recorded that the unemployment rate declined compared with the pre-SAP era. Evidence shows that unemployment rate fell from 6.2% in 1987 to a minimal level of 3.2% in 1990 and 1993. Between 1994 and 1995 the unemployment rate fell drastically below 2% but rose up again to 3.8% in 1996 until 2003 when it falls again to 2.3%. Lawanson, (2007) also claimed that unemployment rates vary by urban-rural residence, age, education and state of residence of the labour force participants.

Obadan and Ayodele, (2007) explained that only recorded open unemployment is published by the official statistics. Many people who felt disenchanted with searching for jobs refused to register thereby leading to under-estimation of the unemployed.

Okigbo (1991) also pointed out that the concept of the labour force adopted in the Nigeria Labour Force Statistically survey, which excluded people that were less than 55 and above 55 years but were activity working is an important factor for gross under estimation of unemployment in the country. This is further compounded by gross inconsistency in government documents. For instance, all surveys prior 1983 used 55 years as the cut off point for working age but in 1983, it was raised to 59 years which was later raised to 64 in 1997. Yet, some categories of people above the age of 64 still remain government employees e.g Judges. This again gives room to underestimation.

As argued by Okigbo (1991), it also excluded people who have been categorized as incapable of working but are willing to work (e.g. the handicapped). Also excluded from the labour force are the full housewives who are willing to be engaged in a paid job. The preponderance of unpaid family workers as a proportion of active workers, as presented by the World Bank (1999) is also a potential source of underestimation of unemployment or unemployment in the country.

Thus, taking cognisance of the above, Okigbo (1991), estimated the unemployment rate for 1986 to be 28%. In spite of the differences, the official unemployment rate appears to be on a

declining trend. The observed downward trend may be attributed partly to the intensification of the implementation of the Agricultural Development Programmes (ADPs) and the Accelerated Development Area (ADAPs). The latter was transformed into the Directorate of Food, Roads and Rural Infrastructure (DFRRI). The activities of the National Directorate of Employment (launched in 1986), the Peoples Bank, Better Life for Rural Women Programme, among others, many have also accounted for the decline. The intensification and expansion of the informal sector activities could be an important factor during this period. Besides as the consistent view of the CBN's annual reports on this issue, the evidence from DPC (2000) also shows that the informal private sector expanded in scope of activities and in pattern of employment with more graduates participating in the sector.

2.1.3 Solutions to Unemployment

Unemployment is an infectious disease. Vast human resources of a country remain idle for want of adequate employment opportunities. The following measures can be adopted to remove unemployment.

- i. **Controlling Population:** Population has a big hand in increasing unemployment. Though population control is a long-term measure, yet it is a permanent solution to the unemployment problem (Didia, N.D).
- ii. **Choice of Suitable Techniques:** Adoption of wrong techniques also creates unemployment. Developing countries, following the example of the developed countries, have started using capital-intensive technique of production. This technique is not suitable in the context of their rapidly growing population. Labour intensive techniques can absorb large amount of labour force in the developing economies (Didia, N.D).
- iii. **Priority to Small Scale Industries:** Developing economies as a rule have set up large-scale industries to accelerate the pace of economic growth. But these industries require huge financial resources and fail to raise employment opportunities in the same proportion. Small-scale industries, on the other hand, can provide large employment opportunities (Didia, N.D).
- iv. **Modernization of Agriculture:** In order to remove seasonal employment it is essential to improve the techniques like intensive cultivation, double cropping, mixed farming, multiple cropping, dry farming, etc., will prolong the duration of work in the agricultural sector and remove unemployment (Didia, N.D).
- v. **Financial Assistance:** Banks and other financial institutions should provide financial assistance to the unemployed youth either to purchase certain income-earning assets or to start their own business (Didia, N.D).
- vi. **Development of Infrastructure:** The state can launch various programmes to develop infrastructural facilities such as construction of roads, bridges, dams, canals, power generation centres, telecommunication, etc. it will not only provide instant job opportunities to the unemployed labour force, but also potentials for further development of employment avenues (Didia, ND).
- vii. **Job-oriented Education:** While every child should get general education up to a certain standard, after that there should be professionalism of education. Only those courses, which impart practical knowledge in some productive field, should be prescribed and taught to the students (Didia, N.D).

2.1.4 Effort Made at Combatting Unemployment by the Nigerian Government

1. Establishment of National Directorate of Employment (NDE): One of the steps taken by the Nigerian Government to reduce the problem of unemployment in Nigeria was the establishment of the National Directorate of Employment (NDE), which was established in November 22, 1986. The objective of NDE was promptly and effectively fights unemployment by designing and implementing innovative programming which are directed towards the provision of training opportunities through the guidance and management support services to graduate farmers and small scale entrepreneurs. The objectives of NDE spanned across the following programmes:

- Agricultural Development Programme
- Youth employment and vocational Skills development programme
- Special public works
- Small scale Industries and graduate employment.

The aim of the agricultural programme is to generate employment for graduates, non-graduates production and marketing. The programme is monitored by agricultural professionals in the agricultural department of the directorate. However, factors include inadequate funding and late release of funds from the federations account among others has impaired the effectiveness of the NDE agricultural programmes (Anyanwuocha, 2006).

2. National Economic Employment and Development Strategy (NEEDS): This was introduced in March 2004 in order to confront the various macro-economic imbalances, social challenges and structural problems in the Nigerian Economy. One of the principal goals is to build a modern Nigerian that maximizes the potential of every citizen go as to become the largest and strongest African economy and a force to be reckoned with in the world. To achieve this goal NEEDS. As a developmental strategy anchored on the private sector is to engineer wealth creation, employment generation and poverty reduction, however, for NEEDS to achieve its objectives, there is need to designed many integrated programmes that can generate employment for youths to enhance growth and development (Anyanwuocha, 2006). As it is a medium term reform based development strategy, and action plan for the period 2003-2007, the impact of NEEDS is yet to be felt, in combating unemployment problem and this further points to the need to seek help in the informal sector in order to drastically reduce unemployment.

2.2 THEORITICAL FRAMEWORK

2.2.1 Classical View of Unemployment

The classical and neo-classical schools of economic focus on market mechanisms and rely on the invisible hand of the market to resolve unemployment (Robert 2005). The classical economist holds the view that the relationship between private investment and employment is a one-way relationship that goes from the input of private investment to derive employment and furthermore, output is given.

The classical growth theory as reflected in aggregate production (mostly a variant of Cobb-Douglas function) derived essentially from the technical relations that make the level of output a function of production inputs such as capital, labour, land technology etc. In the classical model's steady state (conditions where the growth of labour force and technical progress ultimately determine the growth rate of employment is exogenous to the growth rate of output. This, however, does not preclude the classical economists' belief in the attainment of full employment equilibrium. In this framework, the supply of labour is positively related to the level

of real wage, while the demand exhibits a negative relationship with real wage, but a positive relationship with productivity (Obadan, 1998).

As pointed out by this authors, if there is some “involuntary unemployment or below the current real wage”, the real wage would fail to induce employers to take more until all involuntary unemployment is eliminated. However, if increases in labour productivity translate to increased wages and such increase induce the substitution of capital for labour, the effect for labour will be positive (Fabayo and Akindele, 2007). The policy implications of this have been viewed as misleading particularly to developing countries (Robert, 2005).

Evidence from the economic recession of the 1980s in Africa and Latin America clearly show that real wages decline very sharply. In addition to these comprehensive views on unemployment, there are a few types of unemployment that are used to more precisely model the effects of unemployment within the economic system. The main types of unemployment identified by Nandi and Falodun (2003) include structural unemployment which focuses on structural problems in the economy and inefficiencies inherent in labour markets including a mismatch between the supply and demand of labourers with necessary skill sets. Structural argument emphasizes causes and solutions related to disruptive technologies and globalization. Discussions of frictional unemployment focus on voluntary decisions to work basic on each individual’s valuation of fares to current wages rates plus the time and effort required to find job. Causes and solutions for frictional unemployment often address barriers to entry and wage rates. Behavioural economists highlight individual bases in decision making and often involve problems and solutions concerning sticky wages and efficiency wages (Nandi and Falidun 2003).

2.2.2 Keynesian View of Unemployment

The Keynesian economist see unemployment as a situation in which the number of people able and are willing to work at prevailing wage exceeds the number of jobs available, and at the same time, firms are unable to sell all the goods they would like (Bannock, 1998). Bello (2002) explained that Keynesian economics emphasizes the cyclical nature of unemployment and potential interventions to reduce unemployment during recessions.

According to Fabayo and Akindele (2007) these arguments focus on recurrent supply shocks that suddenly reduce aggregate demand for goods and services and thus reduce demand for workers. Keynesian models recommend private investment designed to increase demand for workers, this can include financial stimuli, job creation and expansionist monetary policies.

When carefully analysed, the Keynesian unemployment largely applies to the situation in Nigeria. It can be established that one of the factors accounting for this ugly trend is the unpatriotic taste of many Nigerian consumers including the government that indirectly exports jobs abroad at the expense of the domestic economy. By way of the uncontrolled foreign taste for virtually all commodities, the domestic producers are faced with the problem of low demand that naturally forces them to lower output and of course reduce work force. This experience continues in some firms especially the small scale ones till they are published out of the market resulting in the loss of more jobs.

According to Osinubi (2004) and Anyadike-Danes and Godley (1989); to resolve the problem of unemployment, the Keynesian economists introduced the IS-LM model and Philip’s curve. Anyadike- Danes and Godley (1989) found out it was with John Hicks that Keynesian economics produced a clear model which a policy maker could use to understand and control economic activity.

This model, the IS-LM model is nearly as influential as Keynes' original analysis in determining actual policy and economics education. It relates aggregate demand and employment to three exogenous quantities i.e., the amount of money in circulation, the government budget and the state of business expectations.

The second main part of a Keynesian policy maker theoretical apparatus identified by Osinubi (2004) and Anyadike-Danes and Godley (1989) was the Philip's curve. The curve, which was more of an empirical observation than a theory indicated that increased employment and decreased unemployment implies increased inflation. Keynes had only predicted that falling unemployment would cause a higher price, not a higher inflation rate.

Thus, the Keynesian economist could use the IS-LM model to predict, for example, that an increase in the money supply would raise output and employment and then use the Philips curve to predict an increase in inflation.

2.2.3 Marxist Views on Unemployment

According to Karl Marx, Marxism focuses on the relations between the controlling owners and the subordinate proletariat whom the owners put against one another in a constant struggle for jobs and higher wage. This struggle and the unemployment it produces, benefit the system by reducing wage costs for the owners. For Marxists the causes of and solutions to unemployment require abolishing capitalism and shifting to socialism or communism (Bello, 2003).

CHAPTER 3 RESEARCH METHODOLOGY

3.1 The relevant data for this study are obtained from the publications of Central Bank of Nigeria (CBN) statistical bulletin of various years and the World Economic Outlook Database. The target population and sample of this study is all available time series data relating to private investment, exchange rate, from 1990-2009. The method of data analysis is the multiple regression analysis.

Hypothesis are:

H₀: Private Investment does not have any significant effect on the unemployment rate.

H₁: Private investment has a significant effect on the unemployment rate in Nigeria.

H₀: Exchange rate does not have a significant effect on the unemployment rate in Nigeria.

H₁: Exchange rate has a significant effect on the unemployment rate in Nigeria.

3.4 Model Specification

$$Y = f(X_1, X_2)$$

$$UNEMP = f(EXR, PI)$$

Where:

UNEMP= Unemployment Rate

PI= Private Investment in Nigeria.

EXR= exchange rate of the Naira to the dollar

The model above can be expressed in multiple regression equation as:

$$UNEMP = \beta_0 + \beta_1 PI + \beta_2 EXR + u$$

3.4.1 A priori Expectations:

$\beta_1 < 0$: this implies that it is expected that as PI increases, UMEMP should decrease, that is, a negative relationship is expected to exist between the two.

Where:

β_0 = autonomous or constant

β_1 = coefficient of PI

β_2 = coefficient of EXR

u = error term

3.5 Model Estimation Technique

The model will be estimated using the ordinary least square (OLS) technique by employing the E-views (econometrics) package.

DATA PRESENTATION AND INTERPREATION OF RESULT

4.1. Data Presentation

Table I

YEAR	Private Investment #(in Million)	Exchange Rate	Unemployment Rate
1990	40,121.31	8.0378	3.5
1991	45,190.23	9.9095	3.10
1992	70,809.16	17.2984	3.40
1993	96,915.51	22.0511	2.70
1994	105,575.49	21.8861	2.00
1995	141,920.24	21.8861	1.80
1996	204,047.61	21.8861	3.40
1997	242,899.79	21.8861	3.20
1998	242,256.26	21.8861	3.20
1999	231,661.69	92.6934	13.00
2000	331,056.73	102.105	13.10
2001	372,135.65	111.943	13.60
2002	499,681.53	120.97	12.60
2003	865,876.46	129.357	14.80
2004	863,072.62	133.5	13.40
2005	804,400.82	132.147	11.90
2006	1,546,525.65	128.652	12.30
2007	1,935,040.14	125.833	12.70
2008	2,050,762.63	118.567	14.90
2009	3,048,023.41	148.902	19.70

Source: Central Bank of Nigeria Bulletin, Vol 20, 2009.

The data above shows that unemployment level was on a steady fair increase from 1990 to 1999. It started to decrease from then on at a slow pace showing that the people are not in any way

better off than they were today compared with the early 1990's, though there was significant revenue from oil exports and further expansion of the other sectors especially the service sector. In 1993, the unemployment level, rather than reduce on the average by 1.5% as a result of the power tussle and instability of the nation at the time, unemployment level rose and fell alternatively till 2004. However, it has fallen consistently till date considering the value of the Naira.

Private investment was on a steady rise until it reduced sharply in 1994, falling by 21.8% majorly due to the fall in oil prices which shocked the economy as a whole and led to a fall in capital utilization of many industries. Also, the economy was largely agrarian and had no other source of export income. However, since then, it has been on a consistent increase due to the increasing diversification of the economy especially the service sector. Real exchange rate experienced a 99.65% fall in value in 1999, after adopting a floating exchange rate system in 2000 as opposed to the fixed exchange rate previously practised which accounted for its stability in previous years. Between 1995 and 1998, there was a steady increase in the value of the Naira. However, by 1995 to 1998, the autonomous foreign exchange rate market was introduced. This period experienced a relatively stable exchange rate with the introduction of Interbank Foreign Exchange Market (IFEM) in 1999, the real exchange rate experienced a 75% fall in nominal worth which is similar to an increase in value exchange wise. The IFEM was introduced to aid the naira achieve a realistic exchange rate. By 2001, the Dutch market system (DAS) was introduced to replace the IFEM. Its aim was the same as that of IFEM so that the surplus demand can be curbed and the external reserve could be conserved. The volatility of the exchange rate then was relatively low. Thus, one can notice policy inconsistency. Between 1995 and 2002, we can notice the effect of different exchange rate reforms that have been adopted. This as therefore contributed to its increased volatility.

Restatement of the research model;

$$UNEMP = f(PI, EXR)$$

$$UNEMP = \beta_0 + \beta_1PI + \beta_2EXR + \mu$$

Where:

UNEMP – is the unemployment rate

PI – Private Investment

EXR – Exchange rate.

REGRESSION RESULT

Substituted Coefficients:

$$UNEMP = \beta_0 + \beta_1PI + \beta_2EXR + U$$

$$UNEMP = 1.258 + 0.095PI + 0.0000007EXR$$

$$\text{Standard error: } (0.635) \quad (0.009) \quad (0.000)$$

$$\text{T-Test} = (1.97) \quad (9.647) \quad (1.117)$$

$$R^2 = 0.93$$

$$\text{F-statistics} = 114.2$$

$$\text{Adjusted } R^2 = 0.92$$

$$\text{Durbin Watson Statistics} = 0.79$$

Source: EVIEWS 7 Computation

4.2.1 Analysis of Results, Hypothesis Testing and Interpretation

From the value of the parameter estimate are given as 0.094 and 0.0000007 for private investment and exchange rate respectively. The above result showed that there is positive relationship between per capita income and private investment indicating that increase in the private investment would increase per capita income. However, this can be theoretically explained on the ground that increase in private investment is a sign of economic boom in the economy which would definitely be accompanied with increase in the level of employment generation into the industries, increase in the standard of living which could arise as a result of employment opportunities or increase in wage rate, savings will rise, consumption will rise and thus the level of capital formation in the country will rise as well. This result showed that private investment would reduce unemployment rate in the country because there would be room for expansion in the real sectors of the economy such as the agricultural sector, industrial and manufacturing sector, building and construction etc, the increase in gross fixed capital formation would activate multiplier effects in the real sectors of the economy, thus employment will be created and unemployment would reduce. However, it showed be noted that increase in the result showed that magnitude of the direct relationship indicating that a percent increase in the private investment would cause the per capita income to rise by approximately 0.4 percent, thus policies that could enhance private investment would be worthwhile and decisive in activating increase in standard of living in the country and reduce unemployment rate.

This result is also statistically significant at 5% level of significance using t-test and standard error for decision making.

The empirical analysis showed that the calculated t-statistics (9.64) is greater than the critical t-statistics (2.04).

This is further justified by the standard error estimates; the standard error of the parameter estimate (0.009) is less than half of the parameter estimate ($\frac{1}{2} \times 0.094$) = 0.047. The empirical analysis showed that there is sufficient evidence to conclude that there is statistical significance between private investment and the per capita income.

However, the magnitude of the parameter estimate showed that magnitude of the inverse relationship, the result showed that a percent increase in exchange rate would cause per capita income to fall by 1.1% approximately. This showed that per capita income responds a slight higher than increase in the exchange rate. This indicates that firms or countries involving in international trade or transactions would be more affected by exchange rate increase of fluctuations.

Though the result however showed that there is no statistical significant relationship at 5% level of significance using t-test and standard error for decision making, the empirical analysis showed that the calculated t-statistics (9.27) is lesser than the critical t-statistics (2.04). This is further justified by the standard error estimates; the standard error of the parameter estimate (0.681) is greater than half of the parameter estimate ($\frac{1}{2} \times 1.093$) = 0.547. The empirical analysis showed that there is no sufficient evidence to conclude that there is statistical significance between per capita income and exchange rate.

R-Squared is (0.93), this implies that the regression line has a good fit of measure which showed that exchange rate and private investment account for about 93.0% systematic variation in per capita income while the remaining 7.0% are other factors which affect per capita income but were not captured in the model. After adjusting with the degree of freedom, the adjusted r-

squared (0.92) shows that the explanatory variables i.e. exchange rate and private investment accounts for 92.0% systematic variation in per capita income while the remaining 8.0% are other factors which affects per capita income but were not captured in the model.

F-statistics confirms the joint statistical significance of the explanatory variables with the dependent variables since the calculated F statistics is greater than the table value i.e $114.2 > 2.11$. We can therefore conclude that exchange rate and private investment are effective in policy formulation related to per capita income.

If at 0.05 level of significance;

$F_{\text{calculated}} > F_{\text{tabulated}}$: Accept H_1 and reject H_0

$F_{\text{calc}} < F_{\text{tab}}$: Accept H_0 and reject H_1

Where $F_{\text{calculated}}$ is represented by $F_{\text{calc}} = 114.2$

$F_{\text{tab}} (F_{\beta(k-1, n-k)\text{df}}) = 2.71$

Decision

From the result obtained, $F_{\text{calc}} = 114.2$ and $F_{\text{tab}} = 2.71$, hence $F_{\text{calc}} > F_{\text{tab}}$. In the light of this, H_1 is accepted while H_0 is rejected. Hence, there is joint statistical significance, it can therefore be said that there is joint statistical significant among the variables. Therefore, the alternative hypothesis should be accepted

Test of Autocorrelation

The test of serial correlation using Durbin Watson statistics showed that there is no evidence of positive serial correlation in the model as shown with the value of Durbin Watson statistics which is 0.79 then it can be concluded that there is absence of positive serial correlation in the model.

4.3. Economic Implications and policy relevance of the results

The economic implication of the result showed that private investment is favourable in respect of standard of living improvement and unemployment reduction, since private investment contributing to the level of economic activities, increase in capital formation, and increase in employment generation, and contributing significantly to the growth of the existing real sector. It can be inferred that if further policy that can encourage private investment in the country coupled with foreign direct investment and foreign private investment is put in place, there would be effective development in the real sector of the economy which would increase employment rate, reduce unemployment and enhances the standard of living in the country.

Also, the study noted that exchange rate could affect the standard of living in the country in Nigeria. Higher exchange rate could serve as increase in the cost of running capital for private investors that mobilize raw materials abroad, and thus, increase in the transactionary cost would discourage the employment of more labour force, rather reduction in employment will set in and perhaps reduction in wage rate. Thus, it is advisable that the central bank of Nigeria should try as much as regulating the exchange rate volatility.

5.1 SUMMARY OF FINDINGS

Unemployment is defined as the situation in which people that are willing to work cannot jobs. The situation of unemployment in Nigeria has been on the increase which resulted in increase in social vices among other negatives. Although the Nigeria government in previous times had put in place policies and programs which were meant to combat this menace, few of which were considered in this study like NEEDS, SEEDS, structural adjustment programmes (SAP), OFN, DFRRI, and PBN but till now all these programmes have no significant impact on unemployment.

It was therefore examined that employment can be produced by expanding private investment in Nigeria. Private investment is simply investment made by the private sector in an economy but private investment in Nigeria is weak, unproductive, unexposed and its contributing very low to the GDP. It is affected by real GDP, trade flows, external debt, inflation rate, exchange rate, public sector expenditure and ability to borrow from the domestic financial system. It is made up of foreign direct investment (FDI) and direct domestic investment (DDI). Many Nigerian factors are closing expect for relatively low labour cost (10%-15%). Privatisation and commercialization is one of the few noticeable efforts of the government in boosting private investment.

The study is guided by various theories like the classicalist view on unemployment, Keynesian theory on unemployment and Marxist views on unemployment. In the empirical investigation, the Ordinary Least Squares (OLS) estimation technique using the E-views econometric package was used. At first, the regression result as R^2 of 0.930758, adjusted R^2 of 0.922612, and f-statistics value of 114.2584. The $t(\beta_1)$ is given as 9.647099, while $t(\beta_2)$ is 1.117603. The Durbin Watson value is given 1.117603 as a result; the problem of serial correlation was detected. To remove this, the unit root test was employed. The value of the R^2 , adjusted R^2 and f-statistics is given as 0.930758, 0.922612 and 114.2584. The study was able to establish that on the average the impact of private investment on unemployment level showed a positive relationship and the exchange rate on unemployment level showed an insignificant negative relationship. The model conformed to be a priori expectation. The H_1 hypothesis was accepted in the case of investment and unemployment level, i.e., exchange rate is insignificant on the unemployment level in Nigeria, while private investment as a significant effect on the unemployment level.

5.2 CONCLUSION

The paper has been able to ascertain that private investment needs to be expanded in Nigeria as a way of reducing unemployment rate in Nigeria. However, an economy driven by the private sector does not provide a clear assurance for employment increase in Nigeria; it is therefore necessary that government intervenes with the aide of its various institutions such as NEEDS and SEEDS tackling all loopholes of possible exploitations. Indicators should be established that will be used in measuring unemployment trends. The government should also be responsible and accountable as regards their different efforts at unemployment reduction while setting achievable goals.

5.3 RECOMMENDATIONS

This study has been able to reveal with this aid of data that the unemployment level in Nigeria is high and persistent and different strategies employed to address it has not yielded any significant impact on its reduction. From the study result, it is obvious that to tackle unemployment level in

Nigeria, aggressive expansion of private investment has to be done by the government. The following suggestions are put forward.

1. Unsurprisingly, as for any investment, a basic pre-requisite for successful foreign investment is a stable macro-economic environment that allows investors to plan. The government has to diversify the economy such that it has more goods to trade with at the international market. This increases the value of its currency against foreign currencies.
2. This paper advocates that the government should provide the enabling environment to attract both domestic and foreign private investment by restoring consistency and stability in macro-economic policy environment of business. Unemployment reduction programmes thrives best in an atmosphere of economic and political tranquillity. It is pointless reducing unemployment in one place and at the same time creating one in another.
3. The government can reduce the tax on companies and sole proprietorship. Subsidies should also be extended to new companies and businesses, especially those in non-oil businesses.
4. The government and private employers should weed out all those who are dead woods and give room for up and coming youths who could offer better performance. This will inject into the workforce, commitment, dedication and innovation that would eventually increase productivity and more employment.
5. In Nigeria, agriculture accounts for 80% of employment of rural dwellers. However, the government pays very little attention to this sector, preferring to concentrate on oil exploitation and exportation, which is capital intensive, where only few Nigerians can be employed. Government should encourage private investment in the agricultural sector to increase the rate in which Nigerians are employed.
6. Government direct banks and other finance houses to increase financing act the micro and macro level; for example, the micro finance directed at the small and medium scale enterprises. This attracts and support both small and large investment especially from abroad.
7. Nigerians attitude towards progress can sometimes underline growth and development, therefore, as early as at secondary school level, the students should be enrolled in entrepreneurship courses such that they think as employers creating jobs on graduation and not increasing the unemployed labour force.
8. Reduced prices of licences to export and import should also be done to encourage economy diversifying businesses both at home and abroad.
9. The necessary infrastructure (especially power and good transport facility) should be one of the primary focuses of the government to encourage entrepreneurship at all levels. This will ensure that businesses have better chance of survival.
10. All privatised companies should be well regulated and their progress monitored by the government with mechanism that hold them accountable. Chronic inefficiency must stop being the norm. a government that indulges in wastefulness cannot effectively reduce unemployment .

When these suggestions are functional, the production increases, poverty reduces and employment level increases. Aside the overall effect of increasing the nominal value of the GDP,

unemployment falls and per capita income also increases while simultaneously improving the worth of the currency as the country has more goods to trade with.

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APPENDIX

REGRESSION RESULT

Dependent Variable: PCI				
Method: Least Squares				
Date: 03/13/13 Time: 08:32				
Sample (adjusted): 1981 2010				
Included observations: 30 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	318.8651	36.00323	8.856571	0.0000
PI	0.374001	4.04E-05	9.273399	0.0000
EXR	-1.092990	0.680500	-1.606158	0.1199
R-squared	0.851173	Mean dependent var		480.7800
Adjusted R-squared	0.840149	S.D. dependent var		349.1448
S.E. of regression	139.5930	Akaike info criterion		12.80998
Sum squared resid	526127.4	Schwarz criterion		12.95010
Log likelihood	-189.1497	Hannan-Quinn criter.		12.85480
F-statistic	77.20937	Durbin-Watson stat		1.770475
Prob(F-statistic)	0.000000			