Stylised Facts on Nigerian Economy: Public Capital Expenditure, Economic Growth and Unemployment (1970-2015)

Okpachu Emmanuel, Ph.D.
Centre for Management Development
Email: okpachu@yahoomail.com

pp 332 - 339

Abstract

This study examined impacts of public capital expenditure on economic growth and unemployment reduction. The study made use of content and percentage analytical techniques. Graphical charts were used to depict trends of public capital expenditure, economic growth and unemployment in deferent eras for visual evaluation. The finding shows that large public capital expenditure had marginal effects on economic growth and unemployment reduction. Based on this salient fact, the study recommends that future public capital expenditure should be geared towards capital formation sectors to crowd in private investment for the purpose of reducing unemployment and accelerating economic growth.

Keywords: Public Capital Expenditure, Economic Growth and Unemployment

Introduction

In Nigeria, problems of unemployment and slow rate of economic growth have been of great concern to policy makers and economists since early 1970s. In this regard, the twin- macroeconomic objectives of economic development plans and macroeconomic management before and after the Structural Adjustment Progamme (SAP) in Nigeria were rapid economic growth and reduction of unemployment for socio- economic development. Public capital expenditure was a major tool for attainment of these two macroeconomic objectives.

The three consecutive development plans between 1970 and 1985 namely the Second National Development Plan (1970-4), the Third National Development Plan (1975-80) and the Fourth National Development Plan(1980-5) had rapid economic growth and unemployment reduction as foremost objectives .In spite of these three consecutive development plans, unemployment continues to rise beyond natural rate of unemployment level. More so, according to Asiwaju et' al (2014) the Structural Adjustment Programme (SAP) adopted in 1986 complicated unemployment problem in Nigeria. Despite the fact one of the core macroeconomic objectives of the structural adjustment programme was to stimulate employment opportunities in the private sector of the economy thereby removing public sector as a prime provider of employment.

Theoretically, the role of public capital expenditure in economic growth and unemployment management continues to reverberate in economic management thinking and discourse. This often brings in paradigm shift in the position of capital expenditure in economic planning and macroeconomic management. This is because the crux of the matter on issues surrounding the role of public capital expenditure borders on optimal allocation of resources between public and private sectors on the one hand and on the other hand investment of scarce resources which is capable of entrenching competiveness and long term stabilisation. According to Barro and Sala-i- Martin (2007), economic resources, particularly capital are not only scarce but have alternative uses with tremendous capability to yield different results at different circumstances in relation to growth, unemployment and economic stability. More so, Gwartney et'al (2003) stated that the role of capital expenditure deals with underlying assumptions that are capable of providing economic principles for rationing societal scarce resources between public and private sectors investments for structural change. In this regard, the role of capital expenditure in economic growth becomes more complex and complicated than ordinary budgetary matter when issue of economic growth and unemployment is conjoined in public capital expenditure policy for building a just and egalitarian society.

Pertinent questions that arise from the above role of public capital expenditure in Nigerian economy were:

(i) To what extend public capital expenditure had impact on economic growth in Nigeria?

(ii) To what extend public capital expenditure had impact on unemployment reduction in Nigeria?

(iii) To what extent public capital expenditure impacted on structural change in the Nigerian economy?

It is against this background this study sought to bring out salient empirical facts on impacts of public capital expenditure on economic growth, unemployment reduction and structural change in Nigerian economy. The study is divided into five sections. Section one introduces the subject matter, problem of economic growth, unemployment and the role of public capital expenditure. The second section describes how both qualitative and quantitative techniques were employed in the study. Section three brings out empirical facts on public capital expenditure, economic growth and unemployment in Nigeria. Section four discusses the structural change envisaged and outcome through the use of public capital expenditure. Finally, section five articulates the summary of findings and conclusion

Methodology of the Study

This study employed both qualitative and quantitative techniques in exploring and examining impacts of public capital expenditure on economic growth, unemployment and structural change in Nigerian economy: 1970- 2015. Content analysis was used to explore the three consecutive development plans between 1970 and 1985 namely the Second National Development Plan (1970-4), the Third National Development Plan (1975-80) and the Fourth National Development Plan (1980-5). Similarly, content analysis was employed to examine public documents on Structural Adjustment Programmes (SAP) and National Economic Empowerment Development Strategy (NEED).

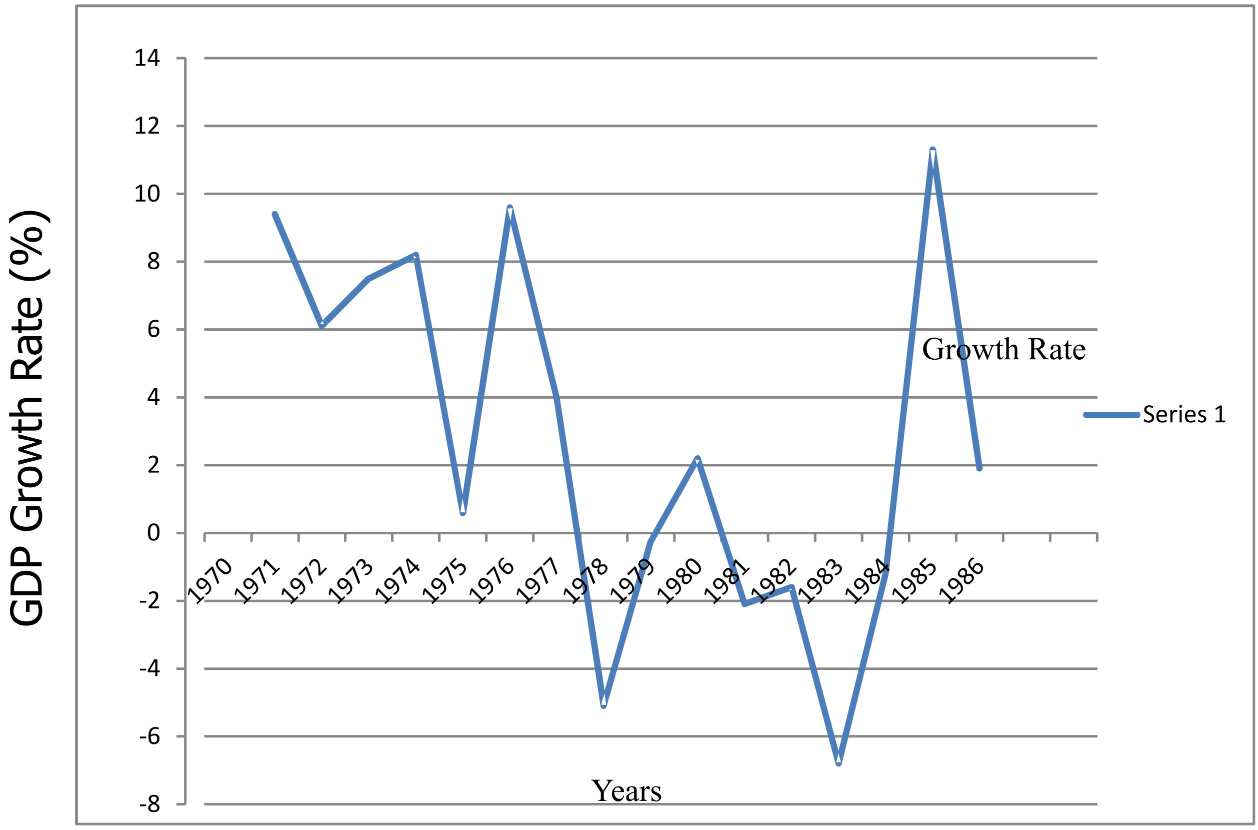
The study also applied quantitative techniques by using descriptive statistics in forms of per centage, and various charts to analyse and describe trends of public capital expenditure, economic growth an unemployment between 1970 and 2015.In general, multiple sources of secondary data guided by economics and historical research methodologies were carefully and meticulously utilised in this study. The sources include National Bureau of Statistics, Bullion, publication of Central Bank of Nigeria, Public documents on National Development Plans and Economic Empowerment Development Strategy.

Empirical Evidence: Economic Growth, Unemployment and Public Capital Expenditure

Economic Growth

According to Iwayemi (2006), in the 1970s, the Nigerian economy grew at 6.3 per cent with impressive growth consumption, investment and industrial output. In another dimension, Ekeocha (2007) maintained that there was substantial expansion in key macroeconomic indicators but there was little or no achievements in terms of establishing a strong foundation for sustainable growth and employment generation as subsequent decades revealed. The table below shows trend in GDP rate between 1970 and 1985.The growth trend is not only unsustainable but exhibits volatility and negative growth rate. The highest growth rate was 11.3 per cent in 1985, while the lowest was1983 with a negative growth of -6.8 percent. The line graph below depicts trend of real GDP growth rate during the planned period (1970-1986).

Figure 1.1: Line Graph of GDP Growth Rate from 1970-86



Source: *Plotted by the author using data from the National Bureau of Statistics*

Source: *Plotted by the author using data from the National Bureau of Statistics*

Unemployment

As regard to unemployment, one of the major objectives of the development plans in Nigeria was unemployment reduction. This is because, according to Onwioduokit (2006) unemployment was seen as the major cause of poverty and inequality in Nigeria, and therefore the three consecutive development plans aimed at addressing these problems through reduction of unemployment. Between 1960 and 1970, Nigeria exhibited unemployment rate similar to or even less than the industrialised economies. Unemployment among the educated was not a serious macroeconomic problem. Thus, the first national development plan (1962-1968) after independence 1960) did not treat unemployment as a serious national problem. It merely indicated the need to grow the economy as rapid as possible and to expand educational institutions and health facilities. In this regard, in the 1960s, the emphasis of employment policies was that of shifting surplus labour from the agricultural sector to the manufacturing sector. This is because prior to oil boom in 1970s, the Nigeria economy was agrarian and over 70percent of the working population was engaged in agriculture activities in the rural areas. The policy of shifting labour from agriculture to modern sector was in line with the dual sector and labour surplus theory. It was also consistent with structural development theory.

The interruption of the first national development plan (1962-68) by the political crisis of the 1960s and particularly the civil war (1967-70) offered opportunity for setting new goals and objectives for the second national development plan (1970-74). The overall goal of the second development plan according to Oloni (2013) was to reconstruct the war battered economy and to promote economic and social development. To these effects, reduction of unemployment was one of the cardinal objectives of the second national development plan (1970-4). As a result of the civil war (1967-1970) there was disruption of economic activities and consequently the problem of unemployment emerged at macro level. This could be easily inferred from the fourth objectives as expressed in the second national development plan (1970-1974):

(a) increased production of food for domestic consumption;
(b) a drastic reduction in the magnitude of the unemployment problem;
(c) increased in the diversification of the economy;
(d) more equitable distribution of income among persons;
(e) Maintenance of reasonable measure of stability through the use of appropriate instruments of policy.

Examining the above objectives of the second development plan (1970-74) a high economic growth rate, rapid industrialisation, expansion of food production, diversification of the economy, equitable distribution of income, maintenance of price stability were all complementary to the objective of reducing the magnitude of unemployment. Thus, the second national development plans (1970-4) overwhelming embraced unemployment reduction as a cardinal objective. Interestingly, there was no conflicting objective exception of the objective of maintaining reasonable price stability. Theoretically, maintaining price stability through fiscal policy could conflict with the objective of reducing the magnitude of unemployment within the range of Philip Curve on the short run. This is a subject of debate in economic thinking and discourse.

Also, according to Ogunrinola and Osahbuohien (2010), it was true that the second National Development Plan (1970-4) considered the problem of unemployment. However, all it did in that respect was simply to work out the employment implications of investment programme positively towards the creation of employment. The second national development (1970-4) did not comprehensively articulate and specify labour intensive sectors to realise the objective of magnitude reduction of unemployment. Nigeria labour market both the traditional and modern sector was characterised by high rate of underemployment and unemployment. This is in spite of the fact that reduction of unemployment remained one of the outstanding goals of the three consecutive economic development plans between 1970 and 1985.

Again, further examination of the objectives of the third national development plan (1975-80) revealed that they were similar to that of the second national development (1970-4). Reduction of unemployment remained one of the cardinal objectives with other objectives complementing it. It is pertinent to mention here that according to Sodipe and Ogunrinola (2011) the Third National Development plan (1975- I980) contained the following manpower policy statement. “the expansion of employment opportunities through the implementation of employment oriented programmes and the removal of constraints on the growth of employment in various sectors of the economy;
provision of industrial attachment programmes, occupational guidance and similar schemes which are aimed at bridging the gap between training and the world of work; strengthening of exiting educational and training facilities and establishment of additional ones in identified areas of need.

Similarly, a curious look at the fourth national development plan revealed similar result (1980-5). According to Fajingbesi (2009) the fourth national development plan was intended to continue the process of creating solid foundation for the long- term

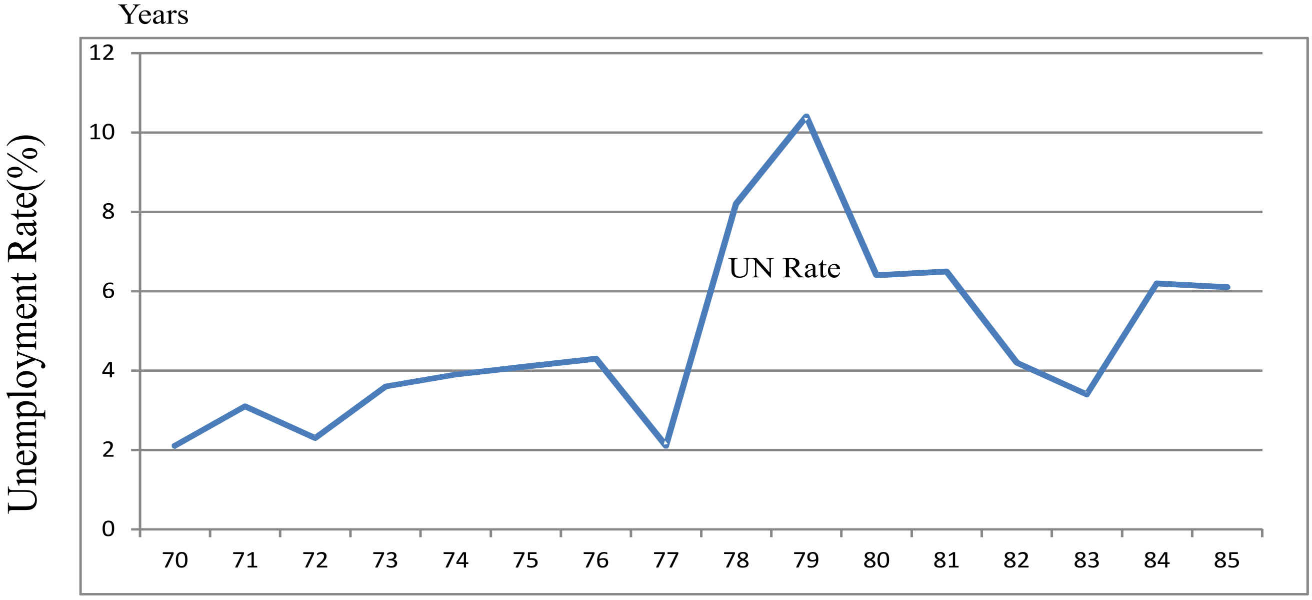
economic and social development. This could be inferred from specific objectives of the fourth national development plan (1980- 1985) were:
(a) increase in the real income of the average citizen;
(b) more even distribution of income among individuals and socio –economic groups;
(c) reduction in the level of unemployment;
(d increase in the supply of skilled manpower;
(e) balanced development i.e achievement of balance in the development different sectors and various geographic areas;
(f) increased participation by citizens in the ownership and management of the productive enterprises;
(g) greater reliance on internal resources;
(h) development of technology and increased productivity;
(i) promotion of a new national orientation conducive to greater discipline, better to work and cleaner environment. As may be observed, the objectives of the fourth national development plan (1980-5) were similar to the second and third national development plans.

In examining the development plans in Nigeria, Iwayemi (2006) maintained that the two developmental goals of growing the economy and eliminating large –scale unemployment, which are long term in nature, raised a host of important policy design and implementation questions not only for the federal government, but also for state and local government, the civil society and international development agencies. The way these questions were addressed determined the timescale for achieving these key development goals. In this regard, Oni (2006) concluded that the economic growth in the post-Independence Nigeria had not only be vulnerable, but had not been commensurate with the requirements of rapid poverty reduction and employment regeneration needed to absorb the rising numbers of unemployed. To his point, Iwayemi (2013) maintained that it was the inappropriateness application of the dual economy and labour surplus theory to Nigerian experience that led to high rate of unemployment in both urban and rural areas. The assumption of surplus labour particularly in Nigerian agriculture had little empirical validity.

According to Arewa and Nwakakahma (2013) the link between unemployment and several macroeconomic variables in Nigeria are not only disconnected but absurd". This is testified by the shift in the composition of unemployment in Nigeria since 2000. It has also revealed the inadequacies of the received theory of dual economy and surplus labour towards explaining the unemployment phenomenon in the country.

Similarly, Asiwaju et al (2014) revealed that corruption in both public and private and at the individual levels, industrial decay, and neglect of the agricultural sector are among many others factors responsible for the scourge in unemployment. It was also revealed that widespread poverty, youth restiveness, high rate of social vices and criminal activities are prevalent because of joblessness, and if not controlled, apathy, cynicism and revolution might become the consequent.

Figure :1.2 Unemployment Rate During the Planned Period (1970- 1985)



Source: Plotted by the author using data from the National Bureauof Statistics

Public Capital Expenditure

On public capital expenditure, between 1970 and1974 and within the provisions of the Second National Development Plan, a total capital expenditure programme of about N4.9 Billion was to be undertaken. Out of this according to Ayo (1988) the proposed public sector investment was N3.3 Billion while the private sector was expected to make investment of N1.6 Billion. By this projection, the overall economy was expected to grow at an average of 6.3% per annum in the planned period. However, the actual growth in terms of gross domestic product was from N9.44 Billion in 1970/71 to N14,410 billion in 1974/5. This represented annual growth rate of 11%. It was quite impressive performance.

Based on the impressive performance of the Second National Development Plan and emerged favourable conditions of sharp increase in crude oil price and quantity demanded in the international oil market, the Third National Development Plan (1975-80) had a huge investment plan of N43.3billion. According to Ayo (1988) "by march 1975, the country's oil production was at a record level of 2.3 million barrel a day while the oil price was stood at $14.69 per barrel haven risen from $3.56 in 1973". Given the above two optimistic scenarios, the overall objective of the Third National Development Plan was to utilised the proceeds from oil to develop the productive capacity of the economy and improve the living standard of the people. However, this was not attained as a result of the world economic depression which led to fall in oil price at international market. Consequently, there was a review of the Third National Development Plan. On the whole, the GDP grew from a level of N27.4 billion in 1975/76 to N35.2 billion in 1979/80. This represented annual growth rate of 6.5% as compared to the projected target of 9.5%.

The Fourth National Development Plan which was launched in 1981 during democratic era was aimed that long term economic and social development. It had capital investment of N82.2 billion that was expected to generate an average annual growth rate of 7.2%.Out of the N82.2 billion capital investment, N70.5billion was to come from public sector. The private sector was to generate N11.7 billion. As soon as the plan was launched in 1981, the international price declined from $40 to $30 per barrel. The level of production also fell down from 2.1 million barrel per to 1million barrel per day. The plan was therefore reviewed in 1984 as a result of the fall in oil price in international market. In term of performance, the expected annual growth rate was 7.2% but the actual performance during the period was only 3%.

Still on public capital expenditure, average annual public capital per cent of total expenditure from 1970 – 1985 which covered the three development plan was 37.6%.The annual average recurrent expenditure per cent of total expenditure during the period was 62.4%. The annual average capital of the planned period (1970-86) was 4199.53.

Structural Changes

In terms of structural change, the agricultural sector was marginalised as attention was shifted to industrial sector through import substitution development strategy. According to Sodipe and Ogunrinola (2011) the structural shift from agriculture sector to industrial sector had not resulted in any significant and sustainable economic growth and development. The wind falls of oil in 1970s swung the economy from agriculture to waste - spending in public sector. The import substitution industrialisation strategy funded by inflow of large amount of foreign exchange from the oil boom put the public sector at commanding height of the Nigerian economy. Thus, rural -urban dichotomy increased as result of the effort of the government on industrialisation and urbanisation. This was evidenced through the movement of labour force from rural area to urban area. According to Oloni (2013) the labour –intensive and dominant agricultural sector did not only decline due to rural-urban drift, but the drift also led to significant productivity decline in the agricultural sector "This development is in contrast to the assumption of presence of zero marginal product in agricultural sector as postulated by Lewis theory of Dual economy and Surplus labour.

Post Structural Adjustment period (SAP) :1986 - 2015

However, in the 1980 there was poor performance in contrast to the impressive performance in terms of economic growth in 1970s According to Iwayemi (2006), in1980s the economy collapsed to -0.3 per cent per annum. Although there was recovery up to 4.2 per cent annual growth in the 1990s. The taking 1980s and 1990s together, the performance of the economy in terms of economic growth was not impressive. Kareem (2006) explained that the short lived nature of the striking macroeconomic performance of 1970s was derived from mainly the combination of oil –induced microeconomic distortions, macroeconomic imbalances, policy and institutional failure and adverse effects of volatile international oil market development. The Spill over effects of the sudden fall in international oil also affected the external debt obligations. All these resulted to the reversal in economic growth performance and the subsequent introduction of Structural Adjustment Programme in1986 to address the problems of internal and external imbalances. The consequence of poor structural change from agricultural economy between 1970 and 2015 was more worrisome as the trend in real per capital is considered. According to Oni (2006), the average living standard of Nigerians as measured by the level of per capital income was only$300 in the late 1990s. However, for the much of the 1990s the real per capital income growth was negative.

Summary of Findings and Conclusion

This study examined the impacts of public capital expenditure on economic growth, unemployment reduction and structural change between 1970 and 2015. Accelerating growth and reduction of unemployment had been the twin -major objectives of economic development plans. Similarly, the Structural Adjustment Programme introduced in 1986 had sustainable economic growth and employment generation as its core objectives. Despite all these, Nigerian economy continues to witness unsustainable economic growth and rising unemployment. It is against this background this study examined impacts of public capital expenditure on economic growth, unemployment reduction and structural change. The major findings deduced from the empirical facts were:

(i) Public capital Expenditure had marginal impact on economic growth in Nigeria
(ii) Public capital had marginal impact on unemployment reduction
(iii) Public capital expenditure had not brought structural change in Nigeria from agrarian to industrial economy.

In concluding, based on the above findings from the empirical facts, the use of public capital could be effective in accelerating economic growth, reducing unemployment in Nigeria but not sufficient enough in bringing structural change from agrarian to industrial economy. Based on these salient facts, the study recommends that future public capital expenditure should be geared towards capital formation sectors to crowd in private investment for the purpose of reducing unemployment, accelerating economic growth and structural change.

References

Adebayo,A.A.and J.O. Ogunirola , (2006) " Contemporary Dimensions of Unemployment Problem" In Employment Generation in Nigeria: NES Annual Conference of 2006.

Arewa A. and Nwakahma(2013),"Macroeconomic Variables and the Dynamic Effects of Public Expenditure":Journal of Knowledge Management, Economics and Information Technology. Vol.III, Issue 6,

Asiwaju, K., S. Arome&S.F. Anyio (2014)."*The rising rate of unemployment in Nigeria: the socio-economic and political implications*." In Global Business and Economics Research Journal, 3(2): 12-32

Ayo, E.J. (1988), Development Planning in Nigeria, University Arosanyin, G.T, T. O. Adekule& G.M. Oyeyemi. (2011). Employment generation and earning in the informal sector in Nigeria. Journal of International Business and Management. VOL. 2, No. 2.

Barro, R. J.and Sala-i-Martin (2007) Economics Growth, Prentice Hall of india Private Limited: New Delhi

Ekeocha C.P. (2007) "Macroeconomic Stabilisation Policies" Nigeria In *Development inTime Perspective:* Past,Present and Future. The 2007 NES Annual Conference

Fajingbesi, A.A. (2009), "Potential Sources of Development Resources for Nigeria", in Mobilization and Management for Development. Ibadan NCEMA.

Fagingbesi A.A. and Odusola A.F. (1999), "Public Expenditure and Growth" in Oluranti S.K., Jalilian H. and HileyM., ends Fiscal Policy Planning and Management inNigeria Ibandan : NECEMA

Gwartney, J. D. and et 'al, (2003). Public and Private Choice. Austtralia: Thomso, South- Western

Iwayemi. A. (2013). Youth unemployment in Nigeria - challenges and way forward.Paper presented at the world Bank Regional workshop on youth employment.

Abuja Iwayemi A. (2006). "Modelling the NigerianEconomy for Growth and Employment " *In Employment Generation in Nigeria*, NES 2006 Annual Conference. The Nigeria Economic Society: Ibadan.

Kareem, O. I. (2006). Globalisation and Employment in Developing Countries. In NSE, Employment Generation in Nigeria: Selected Papers for the 2006 Annual Conference (pp.

341-357). Ibadan: Nigerian Economic Society

Keynes, J.M. (1936). General Theory of Employment, Interest and Money. Macmiliam Cambridge University Press; Royal Economics Society NISER. (2005). Unemployment in Nigeria: A Situational Analysis. Nigerian Institute of Social and Economic Research Occasional Paper

Oloni,. E. F, (2013) "The Impact of Economic Growth on Employment in Nigeria" International Business and Management. Vol.6, No.1,2013, pp 113-119

Okoroafor, O.K.D. (2010) "Money, Inflation and Economic Growth in Nigeria" in Nigeria' Macro economics Development : Issues and Challenges.

Ed J.A Adam and S.A.J. Obansa; Richard and Partners: Gwagwalada-Abuja

Onwioduokit ,E.A. (2006) "Character of Unemployment in Nigeria and its links with the Macro economy." *In Employment Generation in Nigeria*, NES 2006 Annual Conference. The Nigeria Economic Society: Ibadan.

Oni, B. (2006). Employment Generation: Theoretical and Empirical Issues. In NSE, Employment Generation in Nigeria: Selected Papers for the 2006 Annual Conference (pp. 11-30). Ibadan: Nigerian Economic Society

Oni, A.A. and A.M.Ozemkoka (2014) "Impact *of Public Expenditure on the growth of Nigerian Economy"In European Scientific Journal 2014 Edition. Vol 28 ISSN 18857-7881*

Sodipe O.A. and O.I. Ogunrinola (2011) "Employment and Growth Nexus in Nigeria "*International Journal OF Business and Social Science.* Voll 2, No. 11, Special Issue. June 2011.