Is Nigeria’s Unemployment Problem Unsolvable?

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Abstract: Unemployment in Nigeria is alarming. Its measurement by statistical authorities does not pose red alert. It has been discovered that the observed situation of unemployment is more serious than what official statistics want us to believe. The aim of this study is to examine unacceptable unemployment rate in Nigeria. Our findings show that labor force in Nigeria grows at more or less a steady rate of 0.3% every year while GDP growth rate at 1984 factor cost grows at 3.5% over a period of 33 years which implies that Nigeria experiences a jobless growth. The causes of unemployment in Nigeria include poor infrastructure, insecurity and non-diversification of the economy and poor educational system that does not readily produce employable graduates. Among other things we have recommended that governments at all levels should partner with the private sector and diversify the economy in order to create jobs.

Keywords: Diversification, embarrassment, infrastructure, insecurity, unemployment

INTRODUCTION

Attainment of full employment mostly in the developing economies, it is agreed can reduce poverty and foster the growth of their economies. The idea is based on the linkage between income and poverty (Boateng, 2004). Unemployment, it is also noted, generates low income or no income and therefore results in low or poor living standard. Unemployment represents wasted resources (Mankiw, 1994). Unemployed labor has the potential to contribute to national income but are not doing so because they are jobless.

Reduction of joblessness is a major concern of every responsible government all over the globe. However, given free market economies, zero unemployment cannot be guaranteed. Friction in the labor market will always be there.

The American economy in spite of her level of capitalism still believes that the invisible hand is not feasible enough to solve the unemployment problem in her economy. Basically, the “Employment Act of 1946” which represents the basic charter of the US Federal Economic Policy puts high employment to be the primary goal of government action in the following words:

The Congress hereby declares that it is the continuing policy and the responsibility of the Federal Government to use all practical means . . . to promote maximum employment, production and purchasing power (Ackley, 1978).

Because of social and economic hazards that accompany unemployment, it is therefore no surprise that unemployment is a frequent topic of political debate. It is pertinent to note that mere political debate on unemployment cannot solve the problem(s) of unemployment except when the outcomes of the debate are put to implementation backed with resolute political will.

Doubtful unemployment rates posted by Central Bank of Nigeria (2002) notwithstanding, it is observable that unemployment rate in Nigeria has reached unacceptable dimension. Indeed, the labor market in Nigeria is dangerously close to saturation. Indeed, Ekpo (2011) supports the fact that Nigeria’s unemployment situation is unacceptable. The essence of this study is to find out what the cause(s) of unemployment in Nigeria is and the possibility of finding solution(s) to it.

THEORETICAL UNDERPINNING

Somebody that has the qualification, ability and willingness to work and searches for job but does not find one is considered unemployed. Therefore an unemployed is one who participates in the labor market with the hope of finding a job. Everyday some workers lose or quit jobs and some unemployed workers are hired. This perpetual ebb and flow determines the fraction of the labor force that is unemployed. According to Mankiw (1994), labor force could be stated as:

\[ L = E + U \]

where,
\[ L = \text{Labor force} \]
\[ E = \text{The employed} \]
\[ U = \text{The unemployed} \]
The rate of unemployment is $U/L$. If the labor market is in a steady state, then the number of people who look for jobs must equal the number of people losing jobs. Assume $f_U$ is the number of people finding job and $sE$ is the number of people losing jobs, then these two values must be equal, $f_U = sE$.

To find the steady-state unemployment rate, we can write $E = L - U$, that is the number of the employed equals the labour force minus the unemployed. This implies that $f_U = s (L - U)$. Divide both sides of the equation by $L$ and obtain $f_U/L = S(1 - U/L)$ and solve for $U/L$ to find, $U/L = s(S + f)$.

This equation means that rate of unemployment depends on the rate of job separation $s$ and job finding $f$. The higher the rate of job separation the higher the unemployment rate, the higher the rate of job finding, the lower the unemployment rate. One reason for unemployment is that it takes time to match workers with jobs so far labor is not homogeneous and job contents are also different. Again, the flow of information about job candidates and job vacancies is important and geographical mobility of workers is not instantaneous or prompt. Seeking for appropriate job takes time and effort. Hence when workers and jobs are highly heterogeneous, the labor market has little or no semblance of a Walrasian market. Accordingly, workers and firms meet in decentralized one-on-one fashion and engage in drudgery process of trying to match up idiosyncratic preferences, skills, experience and needs. Since this process is not instantaneous or a “hand-down” it results in some unemployment.

Causes of unemployment:

- **Recession**: Recession is a period an economy is at low ebb. When economy is not growing, jobs are not created rather it is unemployment that is inadvertently created. However, what causes recession is outside the discussion of this study.

- **Over regulation**: Sometimes over-regulation in an economy that hinders business expansion can curtail job creation. Regulations should be those that encourage and strengthen businesses than stifle them.

- **Wage rigidity**: According to theory, another reason for unemployment is wage rigidity that is the failure of wages to adjust until labor supply equals labor demand. Yet wages are inflexible downward. Sometimes the real wage is kept above the market clearing level. In reality we have to tread cautiously on the theory of market clearing wage because one, labor is heterogeneous; two, various labor skills attract different wages and three; information in the labor (as it is in any other market) is not perfect. Therefore when these variations are lumped together, it becomes difficult to have market clearing wage. However, the unemployment resulting from wage rigidity and job rationing is called WAIT unemployment. The name WAIT is because job searchers are waiting for availability of job. But wage rigidity is mostly caused by minimum wage and Unions’ collective bargaining.

- **Efficiency wage**: Efficiency-wage theories propose third cause of wage rigidity in addition to minimum wage laws and unionization. The central assumption of efficiency-wage models is that there is a benefit as well as a cost to firm that pays a higher wage. Generally, four of the most mouthed benefits are those advocated by Yellen (1984) and Katz (1986) as quoted by Romer (2001). First, a higher wage can increase workers nutritional intake and make a worker healthier and more productive. Second, it makes a worker to be more responsible and increase his effort in the face of imperfect monitoring. When wage is high an employee can decide not to take risk of moral hazard by idling and be caught and fired.

Another efficiency-wage theory holds that the average quality of a firm’s workforce depends on the wage it pays its employees. When a firm pays low wage, it could lose its best workforce to a higher paying firm, while inferior workers remain. Economists call this unfavorable sorting adverse selection.

Again a high wage can create loyalty among workers and hence induce high effort; on the other hand a low wage can cause anger and desire for revenge and can lead to shirking or disloyalty.

To model efficiency wage theory we assume that there is a large number $N$ of identical competitive firms and the representative firm seeks to maximize its profit:

$$\pi = Y - wL$$  \(1\)

where,

- $\pi = $ the profit
- $Y = $ the firm's output
- $w = $ the real wage it pays
- $L = $ the amount of labor it hires

A firm’s output depends on both the number of workers employed by it and their efforts. Other factors of production are held constant and we vary labor and its corresponding work effort. The representative firm’s output is thus:
Y = F (eL), F’(.) >0, F”(.) <0                     (2)

This is a well-behaved function that satisfies theoretical expectations. Here e denotes worker’s effort. A strong assumption of the efficiency wage models is that effort depends positively on the high wage paid by the firm. Now, we consider wage as the only determinant of effort. We can therefore state that:

e = e (w) and e’ (. ) >0                                       (3)

The problem facing the representative firm is:

Max F (e (w)L) - wL                  (4)
L, w

Suppose there are unemployed workers, the firm can choose the wage freely. Conversely, if unemployment is zero, the firm must pay a competitive wage. The former case however fits into the Nigerian case. Assuming the firm is unconstrained and according to Romer (2001), the first order condition for L and w are:

F’ (e (w) L) e (w) - w = 0               (5)
F’(e (w) L)Le’ (w) - L = 0               (6)

Equation 5 could as well be stated as:

F’ (e (w) L) = \frac{w}{e(w)}                     (7)

Substituting (7) into (6) and dividing by L yields:

\frac{we’(w)}{e(w)} = 1                          (8)

Equation (8) states that at optimum, the elasticity of effort with respect to wage is 1. It should be understood that output is a function of the quantity of labor, eL. When labor is hired by firm, the firm obtains e (w) units of effective labor at a cost of w, thus the cost of effective labor is \frac{w}{e(w)}. When the elasticity of effort e with respect to wage w is 1, a marginal change in w has no effect on this ratio. The wage that satisfies Eq. (8) is known as efficiency wage.

UNEMPLOYMENT IN NIGERIA

The un-conducive economic conditions in Nigeria, namely lack of electricity, poor road network, poor communication system, insecurity, kidnapping, etc., have caused the close down of many companies, throwing many people into labor market. In a certain year over 100 textile factories closed shops across the country and the trend continues. Principal among other reasons for this is lack of electricity. Factories depend on generators to power their factories and this is inefficient and increases unit cost of production and makes their products uncompetitive. Yet the country becomes a dumping ground for all manners of imports.

Some other factors that account for unemployment in Nigeria include unconcerned attitude of Local Governments to create employment, non-diversification of the economy, lack of serious emphasis on skill acquisition, no serious attention is given to the informal sector to empower the sector and even outstanding corporers are still thrown to the labor market at the end of their service year.

Another unfortunate development is that our school system produces “quarter” baked graduates, majority of them are unemployable. Most employers prefer Nigerians with foreign certificates. Nigerian universities produce graduates whose skills are suspect, making it difficult for them to be recruited. The reasons for this include admission overload, poor funding of universities and the “sorting” syndrome. Arising from the issue of poor funding followed by incessant strikes in the university system. Between 1993 and 2003, there were 9 strikes (Okebukola, 2006) culminating in a period loss of 32.75 months or approximately an equivalent of 8.2 semesters.

Furthermore, Nigerian government also placed an embargo on employment. This had a hall telling effect on unemployment since government is the largest employer of labor in Nigeria. Following this, total disengagement from the Federal Civil Service rose from 2724 in 1980 to 6294 in 1984 and trend has been on the increase. Graduate unemployment accounted for about 32% of the unemployed labor force between 1992 and 1997.

We present Table 1 showing GDP at 1984 factor cost, labor force, percentage of labor force, rate of unemployment, unemployed labor in millions, growth rate of GDP and the number of employed labor also measured in millions.

Nigeria’s rate of unemployment posted here needs some comments. Between 2000 and 2001, the rate was 28% and in 2002 it suddenly dropped to 0.28, a reduction of 27.72% over the previous two years. One wonders what happened to the economy that so improved the employment situation. Surprisingly again, it reverted to 28% in 2003 and reduced to 2.9 in 2006. The unemployment rate doubled in 2007 from 2.9% in 2006 to 5.8% in 2007. In 2008, it reduced by 0.9% from 5.8% in 2007 to 4.9% and remained same between 2008 and 2009. It is no clear why the rate of unemployment were the same for years 2008 and 2009. Could it have happened that the same number of people that retired from jobs equaled the same people that qualified for the labor market and were so placed? However, unemployment rate in Nigeria has always generated controversy.
For instance, according to Ndebbo (2006), official employment rate posted between 1990 and 2002 averaged 3.6, while another rate posted within the same period by a private research institute known as Economic Frontier Research Group (EFRG) was 37%. Similarly, according to Adawo (2008), unemployment rate that was posted by Central Bank of Nigeria (2002) for the period 1990 to 2000 averaged 3.7% while National Institute for Social and Economic Research (NISER) posted 72.1% for the same period. Given alarming rate of unemployment in Nigeria the figure posted by NISER is likely to represent the real life situation in Nigeria. Equally, Ekpo (2011) quotes official unemployment rate to be 21%.

Generally observed, the unemployment rate posted by the CBN is always and generally low. Some reasons could be advanced for this. One, the CBN is close to government and may not be willing to post figures that portray red alert. Two, CBN generally depends on the unemployed to register with the labor exchange. Before now a registered unemployed with the exchange used to be placed on job given time but since this benefit ceased to be, there is no encouragement for the unemployed to border to register. Therefore the unregistered unemployed imply that he is not enumerated.

Yet, alternative information has it that the rate of unemployment between ages 20 and 24 years is 40% and between 15 and 19 years 31% while about $\frac{3}{2}$ of the unemployed of the rural population is secondary school graduates. Unfortunately, unemployment rate is not segregated between sexes.

From section “Theoretical underpinning”, we stated a model that is expected to measure the natural

Table 1: Measure of GDP, labor force, rate of unemployment and unemployment labor force

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP at 1984 factor cost</th>
<th>Labor force (m)</th>
<th>%Δ of labor force</th>
<th>Rate of unemployment</th>
<th>Unemployed labor force (m)</th>
<th>%Δ in GDP</th>
<th>No of the employed (m)</th>
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The rate of unemployment, $\frac{U}{L} = \frac{s}{s + f}$ where $s$ is the rate of separation from job and $f$ the rate of job search or finding. Increase in the rate of separation encourages unemployment and increase in the rate of job finding decreases unemployment. From Table 1, the average figure for the period that unemployment was measured is calculated to be 35.2 million and divided by the period of measurement sheds light on the average period the unemployed may likely find job. The 0.88 ratio which translates to approximately 11 months is lengthy period. By the same reasoning, the total unemployed happened to be 120.15 million with an average measurement within the period under review to be 3 million and ratio ($\frac{3}{35.2}$) is 0.08 and that of job search therefore is 0.88.

The rate of job search or finding increases over that of separation, but unfortunately the rate of unemployment in Nigeria increases. This is basically so because job procurement in Nigeria is strictly based on political connections. Fresh graduates who complete their compulsory one year of National Youth Service Corp assignment often search for jobs for upwards of 3 to 5 years without success. Estimating the natural rate of unemployment we have:

$$\frac{0.08}{0.08 + 0.88} = \frac{0.08}{0.96} = 0.0833$$

In percentage terms, 8% that is thought to be the natural rate of unemployment is too high. This confirms that the rate of unemployment in Nigeria is intolerably high. Indeed, according to Ekpo (2011), it is a national crisis.

Unfortunately, of recent government has been prompted to wake up to the challenges of unemployment in Nigeria. President Jonathan (2011) said, “The Nigerian economy should engage the youth or the youth will engage the government” (The Nation, Wednesday, October 26, 2011, p. 6). This is a belated statement because the youth have already engaged the government, e.g., Niger Delta Militancy, Boko Haram, armed robbery, kidnapping, pilfering, political touting and thuggery.

According to Aganga (2011), “we have a good economy which is growing at an average (rate) of 7%”. He went further to say that in 2008 our economy (i.e., Nigeria’s economy) grew at 6.9% which is approximately 7%. But the paradox is that an economy that grows at 7% cannot absorb a growth of population of 2.3% into employment or at best the labor force that grows at an average of 0.3%. Indeed, this is a jobless growth. Probably the growth may come from the oil sector which is highly capital intensive and also from agriculture that does not necessarily imply modernization of the sector, but rather as a last resort decision from the youth to keep soul and body together.

Originating from Okun’s law, the postulation is that there is a negative relationship between unemployment and the growth of Gross National Product. In other words, increase in unemployment dampens economic growth because it is workers who work and grow an economy. Based on this, we regressed growth rate of unemployment on GDP rate mostly to confirm or refute the received theory that unemployment reduces growth. The data points were 40 and the coefficient of regression was -0.012 which is properly signed though t value was insignificant. However, the multiple regression of determination was 59%. The interpretation of the result is that for every one unit increase in unemployment, the GDP reduces by 0.012. The above estimates were made at level and the limitation is that the time series could be subjected to unit root test to remove spurious result, if any. The recent growth of the economy as posted by statistical authorities creates doubt in the face of stinting unemployment.

**Effects of unemployment:** Unemployment has effects both on the individual unemployed and on the society/economy as a whole. The unemployed is perpetually unhappy with him in a world of material consideration. Social effects of unemployment include personal hardship, depression, decay of acquired but unused skills, involvement in crime (mostly among youth) as well as dispute among married people, delayed marriages among singles and sometimes broken homes. Joblessness of a husband can lead to infidelity of the wife.

Unemployment increases governments’ expenditure or transfer payments where welfare programs are implemented in favor of the unemployed.

It brings poverty and inequality. Unemployment represents “waste” of resources expended on training the unemployed when exchange value of education is considered in absolute sense. The economic cost of unemployment includes reduction in education. It involves loss of output and income. Increasing crime rate in Nigeria does not distance itself from unemployment.

**RECOMMENDATIONS**

To proffer solution (s) to problems of unemployment, it is necessary to recapitulate the cause (s) of unemployment. Fundamentally unemployment in Nigeria stems from lack of infrastructure, particularly economic infrastructure such as electricity, railway, roads and effective communications. The so-called GSM in Nigeria communicates per chance. Again the
The economy is extremely mono-cultural depending solely on crude oil without any genuine effort to diversify. Insecurity in Nigeria discourages both local and foreign investors. These are topped with corrupt practices that do not allow government to think seriously and act seriously about unemployment:

- To start with, the rate of unemployment posted by both the Central Bank of Nigeria and the National Bureau of Statistics does not pose red alert to effectively tackle unemployment. The starting point knows how many that is unemployed. Enumeration of the unemployed should be done by local governments specifying distribution such as sex, age, qualification, profession and skill. When this information is collated at the state level, it could be passed to the Federal Government.
- Unemployment should be tackled at all levels of government-federal, state and local government. Annual budgets of these governments should include allocation that is specifically meant for job creation and should not be diverted to something else or veered to other sectors.
- Local and state governments should partner with meaningful private farmers to modernize agriculture which has a large capacity to reduce joblessness.
- Government at all levels should also partner with private individuals to establish industries, which the private partner provides the driving force. The nature of the industry is it small or medium, should be labor intensive.
- Each local government should establish skill acquisition centers such that when an apprentice completes the skill acquisition he should be assisted to establish a business of his own.
- There is absolute need for governments at all levels to fix infrastructure particularly electricity and good roads. Availability of electricity, its regularity and correct voltage will go a long way to reduce joblessness and poverty.
- All governments should work together to eliminate insecurity in Nigeria, this will encourage foreign private investors to come to Nigeria and invest, so also local investors.
- The informal sector that has near limitless capacity to absorb migrants should be encouraged by way of providing selective credit to them.
- Government should partner with the private sector to diversify the economy. This is one area government at all levels has been paying lip-service to. It is certain that even though government is the largest employer of labor in Nigeria, it cannot provide all the required employment.
- Government should enact a law that best corpers be automatically employed wherever they served than throw them into the saturated labor market if the so-mouthed ‘One Nigeria’ is anything to believe in.
- Government should introduce welfare package for the unemployed rather than wasting the existing resources in corruption.
- Lastly, our educational system should be overhauled to produce graduate that are functional in industries.

The rate of unemployment in Nigeria is alarming and something meaningful and tangible must be done about it. Even though National Assembly apparently of recent happened to mention the issue of unemployment, it is pertinent to be positive about it.

Theoretically, received theory says that government run deficit budgets to expand economies and perhaps also create jobs, yet in Nigeria (except 1992), all years through government run deficit budgets and no improvement in the economy let alone job creation. This means that the fiscal deficits are run to basically satisfy the instincts of the politicians (be they in khaki or agbada) and the impact of such deficit financing could not be felt under the first round effects.

We have made effort to show how disturbing the unemployment situation in Nigeria is and effort has also been made to proffer solutions to it. We think if these recommendations are strictly implemented it will go a long way to reduce unemployment. The time to act is now because, according to Ekpo (2011), “the unemployment in Nigeria remains a national embarrassment”.

The question posed is, is Nigeria’s unemployment problem unsolvable? We believe that the recommendations so far made can solve the problem of unemployment in Nigeria.

**CONCLUSION**

The study has found out that the growth of labor force in Nigeria is about 0.3% annually and the growth of the GDP that averaged 3.5% could not absorb the unemployed. This, we believe, is a jobless growth. Our regression result is -0.012 which conforms to Okun’s law that unemployment reduces growth. Again, the findings also show that the national rate of unemployment in Nigeria is 8% which is rather very high.

The Nigerian government should see the problem of unemployment in the country as a national challenge that needs urgent and determined attention.
REFERENCES