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FISCAL POLICY AND UNEMPLOYMENT IN NIGERIA

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Abstract

This study examined the effect of fiscal policy on unemployment in Nigeria from 1990-2020. The objective of the study is to find out the relationship between selected components of fiscal policy like recurrent expenditure, capital expenditure, debt servicing and some control variables like, inflation rate, interest rate spread, Gross Fixed Capital Formation on unemployment in Nigeria. the study used expo-factor research design with Auto Regressive Distributed Lag (ARDL) in analyzing the Data gotten from CBN Statistical bulletin 2020. however, it was observed from the results that, there is no significant relationship between inflation rate and unemployment rate in Nigeria; there is no significant relationship between interest rate spread and unemployment rate in Nigeria; there is no significant relationship between government recurrent expenditure and unemployment rate in Nigeria; there is significant relationship between government capital expenditure and unemployment rate in Nigeria; there is no significant relationship between gross fixed capital formation and unemployment rate in Nigeria; there is significant relationship between debt servicing and unemployment rate in Nigeria. Based on the findings, the study concludes that fiscal policy which entails the use of government expenditure in raising aggregate demand and output has a significant impact on unemployment rate in Nigeria. It was recommended that, Since Capital Expenditure has positive significant relationship with unemployment rate in Nigeria; government should intensify its roles in expanding its investment in capital expenditure for the reduction of unemployment rate in Nigeria; Recurrent expenditure of the government should be stimulated in such away that it creates employment opportunities along side solving infrastructural deficits problems in the economy; Since Debt servicing has positive and significant relationship with unemployment rate in Nigeria; government should intensify its activities in repayment of debts both domestic and foreign debts.

(Keywords: Fiscal Policy, Unemployment, Capital Expenditure, Recurrent Expenditure, Debt Servicing)

1.1 Introduction

Over the years, the Nigerian Government had embraced different fiscal policy measures to decrease the issue of unemployment, yet the issue has been on upsurge. Regardless of the lofty place of fiscal policy in the management of the economy, the Nigerian economy is yet to

come on the path of sound growth and development. For instance, few researchers have demonstrated that the economy is still hitched by chronic unemployment, rising rate of inflation, mono-cultural foreign exchange earnings from crude oil and more. Moreover, stagnating revenue mobilization, unprioritized public expenditure, rising public debt, debt servicing arrangements, exchange rate depreciation have led to more economic problems that further worsen the unemployment status rather than flatten the curve. One important question that quickly comes to mind is: what is the impact of fiscal policy on reduction of unemployment in Nigeria? Is there any trade off between fiscal policy and unemployment? Thus, this paper seeks to examine these problems and provide an empirical link between fiscal policy and unemployment in Nigeria in the long run.

The motivation behind the study stems from the fact that at a time when the Nigerian economy is facing serious problems ranging from high levels of inflation, mounting debt servicing due to increased borrowing, with rising rates of interest, low capital formation, rising recurrent and capital expenditure; a search for solution via fiscal policy in line with the Keynesian thought becomes a source of interest. It is in light of the foregoing that the study investigates the effectiveness of fiscal policy variables in reducing unemployment in Nigeria with a view to contributing to the existing literature and also to proffer policy recommendations to the economic challenges at hand.

2.0 Literature Review

2.1 Conceptual Review

2.1.1 Concept of Fiscal Policy

Schmidt (2018) sees Fiscal policy as when government uses its spending and taxing powers to have an impact on the economy. The combination and interaction of government expenditures and revenue collection is a delicate balance that requires good timing and a little bit of luck to get it right. The direct and indirect effects of fiscal policy can influence personal spending, capital expenditure, exchange rates, deficit levels, and even interest rates.

According to Jeffrey (2019) fiscal policy is the means by which the government adjusts its spending and revenue to influence the broader economy. By adjusting its level of spending and tax revenue, the government can affect the economy by either increasing or decreasing economic activity in the short term. For example, when the government runs a budget deficit, it is said to be engaging in fiscal stimulus, spurring economic activity, and when the government runs a budget surplus, it is said to be engaging in a fiscal contraction, slowing economic activity.

2.1.2 Concept of Unemployment

There appear to be a consensus on the definition and utilization of the idea, unemployment. Similarly, Udu and Agu (2005), suggest that unemployment is "a circumstance in which people skilled and willing to work cannot discover reasonable paid employ men". As categorized by International Labour Organization (2007), unemployed specialists are the individuals who are presently not working but rather are willing and ready to work for pay, currently available to work and have actively search for work. Hornby (2010) stated that unemployment is "the actualities of various individuals not having an occupation; the number of individuals without an occupation; the situation of not having job". In a similar vein, an

operational meaning of unemployment for this work will incorporate the underemployed, consequently unemployment occurs when individuals who are capable and willing to work are without job, or cannot look for some kind of employment that is powerful and gainful to do. It likewise happens when individuals attempt job that are opposite or lower than their academic capabilities or areas of specialization.

2.2 Theoretical Review

2.2.1 Theories of Wage-Price Flexibility and Full Employment

There are divergent perspectives by researchers in economics on the theoretical bases of unemployment. Though, some prominent schools of thoughts will be linked in this exploration work to examine the multidimensional circumstance of unemployment in Nigeria. These are: Keynesian Theory of Unemployment, Classical Theory of Unemployment, The Marxist Theory of Unemployment, The Search Theory of Unemployment, and The Theory of Real Business Cycles, Jhingan (2003).

2.2.2 The Classical View of Employment and Unemployment

The classical economists believed that there was always full-employment in the economy. In the case of unemployment, a general cut in money wages would take the economy to the full employment level. Their argument runs as follows:

In a competitive economy when money wages are reduced, they lead to reduction in the cost of production and consequently, to the lower prices of products, when prices fall, the demand for products will increase and sales will be pushed up. Increased sales will necessitate the employment of more labour and ultimately, full employment will be attained, Jhingan (2003). The classical view is based on the assumption that changes in money wages are directly related and proportional to real wages. So when money wage is reduced, the real wage is also reduced to the same extent. Consequently, unemployment is reduced and full employment prevails. But it is the equality of demand and supply of labour at a particular wage rate that employment is achieved. The demand for labour is an increasing function of the real wage rate. If W is the money wage rate, P is the price of the product and MP is the marginal product of labour, then it follows that: W=P*MP or W/P =MP. Since MP declines as employment increases, it follows that the level of employment increases as the real wage declines. The downward sloping demand curve for labour is assumed an increasing function of the real wage. This curve indicates that supply of labour is an increasing function of real wage. The curve indicates that the rise in real wage will induce more workers to offer themselves for employment. If the real wage is maintained at a higher level W/P, there is excess supply of labour and labour is unemployed. It is only when the wage rate is reduced to W/P that unemployment disappears and the level of full employment is attained.

The classical view stood at that time and solved the problem of full employment equilibrium issues by automatic adjustments using wage cuts as a strong point in absorbing idle labour to produce output; however, it is no longer apt as a theoretical foothold on the grounds that market based adjustments have been ineffective over the years, especially during the period of Great depression of 1930s. Furthermore, the classical view did not envisage the short run in their analysis; thereby neglecting the resistance to wage cuts and growth of unionism; thus,

making a case for wage inflexibility downwards in their assumption. The preoccupation of labour reward on nominal wage was a major short coming of the classical.

2.3 Empirical Review

Obayori (2016) examined the effect of Fiscal Policy on Unemployment in Nigeria using the Error Correction Model methodology. Findings of the study revealed that both capital and recurrent expenditure of the government exerted a negative effect on unemployment in Nigeria.

Ekong, Okon, & Effiong, U.E, (2019), examined, he influence of fiscal policy on unemployment in Nigeria for the period 1990-2018 with a view to ascertaining the effectiveness of fiscal policy tools in counteracting the problem of unemployment. The study used unemployment rate as the dependent variable; tax revenue, capital expenditure, recurrent expenditure and external debt as proxies for fiscal policy while inflation rate and exchange rate were introduced as control variables. Stationarity tests were carried out on the variables using the Augmented Dicker Fuller and Phillips-Perron Tests and the Johanson Co-integration Test was employed to ascertain the short-run and long-run relationship among the co-integrating equations. The OLS estimate was employed to determine the relationship between the dependent and independent variables. It was found that capital expenditure, recurrent expenditure, external debts, inflation rate and exchange rate have a positive relationship with unemployment in the long-run, only tax revenue was found to have an opposite relationship with unemployment rate. However, in the short-run, capital expenditure, recurrent expenditure and external debts reduced unemployment rate whereas inflation rate, exchange rate and tax revenue were positive. It is recommended that borrowed funds be used only for the intended productive purposes. There should be strict monitoring of government projects to ensure that every naira spent counts.

Udeze, Obi, Ezenekwe, & Ukeje, (2020), examined the effect of fiscal policy on urban unemployment in Nigeria. Specifically, the study investigated the impact of government spending, government revenue, fiscal deficit and public debt on urban unemployment in Nigeria. Using time series spanning from 1981 to 2018, the study estimated generalized linear model (GLM). The results obtained show that capital expenditure and government revenue have significant negative impact on urban unemployment in Nigeria. Also, recurrent expenditure and fiscal deficit were found not to exert significant impact on urban unemployment within the period. However, public debt reinforces unemployment in urban centres in Nigeria. The study therefore recommended that the Nigerian government reconsiders increased budgeting and releases of fund for capital expenditure while cutting its ever bulging personnel cost. Since urban unemployment is sensitive to revenue changes, it was also recommended that government should make effort to stabilize its revenue sources so as to ensure smoothened revenue accretion over the periods

3.0 Methodology

3.1 Research Design

This research study utilized Ex-post facto research design and adopted a model to investigate the "The Effect of Fiscal Policy on Unemployment in Nigeria: 1990– 2020.

3.2 Source of Data

The data were obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin (2020) of various issues.

3.3. Model Specification

This study adopted the work of Nwosa (2014) on "The impact of government expenditure on unemployment and poverty rates in Nigeria for the period 1981 to 2011''. However, this study improved on the study by re-modelling unemployment as a function of fiscal policy. This study introduced robust variables such as Government recurrent expenditure, Government capital expenditure, Debt Servicing, Inflation rate, Interest rate spread, Gross fixed capital formation and unemployment rate as the dependent variable. Hence; the Endogenous growth model can be written in the form:

UNEMRATE=f (INFRATE, INTSPREAD, RECEXP, CAPEXP, GFCF,DSERV) 3.1

Specifically, the econometric relationship simplified as follows:

$$\textbf{UNEMRATE}= \beta_0 + \beta_1\textbf{INFRATE} + \beta_2\textbf{INSPREAD} + \beta_3\textbf{RECEXP} + \beta_4\textbf{CAPEXP} + \beta_5\textbf{GFCF} + \beta_6\textbf{DSERV} + \mu \quad 3.2$$

Where:

UNEMRATE = Unemployment rate
INFRATE = Inflation rate.
INTSPREAD = Interest rate spread.
RECEXP = Government recurrent expenditure.
CAPEXP = Government capital expenditure
GFCF = Gross fixed capital formation
DSERV = Debt servicing
μ = White noise error term
β_0= constant term.

The above model was formulated based on the Keynesian view about unemployment and advocacy of use of fiscal tools to boost aggregate demand and investment to curb unemployment problems in the economy. Furthermore, the model tries to bring out the evidence of trade off between inflation and unemployment in the long run.

$b_1 – b_5$ are coefficients of parameters estimates and b_0 is the intercept of the model. 'e' is the white noise error term. The white noise error term inclusion is on the assumption that the error terms of the observations are not correlated and thus; due to measurement error, omission of variables and human factor in specifying the model the error term was included. It specifically caters for institutional lapses and instability of polity not factored by parameterization of the model.

3.4 Method of Data Analysis

The Auto-regressive distributed lag model (ARDL) was used for the model estimation. The use of ARDL test approach is predicated on its several advantages over other cointegration tests such as Engle-Granger and Johansen's cointegration method. Firstly, the ARDL efficiently determines the cointegrating relation in small sample cases (Ghatak & Siddiki, 2001; Tang, 2003), whereas Johansen's method requires large sample for validity. Secondly, other

methods requires that the variables must be integrated of the same order before the cointegration test is carried out, while the ARDL approach can be applied irrespective of whether the regressors are *I(1) and I(0) or mutually* cointegrated, in which the dependent variable must be *I(1).*

4. 0 Data Presentation, Analysis and Interpretation

4.1 Presentation of Data.

Data on Inflation Rate, Interest Rate Spread, Gross Fixed Capital Formation, Government Recurrent Expenditure, Government Capital Expenditure, Debt Servicing and Unemployment Growth Rate were used in this study for data analysis (see Appendix 1 for Time series data).

4.2 Analysis of Data

4.2.1 Unit Root Test

Table 4.1 Unit Root Test

VARIABLE	ADF STAT. (LEVEL)	5% CRITICAL VALUE	ADF STAT (1ST DIFF)	5% CRITICAL VALUE	REMARK
LNUNEMRATE	-0.492165	-2.963972	-5.230689*	-2.967767	I(1)
LNINFRATE	-2.969684	-2.967767	-4.206710*	-2.967767	I(1)
LNINTSPREAD	-4.541693*	-2.967767	-5.494733	-2.971853	I(0)
LNRECEXP	-1.893139*	-2.967767	-7.378927*	-2.967767	I(1)
LNCAPEXP	-0.773468	-2.963972	-5.096549*	-2.967767	I(1)
LNGFCF	-6.433360	-2.967767	-10.60930	-2.971853	I(0)
LNDSERV	-1.039802	-2.967767	-6.236371	-2.967767	I(1)

Source: Researcher's compilation from E-views 10 Regression output.

The Asterisks (*) is used to indicate stationarity at the 5% level of significance.

From the stationarity test above, the variables were stationary at I(0) and I(1); hence fit for model estimation.

4.2.2 ARDL Bounds Test

Table 4.2: Test for Cointegration: ARDL Bounds Test

H_0: There is no long run relationship in the model.
H_1: There is a long run relationship in the model.

F-Bounds Test			Null Hypothesis: No levels relationship	
Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	5.816471	10%	1.99	2.94
K	6	5%	2.27	3.28
		2.5%	2.55	3.61
		1%	2.88	3.99

Source: Researcher's compilation from E-views 10 Regression output.

Decision: Since F-statistic (5.816471) > I(0) and I(1) bounds; hence, there is evidence of long run relationship in the model at 5% level of significance.

4.2.3 ARDL Error Correction Regression

Table 4.3: ARDL Error Correction Regression

ECM Regression
Case 2: Restricted Constant and No Trend

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LNINFRATE)	0.293805	0.066006	4.451200	0.0043
D(LNINFRATE(-1))	-0.241488	0.055359	-4.362238	0.0048
D(LNINTSPREAD)	-0.182034	0.066151	-2.751814	0.0332
D(LNINTSPREAD(-1))	-0.151424	0.055161	-2.745146	0.0335
D(LNGFCF)	0.027524	0.022864	1.203771	0.2740
D(LNGFCF(-1))	-0.076167	0.016272	-4.680875	0.0034
D(LNGFCF(-2))	-0.121131	0.018636	-6.500005	0.0006
D(LNRECEXP)	0.655521	0.064170	10.21535	0.0001
D(LNRECEXP(-1))	0.775994	0.086621	8.958512	0.0001
D(LNRECEXP(-2))	0.762551	0.099132	7.692258	0.0003
D(LNCAPEXP)	0.159263	0.060393	2.637110	0.0387
D(LNCAPEXP(-1))	-0.212277	0.078600	-2.700743	0.0355
D(LNCAPEXP(-2))	-0.686576	0.095769	-7.169124	0.0004
D(LNDSERV)	-0.013229	0.008602	-1.537772	0.1750
CointEq(-1)*	-0.936351	0.093254	-10.04086	0.0001

Source: E-views 10 Regression output.

4.2.4 ARDL Long Run Form and Bounds Test

Table 4.4 ARDL Long Run Form and Bounds Test

Levels Equation
Case 2: Restricted Constant and No Trend

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNINFRATE	0.350694	0.164782	2.128228	0.0774
LNINTSPREAD	0.205271	0.300631	0.682801	0.5202
LNGFCF	0.181596	0.146812	1.236924	0.2623
LNRECEXP	-0.012680	0.106245	-0.119344	0.9089
LNCAPEXP	0.661979	0.202096	3.275573	0.0169
LNDSERV	0.140450	0.036818	3.814716	0.0088
C	-2.891618	0.731390	-3.953593	0.0075

EC = LNUNEMRATE - (0.3507*LNINFRATE + 0.2053*LNINTSPREAD + 0.1816
*LNGFCF -0.0127*LNRECEXP + 0.6620*LNCAPEXP + 0.1404
*LNDSERV -2.8916)

Source: E-views 10 Regression output.

D(LNINFRATE(-1)): has a negative and significant relationship with UNEMRATE at 5% level of significance.
D(LNINTSPREAD(-1)): has a negative and significant relationship with UNEMRATE at 5% level of significance.
D(LNGFCF(-1)): has a negative and significant relationship with UNEMRATE at 5% level of significance.
D(LNRECEXP(-1)): has a positive and significant relationship with UNEMRATE at 5% level of significance.
D(LNCAPEXP(-1)): has a negative and significant relationship with UNEMRATE at 5% level of significance.
D(LNDSERV(-1)): has a negative and insignificant relationship with UNEMRATE at 5% level of significance.
The ECM coefficient is negative and significant at the 5% level of significance; hence, any short run dis-equilibrium in the model will be corrected at the rate of 93.6% per annum and this will take less than 2 years.

4.3 Test of Hypotheses

Hypothesis 1

H_o: Inflation rate has no significant relationship with unemployment growth rate in the Nigerian economy.
H_1: Inflation rate has a significant relationship unemployment growth rate in the Nigerian economy .Prob.value from ARDL long run results on table 4.8 =0.0774, $\alpha = 0.05$

Decision: Since the prob.value (0.0774) > 0.05 the null hypothesis is accepted and it is concluded that Inflation rate has no significant relationship with unemployment growth rate in the Nigerian economy at α=0.05.Thus, the absence of trade-off between inflation and unemployment in the long run is validated; hence lending empirical evidence to the Philips-Phelps hypothesis with respect to the Nigerian economy.

Hypothesis 2

H_o: Interest rate spread has no significant relationship with unemployment growth rate in the Nigerian economy.
H_1: Interest rate spread has a significant relationship with unemployment growth rate in the Nigerian economy.
Prob.value from ARDL long run results on table 4.8 = 0.5202, $\alpha = 0.05$

Decision: Since the prob.value (0.5202) > 0.05 the null hypothesis is accepted and it is concluded that Interest rate spread has no significant relationship with unemployment growth rate in the Nigerian economy.

Hypothesis 3

H_o: Recurrent expenditure has no significant relationship with unemployment growth rate in the Nigerian economy.
H_1: Recurrent expenditure has a significant relationship with has no significant relationship with unemployment growth rate in the Nigerian economy.
Prob.value from ARDL long run results on table 4.8 = 0.9089, $\alpha = 0.05$

Decision: Since the prob.value (0.9089) > 0.05 the null hypothesis is accepted and it is concluded that Recurrent expenditure has no significant with unemployment growth rate in the Nigerian economy.

Hypothesis 4

H_o: Capital expenditure has no significant relationship with unemployment growth rate in the Nigerian economy.

H_1: Capital expenditure has a significant relationship with unemployment growth rate in the Nigerian economy.

Prob.value from ARDL long run results on table 4.8 = 0.0169, $\alpha = 0.05$

Decision: Since the prob.value (0.0169) < 0.05 the null hypothesis is rejected and it is concluded that Capital expenditure has a significant relationship with unemployment growth rate in the Nigerian economy.

Hypothesis 5

H_o: Gross fixed capital formation has no significant relationship with unemployment growth rate in the Nigerian economy.

H_1: Gross fixed capital formation has a significant relationship with unemployment growth rate in the Nigerian economy.

Prob.value from ARDL long run results on table 4.8 = 0.2623, $\alpha = 0.05$

Decision: Since the prob.value (0.2623) > 0.05 the null hypothesis is accepted and it is concluded that Gross fixed capital formation has a significant relationship with unemployment growth rate in the Nigerian economy.

Hypothesis 6

H_o: Debt servicing has no significant relationship with unemployment growth rate in the Nigerian economy.

H_1: Debt servicing has a significant relationship with unemployment growth rate in the Nigerian economy.

Prob.value from ARDL long run results on table 4.8 = 0.0088, $\alpha = 0.05$

Decision: Since the prob.value (0.0088) < 0.05 the null hypothesis is rejected and it is concluded that Debt servicing has a significant relationship with unemployment growth rate in the Nigerian economy.

4.4.1 Joint Test (ANOVA).

Ho: LNINFRATE=LNINTSPREAD=LNRECEXP=LNCAPEXP=LNGFCF=LNDSERV=0

H_1: LNINFRATE≠LNINTSPREAD≠LNRECEXP≠LNCAPEXP≠LNGFCF≠LNDSERV≠0

Findings: From the regression result, the F-prob. value is 0.000001 which is less than 0.05; hence we reject the null hypothesis and conclude that there is a joint impact of LNINFRATE, LNINTSPREAD, LNRECEXP, LNCAPEXP, LNGFCF and LNDSERV on Unemployment Growth Rate (UNEMRATE) at 5% level of significance.

4.4 Post Estimation Test

4.4.1 Variance Inflation Factor Test for Multicollinearity.

H_o: There is no presence of multicollinearity in the model at 5% level of significance.

H_1: There is presence of multicollinearity in the model at 5% level of significance.

R^2 = O.962603, $\quad VIF = \frac{1}{1-R^2} = 10$

Findings: Since VIF = 10 > 5, the null hypothesis is accepted and it is concluded that there is presence of multicollinearity in the model at 5% level of significance. However, since the presence of multicollinearity did not lead to bias or severe type 1errors in the model estimation, we ignored it (see Egbulonu, 2005)

4.4.2 Durbin-Watson Test for Serial Correlation.

H_o: There is no serial autocorrelation in the model.

H_1: There is presence of serial autocorrelation in the model.

D = 2.657848

Findings: Since d=2.657848 is easily rounded down to 2 than rounded up to 4, it means there is no presence of serial autocorrelation in the model at 5% level of significance.

4.4.3 Breusch-Godfrey Test for Heteroscedasticity.

H_o: There is no heteroscedasticity in the model.

H_1: There is presence of heteroscedasticity in the model.

Table 4.5 Test for Heteroscedasticity

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.334893	Prob. F(21,6)	0.9713
Obs*R-squared	15.10939	Prob. Chi-Square(21)	0.8174
Scaled explained SS	1.078493	Prob. Chi-Square(21)	1.0000

Source: E-views 10 Regression output.

From the Regression output, Prob.chi-square (12) = 0.8174

Findings: Since Prob. Chi-square is greater than 0.05, it means that there is no heteroscedasticity in the model.

4.4.4 Test for Causality

H_o: There is no causality effect between fiscal policy and unemployment growth rate in Nigeria at $\alpha = 0.05$.

H_1: There is a causality effect between fiscal policy and unemployment growth rate in Nigeria at $\alpha = 0.05$.

Decision: From the Granger causality test result, it was seen that causality exists and flowed uni-directionally from LNCAPEXP $\rightarrow$ LNINFRATE and LNCAPEXP LNGFCF. This answers the research questions formulated in chapter one and shows that there is causality between fiscal policy and unemployment growth rate in Nigeria at 5% level of significance. (See appendix for table)

4.4.5 Goodness of Fit of the Model.

Adj.R^2=0.949141 x 100% = 94.9%

From the result of the regression, the Adjusted R-squared shows that about 94.9% variation in Unemployment growth rate can be explained by the explanatory variables; hence, the model has a very strong explanatory power in relation to unemployment growth rate in Nigeria.

4.5 Discussion of Findings

The following research findings were made and are discussed below:

i. **LNINFRATE**: was positively related to unemployment growth rate in Nigeria as expected from our a priori expectation, but statistically insignificant at 5% level of significance in the long run. This means that inflation rate has no significant impact on unemployment in Nigeria. This result is likely attributable to poor economic management and policy frame work that affects employment, prices and output. Furthermore, the result validates the long run Philip curve hypothesis of no trade-off between inflation and unemployment.

ii. LNINTSPREAD: was positively related to unemployment growth rate in Nigeria as expected from our a priori expectation and statistically insignificant at 5% level of significance in the long run. This means that interest rate spread has no significant impact on unemployment in Nigeria. The result is apt in this direction as there has been little or no attention to the interest rate transmission mechanism to stimulate output, reduce inflation and raise domestic savings for employment of factors in the economy.

iii. LNRECEXP: was negatively related to unemployment growth rate in Nigeria, although contrary to the a priori assumption and statistically insignificant at 5% level of significance in the long run. This means that government recurrent expenditure has no has a significant effect on unemployment in Nigeria. The insignificant relationship it bears with unemployment is suggestive of the fact that the government has not found a way to make its recurrent expenditure worth while in reducing unemployment, despite the various poverty alleviation schemes and empowerment programmes being funded over the years.

iv. LNCAPEXP: was positively related to unemployment growth rate in Nigeria and statistically significant at 5% level of significance in the long run. This means that capital expenditure of the government has a significant impact on unemployment in Nigeria as in consonance with our *a priori* expectation. The result is no exaggeration of any sort and there's no gainsaying that capital expenditure raises marginal efficiency of capital, investment and absorption of labour for employment to produce output in the short and long run *ceteris paribus*.

v. LNGFCF: was positively related to unemployment growth rate in Nigeria and statistically insignificant at 5% level of significance in the long run as alluding with our *a priori* expectation. This means that gross fixed capital formation has no significant impact on unemployment in Nigeria. The insignificant relationship is suggestive of the fact that government lacks the capacity to muster capital for economic growth that could have raised output and reduce the incidence of unemployment in the economy.

v. LNDSERV: was positively related to unemployment growth rate in Nigeria and statistically significant at 5% level of significance in the long run. This means that debt servicing has a significant impact on unemployment in Nigeria despite contrasting with our *a priori* expectation. The result is no exaggeration of any sort and there's no gainsaying that servicing mortgages the future of the present and unborn generation in terms of employment opportunities and economic prosperity in the long run. Funds that could have been utilized for capital formation are diverted to servicing of debt; thereby switching present growth for the woes of economic mismanagement.

From the above discussions it can be clearly seen that unemployment in Nigeria can be curtailed by appropriate utilization of fiscal policy variables discussed above. By the appropriate utilization of fiscal policy mix in the direction of priority and growth needs, unemployment can be reduced in the long run within the ambit of sound economic management.

The stability of the model was ascertained through the CUSUM test and it was found to be stable at 5% level of significance. The overall goodness of fit of the model was ascertained through the adjusted R-squared which showed a 54.78% explanatory power and a very good fit of the model. The model forecast was also found to be stable.

5.0 Summary, Conclusion and Recommendations

5.1 Summary of Findings

From the hypotheses tested was discovered that:

1. Inflation rate has no significant relationship with unemployment rate in Nigeria.
2. Interest rate spread has no significant relationship with unemployment rate in Nigeria.
3. Recurrent Expenditure has no significant relationship with unemployment rate in Nigeria.
4. Capital Expenditure has positive significant relationship with unemployment rate in Nigeria.
5. Gross Fixed Capital Formation has no significant relationship with unemployment rate in Nigeria.
6. Debt servicing has positive significant relationship with unemployment rate in Nigeria.

5.2 Conclusion

The study examined the impact of fiscal policy on unemployment in Nigeria from 1990-2020. The objective of the study is to find out the relationship between selected components of fiscal policy like recurrent expenditure, capital expenditure, debt servicing and some control variables like, inflation rate, interest rate spread, Gross Fixed Capital Formation on unemployment in Nigeria. The study used expo-factor research design with Auto Regressive Distributed Lag (ARDL) in analyzing the Data gotten from CBN Statistical bulletin 2020. Based on the findings, the study concludes that fiscal policy which entails the use of government expenditure in raising aggregate demand and output has a significant impact on unemployment rate in Nigeria.

5.3 Recommendations

This study made the following recommendations. They are as follows:

- **i.** Since Inflation rate is insignificant to unemployment government should not waste its resources in monitoring or controlling inflation rate rather their target should be to create more employment in order to increase productivity thereby reducing inflation rate.
- **ii.** Interest rate spread was found to be insignificantly related to unemployment in Nigeria; it means interest rate spread should be adjusted to avoid its effect on other rates moving upwards, which could in the long run affect capital formation, output and employment of human and material resources in the long run.
- **iii.** Gross fixed capital formation should be targeted for increase by the government and the private sector. This should be pursued with concerted efforts as it has the capacity to absorb idle labour for increased productivity.
- **iv.** Since Capital Expenditure has positive significant relationship with unemployment rate in Nigeria; government should intensify its roles in expanding its investment in capital expenditure for the reduction of unemployment rate in Nigeria.
- **v.** Recurrent expenditure of the government should be stimulated in such away that it creates employment opportunities along side solving infrastructural deficits problems in the economy.
- **vi.** Since Debt servicing has positive and significant relationship with unemployment rate in Nigeria; government should intensify its activities in repayment of debts both domestic and foreign debts.

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