Stabilization policy, Unemployment Crises and Economic Growth in Nigeria

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Abstract
Since the early eighties, the urban unemployment has been regarded as one of the most challenging economic problems facing the Nigerian policy makers. This study however examined the implication of the urban unemployment crisis on economic growth in Nigeria. The choice is to enable us determine the nexus among stabilization policy, unemployment crisis and growth. The paper employed standard econometric method, Ordinary Least Square multiple regression, (OLS) to determine the relationship between urban unemployment crisis and economic growth in Nigeria. Most important for the objectives of this paper, the estimated coefficients support the idea that urban unemployment crisis had a large negative significant impact on economic growth in Nigeria during the period under review. The finding is in consonance with a prori expectations. The results of the finding show that the past values of unemployment crisis could be used to predict the future behaviour of economic growth in Nigeria. The econometric results suggested the need for the government to embark on direct measures capable of creating jobs through industrialization and mechanization of agriculture. It also recommended that programmes of integrated vocational training and re-orientation of economic activity towards self employment and self-reliance should be encouraged in order to minimize the unemployment crisis.

KeyWords: Stabilization policy, unemployment crisis, economic growth, industrialization, vocational training and self-reliance.

1. Introduction
One of the most crucial economic maladies that confronted Nigeria in the early 1980s is macroeconomic instability, including stagnating incomes, hyperinflation, declining consumption and increasing poverty. Consequently, Nigeria adopted a stabilization policy in 1986. The stabilization policy became an important issue to the policy makers because it was realized that a centrally planned economy is a contributing factor to the macroeconomic instability and hence one of the goals of the stabilization policy therefore was to achieve full employment and price stability. One of the strategies put in place in order to achieve this objective is privatization and commercialization of public enterprises. But the most crucial problems in almost all the economies experiencing the transition to the free market economy from the former centrally-planned ones are unemployment and inflation. Many people lost their jobs in the process of the transition from the old system, as a result of the consequences of the privatization of public enterprises by governments and of the lay-offs from central and local government due to reforms in government administration. On the other hand, the private sector, the new owners of public enterprises, could not improve employment. At the beginning of the transition process, the values of public enterprises and of any wealth were fairly low in the market because the business climate was perceived to be rather poor just at the point of their exposure to further transparent and open economy conditions. It was expected that starting privatization would improve the business climate and, over time, make easier the transition to the market economy. So, new investment and further jobs would be realized by the private sector and, hence, the value of capital and wealth in the public and private sectors would increase along with
the much better business climate. However, beyond a few countries in the transition economies, many have experienced the opposite of what was expected at the beginning of the transition process, for various reasons. The unemployment problem of transition countries including the Nigeria is fairly different from that of developed countries. Neither passive employment policies, such as unemployment benefits for unemployed people, nor active ones such as setting up databases and education opportunities for the labour force, could be effective in combating this type of structural unemployment. The vital matter in the Nigeria is to achieve a sustainable high rate of economic growth. Nevertheless, for various reasons, including ethnic, cultural and religious conflicts and wars, the economic structure is unstable in the country. Domestic savings – certain sources for economic growth – are very short of the required size and social security funds that may be called on as long-term sources of finance have been in deficit. The price and structural unemployment in Nigeria have persisted at quite high levels. The bureaucratic rules for investing in the country are tremendously tough and complex, and corruption is a quite widespread phenomenon. The infrastructure is, in general, obsolete and insufficient for the needs of the global market economy. Therefore, Nigeria is rather far from being location centre for attracting foreign direct investment (FDI) as another likely source of employment. Almost all the state and local governmental units within nation have rigorously competed to attract further FDI inflows, especially in the last decade, while it has been recently discussed enthusiastically as to whether this may provide another source of employment, technology transfer and economic growth. However, the transition process has rather been suffering from greater macroeconomic instability with low per capita incomes.

Table 1 shows growth rate and the unemployment rates in the country between 1980 and 2008. As displayed in the table, the unemployment rates have been generally pretty high throughout the periods under investigation. Many people lost their jobs as a result of the privatization of public sector enterprises in particular and through the leveling off in hidden unemployment in government institutions during the transition process. The demand for employees by the private sector, which is yet at the development stage, has fallen short of its supply.

<table>
<thead>
<tr>
<th>year</th>
<th>RGDP GROWTH RATE</th>
<th>INFLATION RATE</th>
<th>INVESTMENT LEVEL</th>
<th>MONEY SUPPLY</th>
<th>UNEMPLOYMENT RATE</th>
</tr>
</thead>
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<tr>
<td>1980</td>
<td>4.100000</td>
<td>9.900000</td>
<td>0.030000</td>
<td>5.200000</td>
<td>5.300000</td>
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<td>20.90000</td>
<td>0.050000</td>
<td>5.600000</td>
<td>4.800000</td>
</tr>
<tr>
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<td>-0.300000</td>
<td>7.700000</td>
<td>0.090000</td>
<td>3.100000</td>
<td>5.400000</td>
</tr>
<tr>
<td>1983</td>
<td>-5.400000</td>
<td>23.20000</td>
<td>0.110000</td>
<td>12.30000</td>
<td>5.200000</td>
</tr>
<tr>
<td>1984</td>
<td>-5.100000</td>
<td>39.60000</td>
<td>0.100000</td>
<td>8.300000</td>
<td>6.200000</td>
</tr>
<tr>
<td>1985</td>
<td>9.400000</td>
<td>5.500000</td>
<td>0.150000</td>
<td>17.60000</td>
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<td>3.100000</td>
<td>5.400000</td>
<td>0.200000</td>
<td>-4.100000</td>
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<tr>
<td>1987</td>
<td>-5.00000</td>
<td>10.20000</td>
<td>0.290000</td>
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<td>1991</td>
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<td>3.100000</td>
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<tr>
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<td>44.40000</td>
<td>1.600000</td>
<td>52.80000</td>
<td>3.400000</td>
</tr>
<tr>
<td>Year</td>
<td>RGDP</td>
<td>INF</td>
<td>INV</td>
<td>UMP</td>
<td></td>
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<tr>
<td>------</td>
<td>-------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td></td>
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<td>2002</td>
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<td>12.90000</td>
<td>11.99000</td>
<td>15.90000</td>
<td>2.500000</td>
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<tr>
<td>2005</td>
<td>6.500000</td>
<td>17.90000</td>
<td>13.49000</td>
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<td>3.300000</td>
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<td>2006</td>
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<td>8.200000</td>
<td>13.20000</td>
<td>32.20000</td>
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<td>5.400000</td>
<td>12.45000</td>
<td>36.60000</td>
<td>4.100000</td>
</tr>
<tr>
<td>2008</td>
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<td>11.60000</td>
<td>11.90000</td>
<td>55.90000</td>
<td>4.300000</td>
</tr>
</tbody>
</table>


Where:
RGDP: Real Gross Domestic Product
INF: Inflation Rate
INV: Investment Level
UMP: The Rate of Unemployment

The Statement of the Problem and the objective of the study

The unemployment situation in Nigeria has become critical and labour absorption problematic. The problem has increasingly come to be recognized as one of the serious socio-economic problems currently confronting Nigerian economy. However, statistics showed that Nigeria, compared to other countries of Africa has the largest segment of youth unemployment. In absolute terms; it is estimated that there are presently about 22 million youths unemployed in Nigeria. In our previous research on the issue of unemployment, we investigated the determinants of unemployment in Nigeria. The study discovered that much of the ‘open’ unemployment observed in Nigeria is due to structural factors such as the nature of the educational system and its interface with the labor market (i.e., the mismatch problem), technological change, permanent shifts in the demand for goods and services and the skill content of the labor force. Cyclical factors such as the fluctuations in aggregate local and foreign demand for goods and services and institutional factors such as the presence of strong labor unions and labor legislation also determine the underlying high rate of unemployment rate. In addition to open unemployment, there is evidence of a high level of ‘disguised unemployment’ in the form of ‘discouraged workers’ who are not in employment and not actively looking for work, even though they would like to work. The high rates of ‘open’ and ‘disguised’ unemployment in Nigeria represent a serious waste of human resources, the explanation for poverty traps, high level of income inequality and slow growth of gross domestic output and therefore becomes a problem which requires thorough examination. In other words, the extent, the dimension, the persistence of the unemployment crises and its macroeconomic implications call for
further research attention. It is therefore the objective of this study to investigate the linkage between the stabilization policy; unemployment crisis and the economic growth in Nigeria. The rest of the paper is therefore organized as follows. Following the introductory section, Section 2 reviews the literature. The methodology of the study is discussed in Section 3. An econometric analysis of the consequences of the persistent unemployment crises on economic growth in Nigeria is considered in Section 4. Finally, Section 5 presents the summary and conclusions of the paper.

2. Literature Review
The literature is growing over the macroeconomic implications of unemployment crisis which are mostly negative. The negative consequences include psychological problems of frustration, depression, hostility, prostitution, touting, debt, poverty, income inequality, gradual drift into all manner of criminal behaviors, and poor economic growth to mention a few. In the words of Adebayo (1999) and Egbuna, (2001) unemployment leads to psychological problems of frustration, depression, hostility and criminal behaviors. In corroborating this opinion, Echebiri (2005) stressed that youth unemployment primarily encourages the development of street youths and area boys who were denied of legitimate means of livelihood to grow up in a culture that encourages criminal behaviors. This argument was supported by Chigunta, (2002). According to him the unemployed youths survive by engaging in various activities such as petty trading, casual work, borrowing, stealing, pick pocketing, prostitution, touting and other illegal activities. Some have become drunkards and others are on drugs such as cocaine and Indian-hemp. Bennel (2000) in line with Chigunta, (2002). argued that urban society is becoming increasingly criminalized, especially with the proliferation of youth gangs. Several studies including Igbinovia, (1988) have shown that majority of prison inmates are youth aged 30 years and below who have no jobs. Also, delinquency, crime and drug abuse are on the increase among youths as a result of the unemployment crisis.

Unemployment has also been categorized as one of the serious impediments to economic progress. Apart from primarily encouraging the development of street youths and area boys who were denied of legitimate means of livelihood to grow up in a culture that encourages criminal behaviors; it represents a colossal waste of a country's manpower resources, and generates welfare loss in terms of lower output thereby leading to lower income and poor well-being (Akinboyo, 1987; and Raheem, 1993). Vandemoortele,(1991), Rama, (1998) Oladeji, (1994) and Umo (1996) found that unemployment has serious negative implications on the economies of Africa and Nigeria in particularly. As pointed out by these authors, the growth rate of output is a function of the growth rate of unemployment.

3. Methodology and Materials
Research Design and Strategy
Research design is the structure and strategy for investigating the relationship between the variables of the study. The research design adopted for this work is the experimental research design. The reason is that experimental research design combines the theoretical consideration with empirical observation. It enables us therefore to observe the effects of explanatory variables on the dependent variables

Population of the Study
The study will cover the years 1980 – 2008 which is a period of thirty (29) years. This period is believed to be long enough to capture the long-run relationship between unemployment and economic Growth in Nigeria.

The Model
To determine the model of unemployment crises on economic growth, we first consider a plant with a Cobb-Douglas production function model formulated by Mary and Josef (2005), According to the formulations of Mary and Josef (2005):

\[ Y_{it} = A_{it}(\tau) L^{\beta_{lit}} K^{\beta_{kit}} M^{\beta_{mit}} \]  

(1)

Where output in firm i at time t, \( Y_{it} \), is a function of labor, \( L^{\beta_{lit}} \), capital, \( K^{\beta_{kit}} \), and materials, \( M^{\beta_{mit}} \). Since we are interested in assessing whether output growth i is a function of unemployment crises, denoted by \( A_{it}(\tau) \), so the first stage is to estimate plant level productivity, and in the second stage we specify how gross domestic output can be affected by unemployment crises. In doing this however, we determine the possible links between unemployment crises and gross domestic output and emphases the unemployment crises measurement parameter denoted by \( A_{it}(\tau) \). Using the labour market parameter from equation 1, we can specify that gross domestic output depends on the labour market parameter \( A_{it}(\tau) \) i.e.

\[ GDP = \gamma_0 + \gamma_1 UMP \]  

(2)

Where \( \gamma_1 UMP \), is the unemployment crises index which is equivalent to labour market parameter \( A_{it}(\tau) \). Unemployment crises reduce productivity and thus can lead to a fall in gross domestic output. Thus we can hypothesize that \( \gamma_1 \) is negative.

To grasp the relevance of this specification to the objective proposed in this paper, we incorporate some other variables that determine economic growth such as Private Domestic Investment, Inflation Rate and Money Supply and specify the following growth regression model:

\[ RGDP = \Delta Y/y = f(UMP, \text{INFL}, \text{INV},\text{MSR}) \]  

(3)

Where:

- \( RGDP \) = Real Growth Rate of National Income.
- \( UMP \) = Unemployment Rate
- \( \text{INFL} \) = Inflation Rate
- \( \text{INV} \) = Private Domestic Investment
- \( \text{MSR} \) = Money Supply

Equation 2 could be expressed in a linear form as

\[ RGDP = \gamma_0 + \gamma_1 UMP + \gamma_2 \text{INFL} + \gamma_3 \text{INV} + \gamma_4 \text{MSR} \]  

(4)

Econometrically, to include random term, the model is expressed as:

\[ RGDP = \gamma_0 + \gamma_1 UMP + \gamma_2 \text{INFL} + \gamma_3 \text{INV} + \gamma_4 \text{MSR} + \mu_t \]  

Where \( \mu_t \) = Error Term.

This model implies that the growth rate of national income will negatively or positively be related to unemployment rate, Private Domestic Investment, Inflation Rate and Money Supply in Nigeria. That is we expect the parameter \( \gamma_1 < 0 \), \( \gamma_2 > 0 \), \( \gamma_3 > 0 \), \( \gamma_4 > 0 \)

**The Theoretical Proposition of the Model/A priori Expectations**

In line with Cobb-Douglas production function, unemployment rate is the labour market parameter that to a large extent theoretically determines the rate of economic growth. Thus unemployment rate is expected to have negative impact on economic growth. Private domestic investment is expected to foster growth and development. Thus, private domestic investment is expected to have positive sign mainly because an increase in investment represents capital formation and this is expected to cause increase in national output. Also, in line with classical theory of demand for money (i.e. \( MV=PT \)), an increase in the quantity of money in circulation will increase national output through multiplier effect. Thus we expect the coefficient of money supply to be positive. In line with economic theory inflation can stimulate growth in the short run and become harmful to output growth in the long run. The effect of inflation on output therefore depends on the
type and magnitude of the inflation rate. For instance a creeping inflation of about 2 percent per annum may not be harmful to growth. In that situation we will expect a positive relationship between inflation and economic growth whereas a hyperinflation will produce negative impact on output. Thus the effect of inflation on growth cannot be determined a priori.

**Type and Sources of Data**

Secondary data were used for this study. The data were obtained from the publications of the Central Bank of Nigeria, African Development Indicators, website, Journals and Newspapers. The data collected are: the growth rate of gross domestic output, unemployment rate, Private Domestic Investment, Inflation Rate and Money Supply.

**Data Processing Technique**

In this study, our empirical investigation consists of three main steps. First, the Phillips-Perron (PP) tests of stationarity (1988). Second, the Johansen test of coin-integration (1988, 1991) and third, the error correction mechanism analysis. The empirical study uses a simulation approach to investigate the theoretical relationship between capital formation and the growth of the Nigeria economy. The secondary data were processed using E-view for windows econometric packages. The E-view is preferred to SSPS because it enables us to correct the serial correlation in the data. The study employs Error Correction Mechanism (ECM) to overcome the problem of spurious regression. The ECM reveals that the change on a variable, at times, is not only dependent on the variable, but also on its own lagged changes. This enables us to induce flexibility by explaining the short run and long run dynamics in a unified manner.

**4. Data Analysis, Results And Diicussions**

**Stationarity and co integration Test**

**Table1: Analysis of Stationarity Test**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Test statistics</th>
<th>Critical Value</th>
<th>Level of significance</th>
<th>Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>-4.1136</td>
<td>-3.7667</td>
<td>1%</td>
<td>1(1)</td>
</tr>
<tr>
<td>INV</td>
<td>-5.5506</td>
<td>-3.7667</td>
<td>1%</td>
<td>1(0)</td>
</tr>
<tr>
<td>UNEMPL</td>
<td>-3.7069</td>
<td>-2.9969</td>
<td>5%</td>
<td>1(1)</td>
</tr>
<tr>
<td>INFL</td>
<td>-4.248488</td>
<td>-3.6752</td>
<td>1%</td>
<td>1(1)</td>
</tr>
<tr>
<td>MSR</td>
<td>-2.512</td>
<td>-2.0720</td>
<td>5%</td>
<td>1(1)</td>
</tr>
</tbody>
</table>

*SOURCE: Computed by the Author June, 2011*

Table1 shows the summary of the unit root test of the variable used for empirical study. The test shows that; Private domestic investment (INV); was stationary in levels at 1 percent. Gross Domestic Output (GDP), unemployment rate, Inflation Rate and Money Supply were stationary in the first difference at 1 percent and 5 percent level of significance. The next step after finding out the order of integration was to establish whether the non-stationary variables are co-integrated. Differencing of variables to achieve stationarity leads to loss of long run properties. The concept of co-integration implies that if there is a long run relationship between two or more non-stationary variables, deviations from this long run part are stationary. To establish this, Engel Granger’s two-step procedure was used. This was done by generating residuals from the long run equation of the non-stationary variables, using DF and ADF tests. The residuals were found to be stationary for the model.
Table 2: Regression Results
Dependent Variable: GR
Method: Least Squares
Date: 06/16/11   Time: 07:54
Sample(adjusted): 1989 2010
Included observations: 22 after adjusting endpoints

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
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<td>INV</td>
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<td>MSR</td>
<td>0.106435</td>
<td>0.103075</td>
<td>1.032596</td>
<td>0.0000</td>
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<tr>
<td>UMP</td>
<td>-1.843936</td>
<td>1.251645</td>
<td>-2.327528</td>
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</table>

R-squared 0.623620 Mean dependent var 17.89263
Adjusted R-squared 0.582346 S.D. dependent var 15.4509
S.E. of regression 9.890387 Akaike info criterion 7.723959
Sum squared resid 1173.837 Schwarz criterion 8.219887
Log likelihood -74.96355 F-statistic 32.43083
Durbin-Watson stat 1.986376 Prob(F-statistic) 0.000041

Source: Processed by the Author June 2011

Discussions

The Statistical Significance of the Parameter Estimate
The statistical significance of the parameter estimate can be verified by standard error test; the adjusted R squared and the Durbin-Watson statistics.

- For the model, when compared half of each coefficient with its standard error, it was found that the standard errors are less than half of the values of the coefficients of the variables. This shows that the estimated values are all statistically significant.
- The value of the adjusted R-squared ($R^2$) for the model is high, pegged at 0.58683 or 58%. It implies that unemployment rate, Private Domestic Investment, Inflation Rate and Money Supply explained about 58% systematic variations on Gross Domestic Product (GDP) over the observed years in the Nigeria economy while the remaining 42% variation is explained by other determining variables outside the model.
- The value of Durbin Watson is 1.98 for the model. This falls within the determinate region and implies that there is a negative first order serial autocorrelation among the explanatory variables in the model.

In summary, since all the econometric test applied in this study show a statistically significant relationship between the dependent and independent variables from the model, thus, we accept the alternative hypothesis which states that: unemployment crisis has significant economic implications on the growth of Nigerian economy.

The Theoretical Significance of the Parameter Estimate
- Table 2 reported the regression Results. According to the results, inflation rate has negative coefficients and it is significant at 1 percent. This variable appears to be a major factor that negatively affects output growth in Nigeria. This is, however,
supported by the high magnitude of the coefficient of inflation rate. 1 unit increase in this variable reduces output by 2.4 units.

- Money supply acts as a major determinant of output growth in Nigeria. The variable has a positive sign and is highly significant at 1% level. This result supported the monetarist claim which proved that money matters and that the growth rate of national income will directly or positively be related to growth in money supply.

- Private domestic investment ratio has positive coefficients and it is significant at 1% level. This result indicates that Private domestic investment is significant and contributes meaningfully and positively to output growth in Nigeria.

- Most important for the objectives of this paper, the regression results support the idea that unemployment crisis had a large negative impact on the growth of Nigerian economy. This is, however, indicated by the coefficient of unemployment crisis which is negative and significant at 1%.

5. **Summary, Conclusions And Recommendations**

**Summary of Findings**

Specifically, this study examined the relationship between unemployment crisis and economic growth in Nigeria. In trying to achieve this objective, a standard econometric method, Ordinary Least Square multiple regression, (OLS) was used. From the previous arguments in this paper and from the empirical results, it is clear that there is a significant relationship between unemployment crisis and economic growth in Nigeria. With 60 percent of the changes in economic growth being explained by the model, it is only logical to summarize that other factors, for which a major share are qualitative factors, explain the 40 percent of the variability in economic growth in Nigeria. The study has therefore brought out in clear terms the macroeconomic variables that contribute to and those do not contribute to economic growth in Nigeria. It shows in simple terms that increase in money supply mobilizes savings, increases capital formation and consequently increases domestic output. Nevertheless, the overall measure of unemployment crisis had a large negative impact on the growth of Nigerian economy. In other words unemployment crisis is not in favour of the growth of Nigerian economy.

**Conclusion**

The central opinion of this paper is that there is a significant but negative relationship between unemployment crisis and economic growth in Nigeria. This paper discovered that unemployment crisis hampered the growth and development of Nigeria. The conclusion however, is that unemployment crisis is an impediment to economic growth in Nigeria.

**Policy Recommendations**

Our findings and conclusion support the need for the government to put in place policies capable of generating employment for the youths towards greater productivity and economic development. The government should equally embark on direct measures capable of creating jobs through industrialization and mechanization of agriculture. It is also recommended that programmes of integrated vocational training and re-orientation of economic activity towards self-employment and self-reliance should be encouraged in order to minimize the unemployment crisis.

In compliment of the above, there is need to revisit the structural adjustment Programme with a view to enhance efficiency by altering the structure. More generally, the Nigerian experience shows that although the long run positive benefits of the privatization and commercialization policies are indisputable, the short-term costs may be substantial if the conditions needed for it to work properly are not set in place.
References