TOWARDS A NEW FULL EMPLOYMENT STRATEGY IN A DEVELOPING ECONOMY: The Nigerian Case

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'The overriding lesson of history is that central banking doctrine and practice are never static' — Ben S. Bernanke, 2013a

'Not knowing when to abandon a familiar . . . conventional wisdom after it has become an outdated policy idea can buy a one-way ticket to economic disaster' — Richard S. Grossman, 2013

ABSTRACT

The paper argues that the traditional concept of unemployment can only partially reflect the employment crises which conventional monetary-fiscal policy should address in a developing economy. The concept of human capital wastage index (HCWI) has been proposed and shown to be a more robust concept which should be targeted for achieving full employment as it has the potential of also addressing the related problem of poverty. The proposed agenda for pursuing this new full/maximum employment agenda (as reflected in a drastic reduction in HCWI) targets the removal of all impediments to the conventional monetary–fiscal stabilization approach including: putting full employment at the core of development programmes; pursuing an aggressive strategy of financial inclusion; eliminating impediments to financial intermediation; and pursuing a holistic engagement of aligned micro, meso and macro policies, which should include the Central Bank in proactive wage negotiations/agreements.

JEL classification: E24, E43, E51, E52, E58, 011, 012

1. Introduction

Employment generation is a central challenge facing most developing economies (DEs). This is so because of its generic development impact. Productive employment can address not only the challenge of unemployment, but the challenges of poverty, growth, distributional inequality, institution building and corruption in the context of any developing economy.

As a matter of historical fact, full employment policy was widely accepted almost as the panacea for most of the macroeconomic pathologies experienced in the industrialized economies after the Second World War. Australia was the first to adopt full employment policy in 1945. This was followed by the USA with the Full Employment Act of 1946. And the application of the underpinning Keynesian macroeconomic tools and institutions like the Federal Reserve did not disappoint up until the time inflation crept in dangerously to undermine the strategy in the 1970s. The policy response then was to turn attention to openly tackle inflation, not so much as a means to an end in itself, but as an indirect means of achieving full employment. This led in 1977 to the dual mandate, of promoting maximum employment and maintaining price stability, given to the US Federal Reserve.[1] Thus, as we shall show presently, the tools used in fighting inflation are embedded in the tools for promoting full employment. This explains why these tools were once again deployed by the Obama administration in tackling the Great Recession of 2008-2009.[2]

Until President Obama's Keynesian response to the recent phenomenon, it would appear that full employment, which was considered central to economic stability and progress in the post-war developed economies, had been abandoned (Pollin, 2012 in the US and Mitchell and Muysken 2008 in OECD) in preference for tackling the inflation challenge in the United States and other developed economies.[3] Obviously, the priority for achieving full

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[1] See (https//:www.chicagofed.org/publications/speeches/our-dual-mandates)

[2] The Great Recession of 2008-2009 was averted from morphing into a depression by injecting $700 billion into the economy and lending money running into billions of dollars to big firms like General Motors and AIG to prevent them from going under. Such an occurrence would have destroyed millions of jobs, wealth and income. This was a classic Keynesian treat!

[3] The tackling of inflation has recently moved from reducing it to fighting deflation in USA, and the European Union (EU) – a phenomenon which has plagued Japan in the last two decades.

employment has always been kept in mind for, as Gordon Brown (2001), former prime minister of Britain, once reminded his audience in 2001,[4] 'the job of every economy was to create jobs for all'.

Employment crisis has unarguably emerged as the priority development challenge in DEs because of its sheer magnitude, spread, depth and insensitivity to the standard fiscal and monetary tools. Surprisingly, the need for reviewing the extant classical Keynesian approach, which has always been deployed in addressing it in developing economies, has not received the attention it deserves. What has therefore been observed for many decades is a proverbial embarrassing situation where the same treatment/solution is administered to the same problem (sickness) only to get the same failed results!

The purpose of this paper is to probe why this is the case in the Nigerian context and to proffer an alternative policy perspective which may also be applicable to other developing economies. We argue that the application of extant macro-stabilization policies is not only wrongly targeting variables that have become insensitive to such measures but is inherently incapable of achieving stabilization and developmental goals, until/unless a fundamental re-orientation of the full employment concept and strategy that deal with the obstacles to its effectiveness are addressed.

To put things in perspective, section 2 of this paper will review the relevance of the concepts of unemployment and full employment in the context of a developing economy. Section 3 gives a background analysis of the stylized facts concerning Nigeria's employment, inflation and poverty profiles. Section 4 outlines why the extant policies have lost their developmental traction in Nigeria and, by implication, other developing economies with similar structural features. Section 5 presents the elements of the new full employment agenda for achieving the expected stabilization and developmental goals. The paper concludes by summarizing the key issues and defining the implied research challenges in support of the new full employment framework.

[4] See Gordon Brown, 2001, pp30-44,and cited in Umo,2004.

2. Critical Review of the Concepts of Full Employment and Unemployment in a Developing Economy (DE) Context

Traditionally it is well known that '*full employment'* does not mean 100% employment for all who are able and willing to work in any economy. Maintaining such a state of affairs would be impossible for at least two reasons. First, in the labour force anywhere, people change jobs as well as look for jobs after leaving school or are laid off by their former employers. This process takes time to happen and during the process people in this category must necessarily remain unemployed. Economists refer to this component as 'frictional unemployment'. Second, there may be deficient demand-induced unemployment for reasons of cyclical movement in the economy's income (GDP) stream. Consequently, full employment can only be technically defined as the amount of frictional and deficient demand-induced unemployment an economy is willing to tolerate. Mainstream economists therefore presume that unemployment above zero is desirable so that it can act as a suppressant to wage inflation. Thus, every country seeks to establish its acceptable full employment rate of unemployment.

More technically, full employment is defined as the non-accelerating inflation rate of unemployment (NAIRU) (Friedman, 1968; Phelps, 1967). This is simply the rate of unemployment that keeps inflation from accelerating on the assumption that a trade-off exists between inflation and unemployment à la Phillips curve hypothesis. The policy relevance of NAIRU for full employment will be indicated later. But its empirical relevance and the implied vertical long-run Phillips curve hypothesis for DEs will not be explored here. What is of significance for this research is to note that full employment unemployment rate has varied by country and through time. In the US for instance, it was estimated at 5.5% per annum in the 2000s while according to the OECD, full employment unemployment varies between 4% and 6%.[5]

What constitutes full employment has not been defined much less quantified in Nigeria as in most other DEs. This lapse is not only traceable to

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[5] See (en. Wikipedia.org/wiki/ full employment) At the time of this writing, the unemployment rate in the US economy ws 5.5% which is essentially its expected full employment level. Over 200,000 jobs are being created monthly as the economy has rebounded from the 2008-2009 'Great Recession'.

weakness of statistical infrastructure for carrying out the calculation of GDP potential needed as a prelude to defining full employment but also because (as we shall note presently) what has traditionally been computed as unemployment is increasingly becoming controversial and plausibly an irrelevant metric as a measure of human capital wastage through joblessness.

2.1 Micro-perspective to full employment

At the micro-level, full employment has been defined as 'abundance of decent jobs', where a decent job refers to one whose wage rate is the type that will give a worker the ability to support his/her family, maintain self-respect and participate in the life of the nation (Glickman, 1999). The ILO (1999) has in this vein defined *Decent Work* as 'opportunities for women and men to obtain decent and productive work in conditions of freedom, equity, security, and human dignity'. The emphasis on *decent work* is key because it underscores the implication that employment has the potential for solving the challenge of poverty no matter how the poverty concept is defined,[6] if the economy is operating at full employment level. It is also important to note that in the development context, productive full employment includes not only paid employment but self-employment by an entrepreneur or self-employed person.

2.2 Challenge of the concept of unemployment in developing economies (DEs)

Traditionally, unemployment rate (U_1*) is measured as the ratio of people willing and able to work (W) at a given survey period to the total labour force in the economy (TLF), i.e. $U_1* = (W/TFL).100$. In a typical developing economy like Nigeria, U_1* is normally referred to as *open unemployment*. This should immediately suggest that there are some hidden unemployment elements which are factored out of these statistics (see Reich, 2012). Indeed, the use of U_1* for both analysis and policy purposes can be seriously misleading because it grossly underestimates the quantum of human capital wastage existing in a typical developing economy like Nigeria.

[6] It will be sufficient if the definition of poverty is in absolute terms, or in relative terms or as *capability deprivation* à la Amartya Sen (1999).

Let us propose the concept of human capital wastage (HCW) to capture the entire spectrum of labour wastages left out by U_1*. In this respect, HCW in Nigeria can be seen as a vector with at least seven elements:

i. Open unemployment (U_1*)
ii. Underemployed people (U_2)
iii. Low wage employees (U_3)
iv. Casual/part time or gig workers (U_4)
v. Low productivity workers in the informal economy (U_5)
vi. Socially-excluded citizens who are denied jobs because of their perceived physical/mental disabilities (U_6)
vii. Unemployable tertiary graduates (U_7)

Within the above framework, what Nigeria faces is not so much the crisis of open unemployment (U_1*), which has often been officially estimated, but the crisis of human capital wastage (HCW), which is a vector with the above listed elements. Six of these elements have not been officially estimated; but their sizes are nonetheless palpable. With respect to U_7 for instance, anecdotal evidence shows that, of the 500,000 annual graduate outturn from Nigerian tertiary institutions, over 80% are estimated to be unemployable by employers of labour both from the public and private sectors. Given the long spell of unemployment in Nigeria, such category of the labour force, that probably has lost hope in the job search, would not have been less than 4 million in the last decade. What is more worrisome is that the longer they stay unemployed, the more the quantum of erosion/depreciation in their human capital skill base, given the well-established fact that human capital is a concave function of experience/age (Umo, 1979). Most of them actually drop the job search efforts and can be categorized as discouraged unemployed workers.

Another category exemplifying the underestimation of human capital wastage by measured U_1* is the low productivity workers of the informal economy (U_5). This is where over 90% of Nigerians are eking out their livelihood and are sometimes erroneously assumed to be employed. The fact that they are eking out a livelihood is suggestive of the low productivity characterizing operations in this sector.

Other categories of HCW can be estimated and a human capital wastage index (HCWI) developed. But while we keep this as an exercise for the future,[7] it is important to point out the profound implications of the HCW concept.

- First, the aggregation of the elements when quantified translates approximately into poverty. That is to say,

  $$HCW = U_1^* + U_2 + U_3 + U_4 + U_5 + U_6 + U_7 \approx \text{POVERTY}$$

  As a matter of fact, the crisis of HCW is a flipside of the poverty crisis because there is no way one can realistically overcome the poverty crisis without getting a productive job or income (World Bank, 2012). The National Bureau of Statistics (NBS) survey has shown for example that 60% of unemployment is accounted for by the Nigerian youth, who make up about 70% of the population. And by approximation, international poverty measure at $2 per day is estimated at 92.4% in Nigeria. This poverty rate translates to about 155 million people. This makes Nigeria the country with the highest concentration of poverty in Africa (Umo, 2012, p16) within a continent regarded as the 'epicenter of global poverty' (Collier, 2007, p7).
- Second, this perspective implies that a strategy to address the unemployment crisis as encapsulated in HCW will simultaneously address the poverty crisis, which has equally been impervious to extant poverty-reducing strategies (Umo, 2024,167-262)
- And third, since extant attempts have always been targeted at a slice of the problem, namely, open unemployment U_1^*, leaving the bulk of the crisis unaddressed, the policy ineffectiveness becomes trapped in a recurring dysfunction.

3. Stylized Profile of Nigeria's Employment, Inflation and Poverty

For the purpose of appreciating the background perspective of the employment and related crises in Nigeria, it will be instructive to present a

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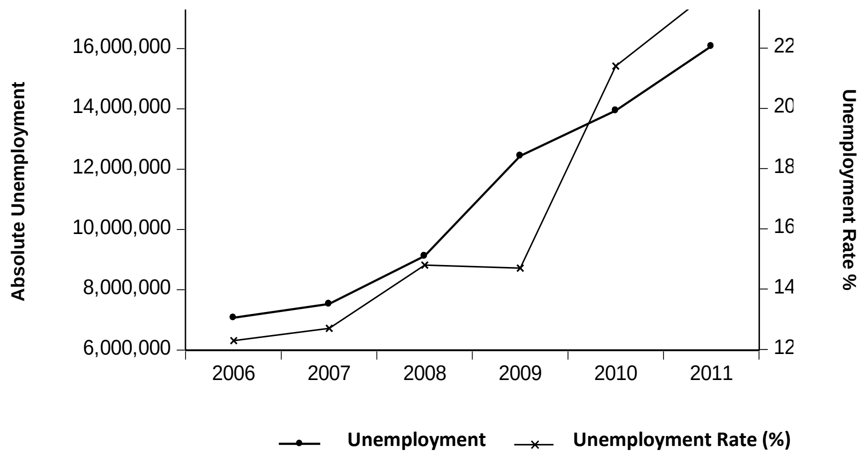
[7] The human capital wastage index (HCWI) can be measured by an aggregation of the quantified indices of each of the wastage components in the vector, similar to the exercise in measuring the traditional human development index by the UNDP. See Todaro and Smith 11th edition, 2011.

brief stylized profile of employment, poverty and inflation since these constitute the key issues we are putting in focus.

3.1 Employment and unemployment rates

According to the National Bureau of Statistics (NBS), open unemployment rate has been increasing since 2006 as shown in Figure 1.

Figure 1: Nigeria's (Un)Employment Profiles 2006 – 2011



Source: Calculated from National Bureau of Statistics (NBS) 2011.

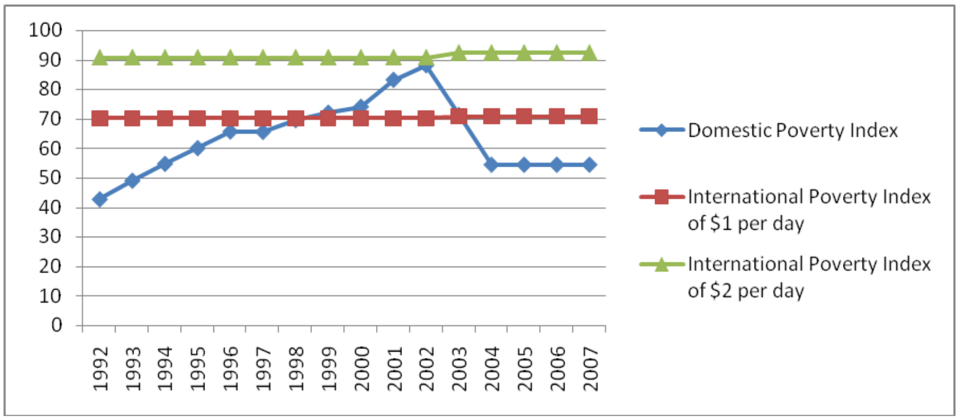
It is clear from Figure 1 that in terms of absolute numbers, the unemployment rate translated to about 7 million people in 2006 and by 2011, this had climbed to about 16 million unemployed people, representing an increase of 227.5% within a period of five years. When it is recalled that this open unemployment rate represents a small fraction of the human capital wastage (HCW), as demonstrated in Section 3.1, the enormity of the employment crisis in Nigeria can be appreciated.

3.2 Poverty profile

Nigeria's domestic poverty index was 42.7% in 1992 and had almost doubled this figure in 2002. Since then, it has declined to 54.4%. This translates into 76.4 million Nigerians using the 1990 population and 90.8 million using Nigeria's UN estimated population of 167 million in 2011.

Going by the international poverty line of $1 a day or $2 a day benchmarks, the percentage of Nigerians in poverty was alarmingly high between 1992 and 2011. The earlier estimated 70.8% at $1 a day poverty line translates to about 118 million Nigerians in poverty; while at $2 a day benchmark, 92.4% translates to about 154.6 million people in poverty. These poverty trends are clearly depicted in Figure 2.

Figure 2: Poverty Trends in Nigeria 1992 - 2007



Sources: Author's calculations from National Bureau of Statistics and UNDP's Human Development Report, various years.

Assuredly, the translation of the poverty trends in absolute numbers shows that at any level of comparison, Nigeria has the highest concentration of poor people in the entire African continent. This is the case no matter the poverty benchmark indicator one cares to pick – domestic, international at $1 a day, or international at $2 a day. The country's population in poverty is more than the entire population of each of the other African countries during the period considered. This situation has remained unchanged and has indeed been shown to have worsened by revised data in the author's recent book on the subject matter (Umo, 2024, pp74-75). This situation explains why the country is facing a rising existential crisis of socio-economic vices including terrorism, kidnapping, corruption and other related crimes.

3.3 Inflationary profile

Given the policy linkage of inflation and (un)employment, it is instructive to appreciate the inflation profile in the Nigerian economy since the 70s as data on this is easily available from the country's Central Bank. Figure 3 shows the inflation profile from 1970 to 2011.

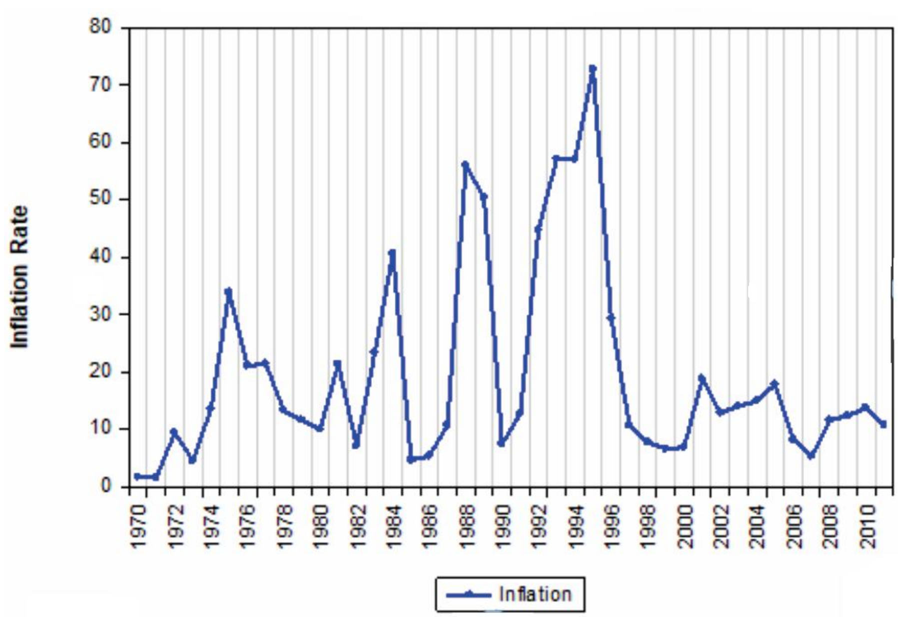


Figure 3: Inflation Trends in the Nigerian Economy 1970-2011.

Source: Calculated from Central Bank of Nigeria Statistical Bulletin 2010 – 2011.

As Figure 3 depicts, inflation used to be a serious macroeconomic concern since the country's 1974 oil boom up till 1998 when it drastically fell to an average of about 11%. As will be shown later, the extant macroeconomic tools for managing the stability of the Nigerian economy since the beginning of the millennium have been deployed for inflation stabilization, perhaps at the expense of employment generation, and this lopsided approach has contributed in no small measure to the socio-economic crisis the country is currently experiencing. In the next section, we present what we consider to be the elements of the failure of these policies. At the time of revising this paper (September 2024), Nigeria's headline inflation, estimated by the National Bureau of Statistics (NBS), was 33% while food inflation was estimated at 40%. This trend invariably is moving Nigeria towards a hyperinflationary trajectory, unless/until the policy course is reversed.

4. Failure of Extant Policies

The question is: why have years of application of standard monetary and fiscal policies failed to prime the Nigerian economy? The answer to this important question would appear to be found in the unique structural features of the Nigerian economy, especially as they relate to financial exclusion, financial intermediation challenges, inadequate contextualization/ conceptualization of inflation and employment problems as well the disconnect between macro, meso and microeconomic policies. Let us briefly explore each of these in turn.

4.1 Financial exclusion

Financial inclusion in any economy is the process by which all adults have access to financial institutions and are in a position to make use of financial services and products for both investment and consumption. In a situation where there is a high degree/rate of financial exclusion, it becomes virtually impossible for an apex financial institution like the central bank to obtain the expected policy responses from the excluded agents. The empirical question is: what is the rate of financial exclusion/inclusion in Nigeria and/or in similar African developing economies (ADEs)? As shown in figure 4, the rate of financial exclusion (factoring in the informal economy)[8] for most African developing economies is very high—ranging from 32% for the Republic of South Africa (RSA) to 87% for Mozambique. Nigeria's exclusion rate is 64%, translating to an adult population of over 114 million.

[8] The adaptation in Figure 4 assumes that although the informal economies in African countries participate in informal financial operations like the ROSCAS (rotating savings and credit associations), they are effectively insulated from the central bank-generated financial impulses, consequently they can safely be assumed to be financially excluded.

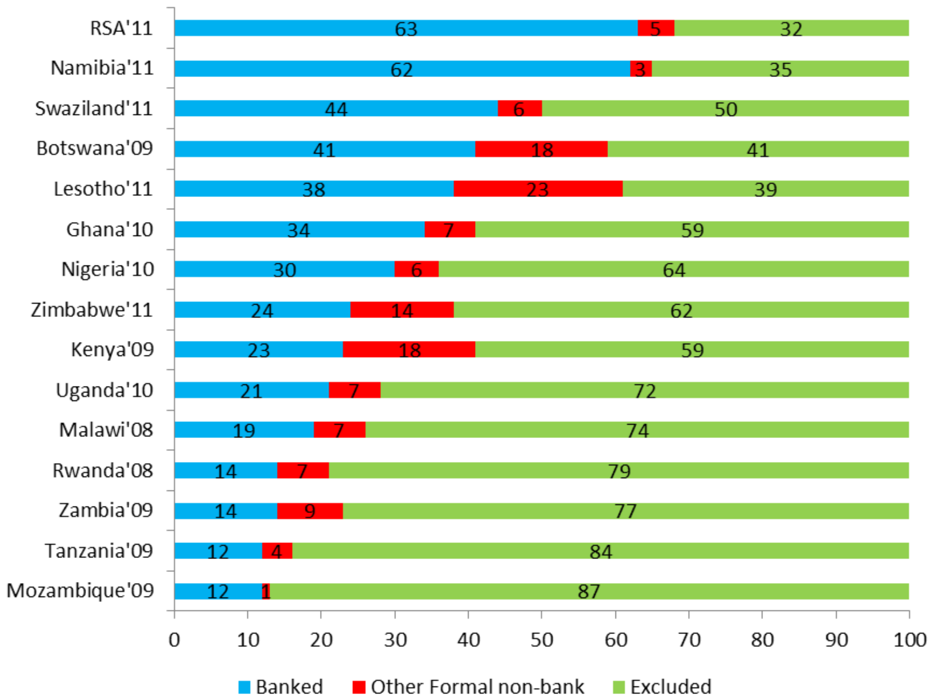


Figure 4: Financial Access Trends – Country Comparisons (July 2012)
Source: Adapted from Finmark Trust, cited from, Joanna Ledgerwood(ed.), 2013, p64.

A survey undertaken by the Central Bank of Nigeria (CBN, 2013), empirically analysing exclusion in the six geopolitical zones of the country, showed that the percentage of excluded/unbanked Nigerians varies from 58% in the South West zone to 87% in the North Central zone (see Figure 5).

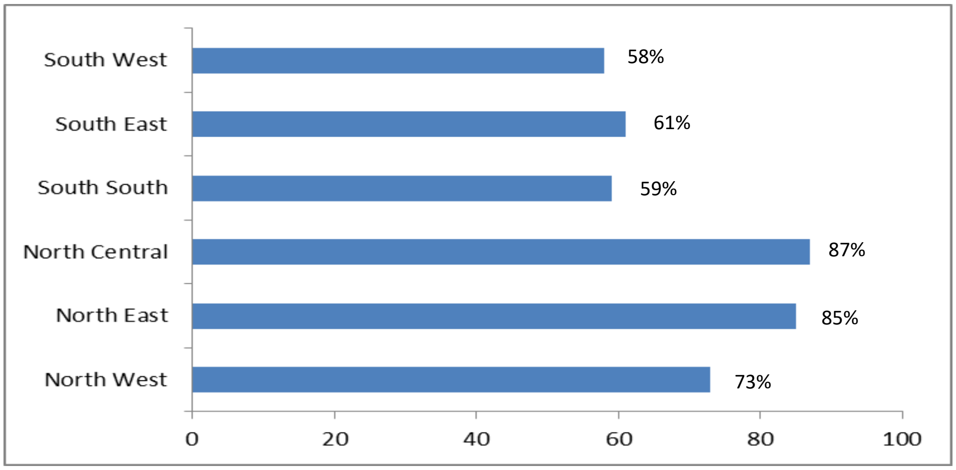


Figure 5: Percentage of Unbanked Population in the Six Geo-political Zones of Nigeria, 2010

Source: Adapted from EFlnA (2010) (cited by CBN, 2013), Access to Financial Services in Nigeria 2010.

From the above considerations, it is highly plausible that monetary policies, be it interest rates or changes in money supply to influence economic activities, can only be transmitted to a negligible fraction of economic actors, vis-à-vis (often referred to as the modern sector, the high percentage of which is the public sector) within the system. Given this low rate of financial penetration, monetary policy effectiveness cannot be assured. The reason for the slow rate of financial penetration in the economy has constituted a challenge that the apex financial institution has to grapple with as a precondition for expecting smooth transmission of its monetary impulses. Recall that financial penetration is expected to motivate economic activities leading to high levels of employment.

4.2 Financial intermediation challenge

Robert Skidelsky (2000) had insightfully noted that the macro economy which Keynes invented is redundant in an economy that does not use credit. The use of credit in most African developing economies is greatly hampered and consistently undermined by the failure of the financial intermediation process. Financial intermediation profiles of a sample of African countries illustrate the point (see Umo, 2004 and Figures 6a-d).

Figures 6a-d: Financial Intermediation Profiles of Selected African Countries

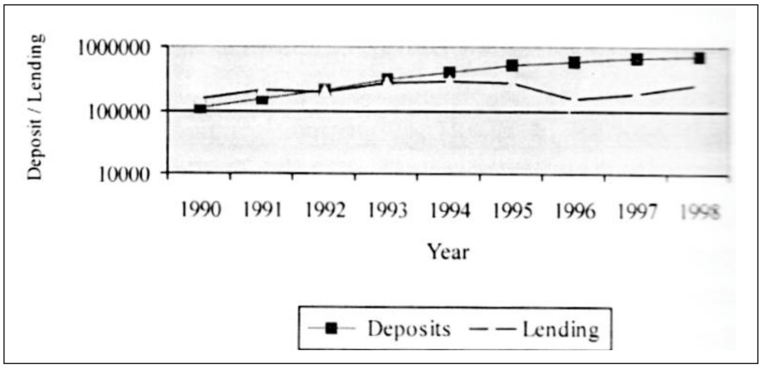


Figure 6a. Trend of Bank Deposits and Lending in Tanzania.
Source: ILO Investment for Poverty-reducing Employment (IPRE) Studies for Cameroon, Tanzania and Burkina Faso.

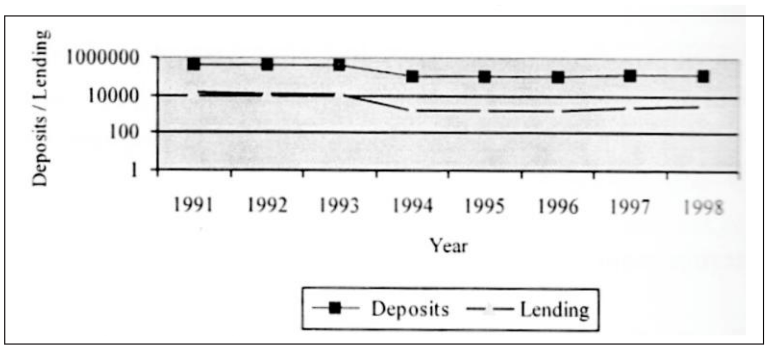


Figure 6b. Trend of Bank Deposits and Lending in Burkina Faso.
Source: Same as Figure 6a.

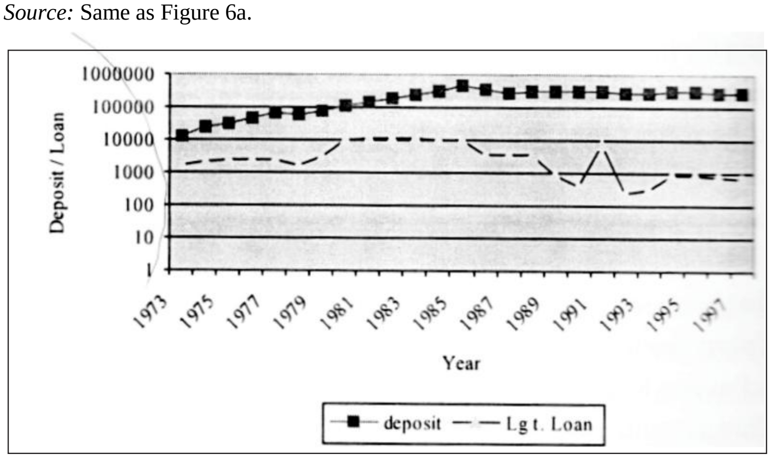


Figure 6c. Trend of Bank Deposits and Long-term Bank Loans in Cameroon.
Source: Same as Figure 6a.

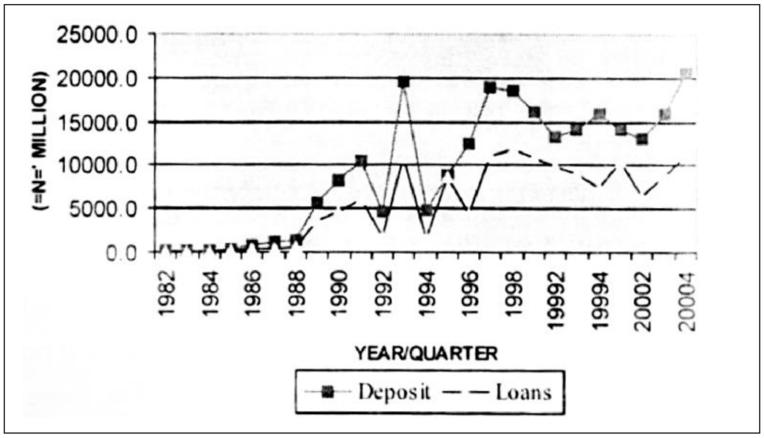


Figure 6d. Deposits and Loans of Rural Branches of Commercial Banks (₦ million) in Nigeria (1982-2004).
Source: Based on data from Central Bank of Nigeria Statistical Bulletin, 11(2), Dec. 2000, Table A2.8, p.23.

It is clear that Nigeria, like most other African developing economies (ADEs) is seriously afflicted by the problem of financial intermediation. As Figure 6 illustrates, since the early 90s, there has been an increasing disconnect between deposits in commercial banks and loans granted to businesses. Obviously, if businesses cannot get the credit they need for investment, how can the system solve the associated problems of job creation and/or wealth creation? But perhaps a more fundamental question is: why are Nigerian banks extremely reluctant to lend money to business men/women? As 'it takes two to tango' proverbially, the alternative question is: why are Nigerian businessmen/ women credit-shy from the banks? On the part of the borrowers, the often-heard answer is that the rates of interests charged by the banks are always so high that it cannot support any legitimate business that seeks to maximize profit.[9] This is a fact because interest rates have over the last two decades, ranged from 18% (for prime borrowers) to 35% for others, depending on the sector of the economy (See figure 7).

[9] Anecdotal evidence shows that the few borrowers who take such loans are traders who have a high turnover within a very short time, say 3 months. And this allows them to generate considerable profit margins that enable them to stay in business. But these import-dependent traders are incapable of generating the sustainable employment needed to grow the economy.

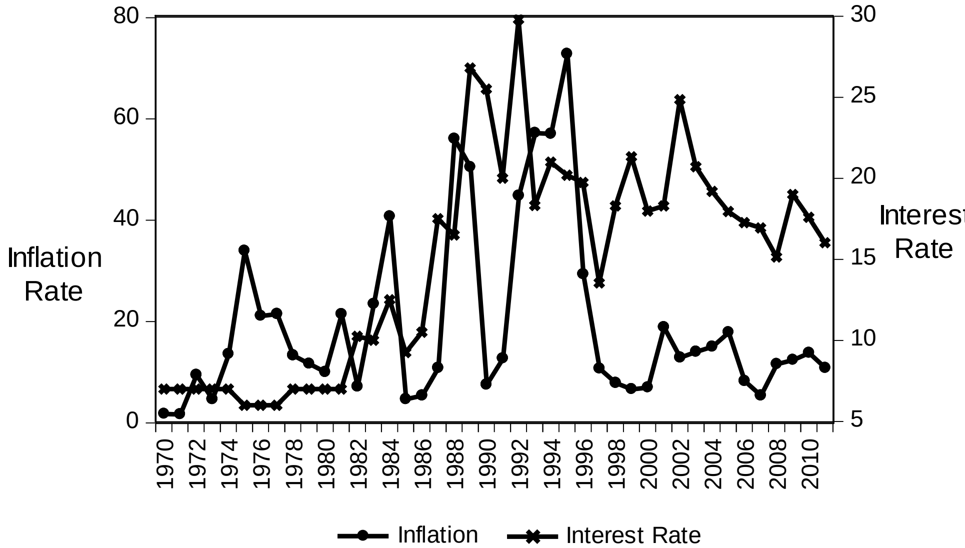


Figure 7: Movement of Interest Rates (IR) and Inflation Rate (INF) in Nigeria 1970-2011
Source: Author's calculation from CBN Statistical Bulletin 2010 – 2011.

It is important to note that this situation has remained the same for over two decades in spite of the several attempts by the CBN to bring down the rate of interest by manipulating/reducing the MPR (monetary policy rates) which stood at 13% as of 2014. As at the time of this writing, MPR has been raised to 26.75% and the rate of interest varies between 35% and 45% depending on the sector of the economy that is seeking credit. But only a negligible number of sectors would find it profitable to borrow at these high rates.

On the part of the bankers, the oft-cited reason is that the high rates are a reflection of the risk premium prevalent in the economy. And this reason seems plausible. It relates to the well-known problem of loss of trust. This is technically captured by the concept of *moral hazard* and *adverse selection*. Moral hazard risk traditionally occurs when borrowers divert borrowed funds for non-commercial purposes even when such loans have been collateralized,[10] while adverse selection which invariably compels the banks

[10] Anecdotal evidence abound where some borrowers used landed properties like houses as collateral, but after reneging on the loan the banks' attempts to recover the loan by seizing the

to raise rates, albeit unwittingly for honest borrowers, means that high rates of interests are likely to put them off. The only anecdotal evidence one can cite is the impact of moral hazard and adverse selection on loan default rates. This was the main reason for the failure of several banks during the post consolidation era of 2008 and 2009. The accumulation of bad loans became so high that 'a bad bank' AMCON (Asset Management Corporation of Nigeria) was set up in 2010 to address the issue in the Nigerian financial system. It has become very clear that the monetary policies targeted at the commercial banks are likely to fall on deaf ears as they struggle to stay viable by exploiting all loopholes in the system to make profit in order to remain solvent. The practical implication is that businessmen cannot get adequate credit to invest in the real sector of the economy, hence create jobs.

Although several studies confirming the realities of financial intermediation crisis abound in Nigeria (Aigbokan, 1995; Agbonkhese, 2012, Umo, 2004) none of these has empirically confronted the fundamental issues of moral hazard or adverse selection.

4.3 Inadequate contextualization/conceptualization of employment and inflation crises

In its orthodox mode, macroeconomic policies are explicitly designed to tackle inflation and/or employment challenges. As was noted earlier, inflation has been more prioritized for attention than employment promotion in Nigeria. The opposite should be the case.

For reasons of what is often technically referred to as 'network externality effect', the central banks in most developing economies have abandoned the pursuit of full employment, just like their developed countries' counterparts, to rather concentrate on fighting inflation. There is a fundamental danger in this imitation. This is because while inflation targeting has not been carried out at the expense of full employment/job creation in a developed economy

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collateral are often frustrated since the defaulting borrower would go to court to take injunction stopping the bank from continuing with the case. Such cases can go on for a long time until the banks write off the loan. In this case not even the presentation of collaterals would make the bank to lend a huge amount in future.

like the US,[11] the sustained fight against inflation in Nigeria has often been undertaken at the expense of increase in employment generation. Consider the fact that years of attempts by the CBN to bring down the rate of interest by reducing the MPR have been unsuccessful. Consider also the fact that the interest rates have been trapped at very high levels (18-35%) for years (see figure 7) and this has made it impossible for investors to borrow money for profitable investment. These considerations have rendered monetary policies impotent as instruments of economic management in Nigeria, as perhaps in many other developing countries.

The apparent success of Nigerian macro policy in keeping inflation at or near a single digit for some years now should be taken with extreme caution. This is so for several reasons. First, inflation needs not be pushed towards zero since a modest degree of it is required by the economy for efficient resource allocation and growth. As confirmed by some studies (e.g. Wyplosz, 1998), the economy requires a certain rate of inflation to retain/maintain its dynamism. This search for inflation-induced dynamism explains why the European Union (EU) currently,[12] and Japan (over the last two decades), are making strenuous efforts to get their respective economies out of the deflation/stagnation trap by use of quantitative easing (QE). Second, there are limits to 'anti-inflation radicalism' to paraphrase Amartya Sen's (1998) observation in respect of fiscal policy. The emphasis on fighting inflation to the neglect of targeting maximum employment generation or full employment seems to be a misplacement of development priority in a typical developing economy context. This is because unemployment crisis is the single most challenging development issue facing most DEs, given its toxic impact on the socio-economic system.[13] Besides, it is insightfully acknowledged by the

[11] Indirect but consistent attention is being paid to full employment through the use of quantitative easing (QE) over the last seven years by the Federal Reserve to push down inflation hence the rate of interest which directly and positively affects growth and employment. Inflation in the US is now below 2% while the economy has virtually achieved full employment at 5.5% rate of unemployment. It needs to be recalled that since 1977, the Federal Reserve has been mandated to pursue the dual mandate of full employment and price stability (see footnote 1).

[12] See *Financial Times* , Feb 12, 2015, p4.

[13] Analysis of 18 reasons why unemployment matters are shown in Umo, 2024, pp.155-159; and thirty toxic socio-economic impacts of poverty have been categorized under economic

World Bank (2012) that development happens through jobs as it constitutes 'the cornerstone of economic and social development'. And third, there is a possibility that if the pursuit of 'anti-inflation radicalism' continues, it is likely to end up tipping the economy into a deflationary trap just as the Japan and European Union experiences have shown. This would be unfortunate because a typical developing economy lacks the structure and tools[14] to get the economy out of such a trap.

4.4 Disconnect between micro, meso, and macro sectors of the economy

The analytical robustness of incorporating micro foundations methodology into macroeconomics has been widely appreciated since the seventies (see for example Phelps, 1970; Weintraub, 1979). In operational and policy terms, there is always the need to ensure that micro-behaviour is consistent and aligned with the macro policies. For instance the micro-behaviour in say, interest rate, wage rate, etc. requires alignment with macro counterparts like consumption and investment functions if the expected results are to be obtained.

In most African economies there are glaring disconnects and policy misalignment between micro, meso and macro policies. In Tanzania for instance, the prudential guidelines of the Bank of Tanzania require rural and micro-enterprises to put down collateral of 125% of the asset value to qualify for credit (see ILO, 2000). This partly explains the problem of financial intermediation in Tanzania (see Figure 6a). In Nigeria, the prudential regulatory guidelines that apply to conventional money deposit banks (MDBs) are applied to microfinance banks with appropriate adjustment for its lower capital requirement. These situations lack the elements of making microfinance poverty reduction-friendly. The hopes of using microfinance banks as instruments of poverty reduction and financial inclusion are

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(11), social (12) health (4) political (2) and socio-psychological (1) consequences. See details in Umo 2012, pp.42 – 57.

[14] It should be noted that quantitative easing (QE) is often necessitated when the traditional monetary tools are unable to influence interest rate if this falls to or below zero. Consequently, QE would mean buying long term bonds to influence the monetary base which would in turn reduce interest rates and make investment attractive to investors. In an environment where investment is not interest elastic, and where long term bonds lack patronage of banks and other financial institutions, the use of QE would be highly problematic, hence infeasible.

therefore defeated. The principle of making MFBs viable/sustainable while reaching out to the poor has apparently not been applied (see Umo, 2012, pp. 199-203). At the meso level, a key institution like the central bank is not normally incorporated into wage policy negotiations which often have apparent significant macro consequences (as these affect inflation and employment).

The design of both monetary and budgetary policies to meet the developmental needs of a developing economy requires fundamental adjustment from the status quo policies to accommodate the peculiarities of the environment and the structure of such economies. In particular, the alignment of macroeconomic policies with the micro and meso counterparts will ensure that the supply side of the economy is not neglected when full employment policies and goals can be reached. For example, wage policies should align with macro stabilization policies since these affect productivity.

The next section attempts to articulate how lessons arising from the failures of extant policies can be incorporated into the design of the new full employment agenda.

5. Towards a New Full Employment Agenda

The success of the conventional full employment strategy and associated policies was predicated on the critical assumption that the structural and institutional impediments that face the developing economies were virtually absent as in the developed economy contexts. More specifically, full employment policy in its classic thrust would be almost effortlessly successful in an economy which is not characterized by high levels of financial exclusion, financial intermediation crisis, the crisis of human capital wastage, the disconnect between macro, meso and micro policies, institutional and regulatory failures leading to significant good-governance deficit. In a system where these conditions are fully present, a new full employment agenda to overcome them seems urgently indicated. As the Chairman of the Federal Reserve, Ben Bernanke (2013b) insightfully observed at the end of his career concerning the use of monetary policy:

> ‘A lesson worth drawing from this (experience) is that monetary policy is a powerful tool but it cannot solve all the

> problems that there are . . . it cannot solve important structural, fiscal and other problems that affect the economy.' (p.115)

The need for a new full employment agenda for a typical developing economy like Nigeria draws its inspiration not only from the opening quote in this paper by Bernanke, but from the observation of his experience cited above. Such an agenda would seek to factor in mechanisms that address the impediments to the smooth conceptualization and operationalization of a full employment policy appropriate to this peculiar environment. This section of the paper outlines some pertinent policy thrusts that take into account the peculiarities of the Nigerian environment which hitherto had worked and are still working to frustrate the articulation and implementation of standard monetary and fiscal programmes.

5.1 Some elements of the new agenda

A new full employment agenda appropriate to the Nigerian context would include the following key elements:

- Putting employment generation at the centre of development policies and programmes. This should start with the explicit expansion of the mandates of the Central Bank of Nigeria (CBN) to include not only the extant financial stabilization (of inflation and exchange rate) but also achievement of *maximum productive employment* or 'maximum abundance of decent jobs' as captured by drastic reduction in the human capacity wastage index (HCWI). This would naturally require three steps: i) that the CBN computes the HCWI to enable it track progress in this direction, ii) that legislative intervention be initiated to spell out the specifics of the expanded maximum employment mandates, and iii) a meso policy of prioritization of STEM (science, technology, engineering and mathematics) in the educational curriculum. It is important to point out that the critical advantage of expanded CBN mandates and STEM prioritization is to directly and indirectly bring in the supply side of the economy where a boost in productivity would not only encourage employment growth but would contribute to the resolution of inflation through the output effect

(Umo, 1983, Odedokun, 1995). Additionally, STEM emphasis would in particular easily equip students for employment in a labour market where manufacturing jobs are shrinking, giving place to the service sector where growth is driven by digital technology (Umo, 1986; Umo, 2006).

- The challenge of financial exclusion has to be aggressively addressed with some bold initiatives taken by the CBN. This arises from the observed low levels of financial inclusion (see section 4). Efforts to deepen and widen financial inclusion can be dedicated to a particular unit/department of the CBN which would design several mechanisms for the achievement of targeted levels of financial inclusion in all parts of the country. The elements of the financial inclusion programme should include but not be limited to advocacy/training to achieve financial literacy, financial education, branch banking and spread in the use of automated teller machines (ATM), and reform of the microfinance banks to make them more accessible and development-oriented.[15] This will make them more accessible to people located in remote areas of the country. A related policy is the need to develop a special regulatory vehicle to carry out oversight of the microfinance banks; re-orienting them in a developmental direction for addressing the growing poverty challenge.
- The challenge of financial intermediation cannot be left to the CBN alone because the causal mechanisms that encourage moral hazard and adverse selection are complex and basically embedded in the dysfunctional culture of some people/groups in the society. But this negative culture has to change for Nigeria to reap the full benefits of modern banking which has to do with expansion of credit. One of the ways of changing this negative culture is the wide adoption of a national identification system and widespread use of the credit bureau by financial institutions. Effective use of the national identity system along with an IT-based credit bureau is what has accounted for the

[15] It should be noted that a development-oriented microfinance bank should be given a dual mandate of outreach to the poor and financial sustainability. Such microfinance banking models have been successfully developed in Kenya and Indonesia, See elaboration in Umo 2012, pp.199-203. See also Staschen and Nelson (2013).

growth and viability of credit-driven economies like the United States and a host of other developed countries. The institutionalization of credit information and a national identity system are obviously activities with positive externalities which the federal government has to accommodate in its budgetary provisions. The private sector can also be made to contribute to this effort because an efficient credit system will obviously improve their operational efficiency and profitability.

❖ The role of forging a linkage between the micro, meso and the macro sectors of the economy is not only informed by theoretical considerations of NAIRU but the practical realities that not much can be achieved in the absence of alignment of these sectors/institutions with the macro.[16] This can mostly be undertaken and coordinated by the Federal Ministry of Finance, Budget and Planning (FMOFBP) through the annual budget and co-ordination of regulatory institutions to address good governance deficits, and prudent fiscal policies that are employment-friendly and supportive of the CBN's present efforts like promotion of entrepreneurship. More crucially, the federal budget should set up a strong monitoring and evaluation (M&E) mechanism to ensure that all its budgetary provisions are accountably implemented to the letter. Absence of a strong accountability and monitoring mechanism in Nigeria has been responsible for the over 9000 uncompleted projects littered all around the country, hence the denial of the employment multiplier effects such projects might have generated for the economy.

❖ Institutional mechanisms which are sensitive to employment issues need to be factored into the full employment strategic agenda. One of such critical institutions is tripartism, which often requires the participation of trade unions, the government, and employers of labour in wage negotiations. Failure to address trade union issues proactively and frontally has led to loss of millions of man-days through annual strikes. According to the National Bureau of Statistics,

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[16] Monetarists in general agree that only microeconomic measures can be used to lower NAIRU rather than macroeconomic policies (see en.wikipedia.org /wiki/NAIRU)

the total man-days lost to industrial disputes in the country increased from 5.6 million in 2003 to 13.2 million in 2007. Indeed, industrial disputes affecting virtually all sectors of the economy have been on the increase up till date (see Umo, 2012, pp 269-270). In the new full employment agenda, traditional tripartism needs to be modified and extended to the participation of the Central Bank. Extending tripartism to quadripartism (to include the Central Bank) would then make it possible to align the concerns of wage adjustments to the macro-stabilization aspects of inflation, exchange rate, fiscal deficit, and employment. A proactive engagement of the quadripartism mechanism would be crucial for attaining the new full employment goal, especially in its contribution to the prevention of industrial strikes which often drastically reduce employment and productivity in the economy.[17]

6. Conclusion

An attempt has been made to lay bare the enormity of macroeconomic challenges facing the Nigerian economy and to analyse why the application of standard monetary and fiscal policies in the pursuit of macro-stabilization has largely been a failure in the country as indeed in most developing economies pursuing such policies. It has been noted that the macro-monetary and fiscal policies applied for addressing stabilization goals in Nigeria have largely failed because of inability to adapt the orthodox policies to the uniqueness of the structural environment facing the monetary/fiscal authorities. It therefore means that success would depend on a clear recognition of the impediments to the success of extant macro policies and a fundamental recasting of new policies, mandates and programmes to deal with the peculiarities of this environment.

The key reasons for the failure of standard policies have been traced to issues like high levels of financial exclusion that effectively blocks the transmission of financial impulses initiated by the central bank; financial

[17] Something similar to the suggested 'quadripartism' has been practised in Sweden, where trade union negotiation is comprehensive and encompasses all sectors of the labour market. This has contributed in no small measure to full employment and macro-stabilization of the Swedish economy (see Jose, 2002).

intermediation crises which have made it virtually impossible for investors to obtain credit for meaningful investments in the economy; the mistargeting of employment policies which essentially is human capital wastage rather than just open unemployment; and the disconnect between micro, meso and macroeconomic policies.

A new full employment agenda based on a holistic sectoral framework has been proposed. Such a framework has to start by redefining broadly the mission of the central bank to include not only financial stabilization (inflation and exchange rate management) but employment stabilization in the sense of pursuing maximum productive employment creation as captured by a reduction in the human capacity wastage index (HCWI). Other critical issues within this framework would include the adoption of an aggressive financial inclusion strategy; measures to remove impediments to financial intermediation; as well as institutions to ensure that the disconnect between micro, meso and macroeconomic policies are resolved.

The key advantage of adopting the suggested new perspective to full employment in the Nigerian context, as indeed in other developing economies' contexts is that the twin crises of human capital wastage (HCW) and poverty would have been addressed with a single generic policy thrust. The sustainability of this approach can be assured if/when further empirical work is done to address issues like the measurement of human capital wastage index (HCWI) by the NBS or the CBN, probing and quantification of moral hazard challenge as well as studying how coordination failure can be avoided in an attempt to link the micro, meso and macro policies in the economy. Failure to change from the extant outdated policies would, paraphrasing Richard Grossman's insightful quote cited at the beginning of the paper, be tantamount to 'buying a one-way ticket to economic disaster'– something developing countries can ill-afford.

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