The Dynamics of Institutional Failure and Its Implications on Employment Capacity of the Nigerian Economy

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Abstract
Various panaceas and recipes have been mooted as prerequisites in altering the negative biases of the Nigerian economy away from endemic labour unemployment. Policy prescriptions are mostly banal and do not represent any marked departure from conventional thinking. This paper however contends that weak institutions dotting the Nigerian socio-economic and political space are majorly responsible for low employment levels. Herein lies its significance. The paper analyses the variants of institutional failure and its implications on employment generation capacity of the Nigerian economy. A descriptive approach based on current data and literature is pursued. Institutions analysed include education, electricity/power, financial, and good governance. It recommends that significant efforts should be made to lay a solid foundation for stronger and efficient service delivery institutions in the future. Above all, good economic governance is a necessity for the realization of high employment generation capacity of the economy. Adequate institutional frameworks that provide stable, transparent investment regulations and conducive local conditions are required.

Keywords: institutions, failure, employment, capacity, economy, and Nigeria.

INTRODUCTION
Nigeria’s over-riding objective since independence in 1960 has been to achieve stability, material prosperity, peace and social progress. However, this has been hampered as a result of internal problems. These include inadequate human capital development, weak infrastructure, uninspiring growth of the manufacturing sector, unemployment, a poor regulatory environment and mis-management and misuse of resources. In order to ensure the economy delivers on its potentials, the country has experimented different development philosophies - a private sector-led growth in which the private sector served as the “engine house” of the economy and a public sector – driven growth in which the government assumed the “commanding heights” of the economy, then a mix of both (Dauda, 2010). Despite the introduction of the different economic development philosophies, the internal problems still persist.

The persistence of these problems is not unconnected with institutional failure. Institutional failure is simply the lack of or weak capacity for efficient service delivery by institutions. It is an established fact that the level of development of any society is influenced by so many factors including functional institutions (Ubi, Effiom and Mba, 2011). Institutions establish incentives by establishing the rules by which the economic game is played. Incentives are a kind of reward abilities in legitimate economic processes in the hope that one will be rewarded first, and that such reward will ultimately be diffused for the benefit of the society/economy. Incentives provided by institutions also mean that anybody may find it more rewarding to be employed (either self employed or otherwise) and remain in his chosen field or employment with the optimism that society will give him his due (World Bank, 1991, Effiom and Ubi, 2010). Thus, the key function of any government be it at the local, state or federal level, is service delivery to its citizenry through its institutions.

This, however, is not the case in Nigeria, as institutional failure has over the years made it practically impossible for these to be achieved. It is evident thus that with the mass depletion of the resources of the Nigerian state particularly by corrupt activities and by its corrupt ethnic zealots, the amount of resources left for the institutions to function effectively to boost employment generation capacity of the economy vis-à-vis economic growth is very meagre. Thus, such institutions as educational institutions, electricity supply institutions, good water sources institutions, transport institutions, financial institutions, governance and other essential services institutions necessary to strengthen the employment generation capacity of the economy are greatly compromised. Widespread institutional failure has
reinforced existing economic and social inequalities and has undermined the credibility of government and public institutions to create and generate employment opportunities in the economy.

This paper argues that the inability of the economy to create and generate employment opportunities is as a result of institutional failure. Thus, the rate of unemployment (23.9% in 2011) being witnessed in Nigeria is a manifestation of institutional failure. Little attention has been given to the dynamics of institutional failure and its implications on employment capacity of the economy in Nigeria. Thus, the basic research question to be addressed in this study is: to what extent is institutional failure responsible for the low level of employment generation capacity vis-à-vis unemployment in Nigeria? This becomes necessary given the peculiarity of the nature of institutional failure in Nigeria. This research stands in the gap by critically articulating and documenting the peculiarity of the nature of institutional failure and how it robs off negatively on employment generation capacity of the economy in Nigeria. Besides, its significance to both scholars and readers is underscored by the increasing discount placed solely on the trite philosophy of capital accumulation or the lack of it in generating economic growth and employment. The paper underlines the fact that in the absence of effective institutions, capital accumulation and injecting of same in the economy cannot guarantee sustained employment generation. The capacity to productively use capital is obviously lacking. It is an empirical analysis that is largely descriptive in nature with a philosophical undertone. This paper is divided into 5 sections. Section 1 is the introduction, while section 2 deals with the role of institutions in employment generation. In section 3, variants of institutional failure in Nigeria is discussed while section 4 looks at the cumulative effects of institutional failure on employment generation capacity of the Nigerian economy. Section 5 concludes the study.

The Role of Institutions in Employment Generation

A basic assumption of neoclassical growth theory stipulates that economic growth takes place by a combination and accumulation of capital and labour, each capable of being substituted for each other. More formally: \[ Y = A f(L, K). \] Where \( Y \) = economy’s output, \( K \) = capital, \( L \) = labour and \( A \) = the efficiency parameter called technical progress. It represents the efficiency with which capital and labour are utilized. Without technical progress, and given the assumption of diminishing marginal returns to capital, economic growth would eventually come to a halt in spite of credible government policies to alter the declining trend of growth. This is the fundamental deficiency and critique of exogenous growth theory which has given way to the now popularized endogenous growth. The strength of the latter lies in the fact that even in the face of declining returns to labour and capital inputs, the presence of \( A \) (i.e. technical progress) would continuously push the production possibility curves of economics outward. But technical progress, it has been variously shown, depends on the strength of institution. What then are institutions? North (2003) defines institutions as the formal and informal constraints on political, economic and social interactions. They are the rules, enforcement mechanisms and organizations. Institutions are the incentive systems that structure people to behave in certain ways; and if they are effective, they structure and provide incentives and also structure economic, political and social activity which in the short or long run may stimulate employment generation. They can make predictable our dealings with each other every day in all kinds of forms and shapes. They thereby, not only reduce uncertainty in the world but allow us to get on with everyday business and solve problems effectively. Institutions encompass “the public bodies through which the state discharges its most fundamental responsibilities, maintaining law and order, investing in essential infrastructure and raising taxes to finance such activities” (World Bank, 1991). The effectiveness of institutions is aptly seen in a market economy, where good institutions (in the absence of corrupt practices) can help transmit information, enforce property rights and contracts and manage competition in the market place. Broadly speaking, institutions are expected to facilitate the generation of ideas, stimulate innovations, lower transaction costs and correct government failures and by extension enhance employment generation capacity of the economy (Ajayi, 2003). Institutions establish incentives by establishing the rules by which the economic game is played. Incentives are a kind of reward abilities in legitimate economic processes in the hope that one will be rewarded first, and that such reward will ultimately be diffused for the benefit of the society/economy. Without the provision of such framework of incentives, such mechanisms, individual and society’s talents will lay dormant, wasted without being gainfully employed. Incentives provided by institutions also mean that any worker will find it more rewarding to remain in his chosen field or career as provided by the economy with the optimism that society will give him his due.

Incentives, however, are not enough. It is just one side of the prism through which an ideal society should be mirrored. Disincentives form the other side of the coin. Human nature untamed and unbridled by good institutions is a recipe for societal decay, economic collapse and moral misery. Disincentives are a set of restraint on our base human instincts which decries decency, civility and the lawful order. Self interest often translates to selfishness, greed, avarice and the rabid accumulation of wealth.
(corruption) often exceeding the moral boundary. A major role of institutions in the society is to reduce uncertainty. Institutional failure occurs when as a result of corrupt practices, service delivery by institutions increase uncertainty. This is perhaps what President Obama had in mind when he echoed to the rest of Africa from Ghana that Africa does not need strong men but strong institutions. Strong institutions are the underlying superstructures which guarantee the capacity of the economy not only to generate employment opportunities but also increase labour absorptive capacity of the economy which paves the way for unfettered economic growth and development. Strong institutions devoid of corrupt practices form the objective basis for governance; ensure policy continuity and overall economic growth in the long run (Effiom and Ubi, 2010).

**Variants of Institutional Failure in Nigeria**

According to Rewane (2012), despite Nigeria’s Gross Domestic Product (GDP) of $240.7 billion last year, the country still lacks the capacity to engage new employees. The economy expanded by 7.25 per cent last year and is growing at a pace faster than the global and regional average of 3 per cent and 5.2 per cent respectively. Nigeria’s sustained growth is still not fast enough to make an impact on the level of prosperity and unemployment. The country’s unemployment rate is rising. Unemployment in the country increased to 23.9 per cent last year and may continue in 2012 and 2013. The economy seems to lack the absorptive capacity to engage those currently unemployed and those expected to be disengaged. The official figure is quite alarming but it is suspect that this figure could be higher.

The high unemployment rate coupled with the relatively high inflation level of 10.5 per cent, pushes Nigeria’s misery or frustration index upward to 34.4 per cent in 2011. The misery index was 32.9 per cent in 2010 (Rewane, 2012). Most analysts have queried how the economy continues to grow at an annual average of 7.25 per cent but can not generate employment opportunities to absorb the army of labourers/unemployed. The cause of this is multidimensional and includes but not limited to failure in the power, financial, educational and economic governance institutions, to mention but a few.

**Failure in the Power/Electricity Institution**

Infrastructure (in which electricity is one of them) interacts with the economy through multiple and complex processes. It represents an intermediate input to production, and thus changes in infrastructure quality and quantity affect the profitability of production, and invariably the levels of income, output and employment. Moreover, infrastructure services raise the productivity of other factors of production (Kessides, 1993, Adenikinju, 2005). In Nigeria, (Power Holding of Nigeria (PHCN) formerly NEPA), the institution that is solely responsible for the supply of electricity infrastructure to the public has failed woefully to deliver on its statutory responsibility. This, perhaps, may be due to lack of capacity or “weak and corrupt capacity” to dutifully carry on its assignment. Power outages in Nigeria result in losses equivalent to 10 per cent of total sales. Ninety seven (97) percent of Nigerian firms experience power outages. On the average, such outages last for 196 hours per month, approximately, 8 days. Large firms and firms in the manufacturing sector are more adversely affected by such outages. Faced with this situation, 86 per cent of firms have their own generators, which produce 61 per cent of their electricity needs (ICA, 2009).

**Table 1. Country Comparison of Electricity Constraints**

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<tr>
<td>% of firms experienced power outages</td>
<td>97</td>
<td>85</td>
<td>21</td>
<td>64</td>
<td>48</td>
<td>N/A</td>
<td>77</td>
<td>N/A</td>
</tr>
<tr>
<td>% firms with own generator</td>
<td>86</td>
<td>70</td>
<td>N/A</td>
<td>17</td>
<td>39</td>
<td>10</td>
<td>59</td>
<td>19</td>
</tr>
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</table>

Source: ICA surveys, 2009.

In comparison with other countries, the percentage of firms experiencing power outages is highest in Nigeria (see table 1). In view of the implications of the ongoing electricity supply crisis in the economy, many Nigerians have been pauperized and made miserable (FRN, 1975; World bank, 1991; Ayodele, 1992 and 1999). This has further culminated in the emergence of a more warped economic system in which the cost of doing business has geometrically increased. The implications of this undesirable development are the creation of a limited capacity in the economy for employment. The manufacturing sector which is usually considered as the engine of growth has continued to be characterized by low production as a result of inefficiencies in infrastructural supply that is not unconnected to inadequate electricity supply by PHCN. Manufacturers have had to invest huge capital funds to provide alternatives for their operation with the consequence that domestic industries carry high cost/price structure; resulting in the loss of competitiveness for their products in both domestic and foreign markets. Contractions in the industrial sector mean increase in the rate of unemployment, inflation and external trade imbalances. Also, there is no vibrant manufacturing sector which has the capacity to absorb unemployed youths in Nigeria.
There are over 800 collapsed industries in Nigeria and over 37 factories have closed shops in 2009. About half of the remaining operating firms have been classified as ‘ailing. Besides, high and multiple levies and taxations being paid by these companies, energy crises have combined to make the cost of doing business in Nigeria to be very exorbitant. When the industries and factories closed shops or relocate to a friendlier economic environment, workers are laid off and prospects of recruiting new ones are dashed. All these exacerbate the crisis of youth unemployment in the labor market (Adeloye, 2010; Onifade, 2011).

Against this backdrop, a comparative analysis of the Nigerian economy with those of developing countries in Africa, Asia and Latin America as well as with those of advanced countries of Asia, Europe and North America in the year 2000 revealed Nigeria, Cote d’Ivoire and Kenya are less developed than other countries. This is because the contributions of agriculture to GDP exceeded those of manufacturing in some of these countries in Asia, North America and perhaps Latin America. Whereas the contributions of manufacturing in Cote d’Ivoire and Kenya for instance are 19 per cent and 13 per cent respectively, that of Nigeria is 6 per cent. While the contribution of agriculture to GDP in Cote d’Ivoire and Kenya is 29 per cent and 20 per cent respectively, that of Nigeria is 41 per cent. Thus it is clear from the above that Nigeria is less developed than Cote d’Ivoire and Kenya (Adeloye, 2004).

The failure of the electricity institution (PHCN) to regularly supply electricity has undermined the effectiveness of fiscal and other incentives designed to stimulate the growth and diversification of the economy. Usually, it is believed by industrial economist that the level of electricity production, supply/consumption determines whether or not a country is developed or industrialized. Obviously, a country may be considered to be industrialized when one tenth of its total population is employed in the industrial sector, specifically, in the manufacturing section of the industrial sector. This implies that if the electricity institution had not failed to deliver regular electricity to Nigerians, the manufacturing section of the industrial sector would have had the capacity to generate employment for at least one tenth of the total population. Ekpo (2008), as cited by Atser (2008), observed that the most critical aspect of infrastructure to investment is power (electricity) supply which unfortunately had been on the low side in Nigeria. According to him, statistics from state owned electricity utility firm (PHCN) showed that electricity supply is about 3400 megawatts in a country of 140 million people. Therefore, fixing power (electricity) will spur the growth of small and medium scale enterprises and by so doing, substantially boost the employment generation capacity of the economy.

**Failure in the Financial Institutions**

The obvious disconnect between financial institutions and the real sector in the Nigerian financial system has adversely affected the growth of the real sector and by extension hampered the generation of jobs in that sector in question. There are over 898 Micro-finance institutions and 25 commercial banks in Nigeria but there is still limited outreach to the investors. For example, of the 70 million people in need of micro credit, only 1.5million had access in 2003 (CBN, 2009). Nigeria’s financial sector, over the years, has been very active in trading in government debt instruments and foreign exchange and financing of the whole sale and retail trade sectors where the risk is minimal. Financial institutions in Nigeria have not been able to finance the real sector optimally. Nigerian businessmen are starved of capital. Eighty (80) percent of firms would like to have a loan, only 5 per cent actually have one. And when firms in Nigeria do manage to obtain a loan, they get the shortest time to repay it compared to other countries. The complexity of the application process and the onerous collateral requirements are the main reasons for such low banking penetration (ICA, 2009). In Nigeria, entrepreneurs rely heavily on their own internally generated resources for long-term financing of businesses and less on the formal conventional financial institutions. Nigeria’s capital market lacks depth and the banking sector is not yet fully playing an effective role in advancing credit to the private sector.

This is confirmed by the fact that an international comparison of domestic credit to the private sector underscores the lack of depth of the Nigerian financial sector (measured by M2/GDP). Dynamic economies such as Malaysia and South Africa are at 117 per cent and 78 per cent respectively, whereas Nigeria at 18 per cent of GDP remains below the Sub-Saharan African average of 30 per cent. Intermediation to the private sector (measured by credit to the private sector/GDP) also remains below peer countries as shown in table 2 (ICA, 2009). This situation thus acts as serious constraints to investment and the growth of the real sector. Given that there is a clear link between increased investments and employment generation capacity of the economy, it therefore, implies that any economy with declining investment(s) opportunities would ultimately limit the capacity of the economy to generate employment opportunities as currently witnessed in Nigeria.
Faulty educational system/institution which does not prepare its products for gainful employment has been linked with the unemployment or underemployment dilemma facing the country. According to Babalola (2012), FME (2006) in consultations with employers of labour disclosed that large numbers of university graduates go jobless for the following reasons; a mismatch between teaching in our institutions and the needs of the labour market, Lack of consultation with private sector has led to teaching of outdated Curriculum, majority of Students learn through lectures and academic text books and are academically sound but they have limited opportunities of acquiring practical experience by using machinery, equipment and practical techniques associated with the profession, lack of qualified teachers to teach vocational, innovative, entrepreneurship and job skills. Osuji (2004) had maintained that Nigeria’s higher education may have lost its focus. The present graduates from the nation’s universities can not access productive employment because they are bereft of the required competence and skills. In his words: “Today, we produce graduates who have no competence at all, no skills. Our graduates are without employment because they are not employable.

In the same vein, Udofo (2006) also emphasized that in recent past, the Nigerian academic institutions, particularly, the universities are yearly churning out large harvests of graduates who find it difficult to adjust to the social and economic problems of the society. According to him, the university education they receive does not appear to equip them with skills beyond those required for passing examinations. He also maintained that the curricula do not prepare the students to relate their studies to their problems and those of the Nigerian society. Dabalen and Oni (2000) had probed the levels of graduate preparedness for productive employment in Nigeria by answering the questions: are university graduates in Nigeria adequately educated? How do employers assess the qualifications of current degree-holders? How well do graduates perform when they are able to obtain employment? Based on an analysis of available labour statistics and interviews with managers from 55 public enterprises, the study shows that prospects for employment among graduates worsened over time as the share of graduates going into the public sector fell drastically. The study further reveals that:

- University graduates are poorly trained and unproductive on the job.
- Graduate skills have steadily deteriorated over the decade (1990 to 2000).
- Shortcomings are severe in oral and written communication, and in applied technical skills.
- In many cases, employers compensate for insufficient academic preparation by organizing remedial courses for new employees. This increases the firms’ operating costs, and reduces their profitability and competitiveness.

Perhaps, it could be as a result of the foregoing analysis that prompted Ndiyo (2002) to brand the link between education and economic growth in Nigeria as a paradox. According to him, despite the assumed huge investment in education, there is no strong evidence of growth promoting externalities of education in the country. This is a clear testimony to the fact that our educational institutions have failed in efficient service production and delivery. This is manifest in the weak positive relationship between university manpower production and Nigerian productive sector as demonstrated by Babalola (1990 and 2012). The study showed that there was a skill mismatch. While the economy was getting much of its contribution from the industrial sector, the university system kept on producing commercial and service oriented labour. For instance, the percentage share of service-oriented disciplines was 52.04 in 1978 when the industrial sector produced 63.77 percent of the GDP as against the 5.92 percent of GDP contributed by the service sector. Moreover, on average, while the service sector contributed only 7.15 to the economy, the university system was producing 53.54 percent of its products in service-oriented disciplines. This trend seems to be present with us in Nigeria today and has been partly responsible for the level of unemployment witnessed today, given that high quality and labour market relevant education is not provided by our academic institutions. Often, this is attributed to the Nigeria’s education system, with its liberal bias. The course contents of most tertiary educational institutions in Nigeria lack entrepreneurial contents that would have enabled graduates to become job creators rather than job seekers (Okafor, 2011). Given the above scenario where the educational system/institutions can not boost the productive capacity of the Nigerian economy, it becomes difficult for the economy to absorb more labour to increase productivity.

### Table 2 Domestic credit to the private sector

<table>
<thead>
<tr>
<th>Countries</th>
<th>Nigeria</th>
<th>Malaysia</th>
<th>Ghana</th>
<th>Brazil</th>
<th>Indonesia</th>
<th>S/Africa</th>
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<tr>
<td>% Of GDP</td>
<td>18%</td>
<td>117%</td>
<td>20%</td>
<td>39%</td>
<td>26%</td>
<td>78%</td>
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Source: World development indicators, 2006 as adapted from ICA, 2009
Failure in Institutionalization of Good Economic Governance

According to ECA (2002), good economic outcomes are derived from good economic governance. Economic governance is a broad concept encompassing a wide range of issues. Good economic governance exists in those economies where the institutions of government have the capacity to manage resources efficiently; formulate, implement, and enforce sound policies and regulations; can be monitored and be held accountable; in which there is respect for the rules and norms of economic interaction; and in which economic activity is unimpeded by corruption and other activities inconsistent with the public trust. The key elements contributing to an environment of good economic governance are transparency, accountability, an enabling environment for private sector development and growth, and institutional development and effectiveness. Good economic governance is necessary in order to enhance the capacity of the state to deliver on its economic mandate. That mandate includes eradicating poverty through the provision of a sustainable means of livelihood (gainful employment) and improving economic growth. However, the majority of African countries (including Nigeria) now lack the capacity to meet that mandate due to deficiencies in their economic governance structures. Those deficiencies include the lack of an appropriate institutional framework to guide economic policy-making and execution; a weak civil society unable to hold government accountable for its actions; a similarly weak or uninterested parliament; and the lack of consultative mechanisms for engaging the private commercial interests for inputs into sectoral planning or other national economic decision-making processes.

In Nigeria, there are obvious symptoms or characteristics of bad economic governance. Economic governance institutions, such as the executive, legislature and the judiciary are weak. The rule of law and adherence to formal rules are not rigorously observed. Political patronage is standard practice. The independence and professionalism of the public sector has been eroded and the civil society lacks the means to bring public pressure to bear on the institutions of economic governance. There had been a consistent lack of transparency and lack of efficiency in fiscal, monetary, and regulatory policy; frequently unsustainable budget deficits for over 33 years to finance recurrent expenditure; wasteful expenditure and imbalances in sectoral allocations; and unpredictable decision-making processes. The institutions of government do not have the capacity to manage resources efficiently; this situation has given room for corruption in governance in all its ramifications thereby impeding long-term foreign and domestic investment. In fact, frequently unsustainable budget deficits in Nigeria have been proxied for corruption in high places of government. There had been a deliberate failure not to institutionalize the basic norms of good economic governance by government institutions which would have created the path for sustainable employment generating economic growth. Ultimately, bad economic governance in Nigeria has generated some negative multiplier effects, thereby decreasing the capacity of the economy to create jobs for people and by so doing increasing unemployment.

Table 3: Trend in skill mismatch in Nigeria

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<tbody>
<tr>
<td>Industrial</td>
<td>GDP</td>
<td>63.77</td>
<td>65.94</td>
<td>64.93</td>
<td>58.26</td>
<td>57.87</td>
<td>60.72</td>
<td>61.34</td>
<td>61.51</td>
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<tr>
<td></td>
<td>UMP</td>
<td>28.96</td>
<td>19.63</td>
<td>19.46</td>
<td>22.21</td>
<td>17.35</td>
<td>16.36</td>
<td>15.37</td>
<td>20.66</td>
</tr>
<tr>
<td>Commercial</td>
<td>GDP</td>
<td>28.57</td>
<td>29.30</td>
<td>33.74</td>
<td>33.32</td>
<td>30.40</td>
<td>29.13</td>
<td>30.17</td>
<td>31.01</td>
</tr>
<tr>
<td></td>
<td>UMP</td>
<td>19.00</td>
<td>27.55</td>
<td>26.85</td>
<td>28.84</td>
<td>28.14</td>
<td>24.42</td>
<td>28.92</td>
<td>25.80</td>
</tr>
<tr>
<td>Service</td>
<td>GDP</td>
<td>5.92</td>
<td>5.26</td>
<td>5.32</td>
<td>7.41</td>
<td>8.12</td>
<td>8.11</td>
<td>8.70</td>
<td>7.15</td>
</tr>
<tr>
<td></td>
<td>UMP</td>
<td>52.64</td>
<td>52.82</td>
<td>53.69</td>
<td>48.95</td>
<td>54.51</td>
<td>59.22</td>
<td>55.71</td>
<td>53.54</td>
</tr>
</tbody>
</table>

Source: Babalola (1990)

Notes: Industrial sector comprises extractive, manufacturing, building & construction industries; GDP and UMP represent gross domestic product and university manpower production respectively.
The Cumulative Effects of Institutional Failure on Employment Generation Capacity of the Nigerian Economy

The cumulative effects of institutional failure on the economy can deductively be captured in two dimensions; the limited capacity of the economy to generate employment and the loss in consumer/producer surplus. The loss in consumer/producer surplus is more or less due to restriction imposed on output by external factors in the economy. Adopting and reasoning from Iwayemi’s (1991) analysis of dead weight loss to explain the implications of institutional failure on the economy, let us consider an industry with the standard shapes of the demand and supply curves. The supply of output by the firm is based on the production function that combines capital, labour, institutional services (e.g. electricity, financial and economic governance) and other inputs. The impact of poor and unreliable supply of institutional services would be an increase in the production cost of the firm either through the higher cost incurred in the substitution of private for public supply of those services or through output losses from shutdown by those who cannot effectively find substitutes because they cannot afford to bear the additional cost burden. The effect of this situation is to shift the supply curve to the left (as shown in the diagram below) implying that the producer is only willing to supply each previous level of output at higher price. The higher market price of the product reduces both the consumers and producers surplus (dead weight loss). Generally, the inadequate and poor supplies of institutional services, such as electric power, financial and good economic governance etc have a major negative impact on industrial production and overall economic growth. Some dimension of the loss to the economy can be captured in terms of the deadweight loss (the reduction of consumers and producers surplus). The size of the deadweight loss can be measured by the area ABCR in Figure 1.

On the other hand, the effect of this situation which shifts the supply curve to the left (as shown in the diagram below) implies a reduction in output or output losses from shutdown by firms who cannot effectively find substitutes for these institutional services because they cannot afford to bear the additional cost burden. This leads to a decrease in the overall demand for labour, given that there is a clear link between employment levels and overall productivity (output) in the industry. In any economy, we would expect that increasing productivity would result in increasing demand for labour. Thus, whenever there is a decrease in productivity/output imposed upon by external factors (such as institutional failure) in the economy, there is bound to be a decrease in the demand for labour with long-run consequences of unemployment (employment reduction). This implies that improvement in the efficiency of institutions in service delivery in Nigeria can substantially reduce indirect costs on firms, thereby realizing productivity gains that would stimulate additional employment creation in the economy.

![Figure 1: The welfare loss/employment reduction from inefficient delivery of institutional services.](image)

CONCLUDING REMARKS

The multidimensional nature of unemployment in Nigeria requires that a holistic approach be adopted to unearth the root causes of limited employment generation capacity of the Nigerian economy. Four policy scenarios were considered in the study: first, failure in the power or electricity institution, second, failure in the educational institutions, third, failure in the financial institutions and failure in institutionalizing good economic governance. These institutions were chosen because they seem to be the superstructures which can support an employment generating economic growth in Nigeria.

It has been established by this paper that the current level of unemployment is not completely unconnected with the level of institutional failure in Nigeria. Nigeria’s appreciable economic growth indices in recent years which is in tandem with emerging global trend has not actually robbed off positively on employment creation (unemployment reduction). Iwayemi (2006), pointed out that the weakness in the institutional framework for development, fostered by military dictatorship, reinforced by poor governance with inherent lack of accountability and transparency and the proliferation of rent-seeking behavior are the non-economic factors that have underdeveloped Nigeria and by extension reduce employment generation capacity of the economy. He went further to emphasis that the institutions or the reward structures do not encourage efficient allocation of economic resources.

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Based on this, adequate institutional frameworks that provide stable policies, transparent investment regulations and conducive local conditions are required, including a functioning educational system. Significant effort should be made to lay a solid foundation for stronger and efficient service delivery institutions in the future. Above all, good economic governance is a necessity for the realization of high employment generation capacity of the economy. Perhaps paucity of data on the key institutions reviewed in this work constituted a limitation to the study.

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