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Review Article

Government Intervention and Reduction of Unemployment: Lessons from Governor Amaechi's Songhai Farm in Rivers State, Nigeria

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Abstract

Unemployment has become an intractable underdevelopment phenomenon in all economies. Though most empirical studies asserts that unemployment is higher in less developed economies as compared to developed ones, it is an established fact that no country has the capacity to provide jobs for all its citizen simultaneously. Hence, the attainment or maintenance of an acceptable rate of unemployment is a major theme of public policy formulators. It is on this backdrop that this research is carried out. The paper aims at showing how government intervention in the agricultural sector was able to develop the sector within a very short interval in Rivers State, Nigeria and using content analysis, draws lessons therefrom for the developing countries for dealing with unemployment.

Keywords: Government Intervention, Unemployment, Less developed Countries, Public Policy, Classical theory.

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INTRODUCTION

Adam Smith and the classical and neo-classical economists strongly held that government shouldn't intervene in the economy. The economy should instead be left in the hands of the invisible market forces. At the longrun, they said that efficient quantities of all the needed goods and services of the society will be produced and distributed through the invisible hands. Government intervention distorted the effective and efficient workings of the market mechanism. The government of most third world economies, including Nigeria, swallowed this hook, line and sinker, folded their arms and accordingly expected the market to provide all their needs. Such countries are disappointed today.

One of such economies is Nigeria where by allowing the market forces to guide the allocation of resources and distribution of its output, more resources were allocated to the oil sector which is more foreign driven and produced a mono-cultural economy. Successive government have waited for the longrun effect which was expected to be a diversified economy with technological advancement, only to have an economy that serves the interest of the advanced economies through production of raw materials. The Nigerian economy became such that buys almost all it needs from other countries including processed petroleum and agricultural products that it was noted for.

Should the government still stand aside and watch the market forces? Keynes answer to this is no (Akpakpan 1998). The government should intervene. At the longrun we will all be dead as we are already dying and will not know whether the market mechanism was able to diversify the economy or not.

Before and all through the colonial era agricultural sector was the dominant sector of the Nigerian economy and unemployment was not a serious issue as almost every individual had some reliable employment in the sector. In spite of the neglect of the sector occasioned by the discovery and exploitation of crude oil, it still constitutes a very significant sector of the nation's economy. About 70% of the Nigeria population still depended on the sector for their means of livelihood. The sector also provides raw materials for the manufacturing sector and contributes to the foreign exchange earnings of the economy. (Odoemerem and Inakion, 2011).

It was due to the importance of the sector that several efforts were made by past administrations to develop it. Such effort include the establishment of Operation Feed the Nation (OFN), Green Revolution (GR), River Basin Authorities (RBA), Nigeria

Agricultural Land Development Authorities (NALDA) etc. (Anyanwu *et al*., 1977). Yet it was estimated that about 20 to 40 percent of the yearly harvest was lost during processing. The primary cause is the lack of storage facilities, harvesting and processing techniques.

In Rivers State the government intervened in the agricultural sector to establish a farm to ensure a more efficient supply of a number of agricultural products and provide leadership in agro processing and technology. The Songhai Development Initiative Farm was established at Tai Local Government Area of the state and operated for about five years. Research carried out by Agbarakwe and Anowor (2018) showed that this singular intervention did not only contribute to the development of Agriculture in the state but yielded other positive development related externalities. One of such externalities is job creation as the farm employed over a thousand youths directly and indirectly.

All economies whether 'developed' or developing have at one point or the other suffered the scourge of unemployment. For instance, data from the International Labour Organization (ILO) show that the youth unemployment rate in Asia and the Pacific rose by 1.6 percent between 2019 and 2022, which is more than proportionate to that of the adult population. The unemployment rate of those in Asia and the Pacific was estimated to be 14.9 percent in 2022. In Europe, Spain and Greece recorded the highest level of unemployment, while Czech Republic had the lowest rate at 2.9 percent (Ec, 2019). According to the International Labour Organization (ILO) report on employment in Africa, nearly 34 million persons are unemployed. Furthermore, the employment rate for women (7.5 percent) is higher than that of the men (6.3 percent).

The social and economic consequences of high rate of unemployment cannot be overemphasized. High rates of unemployment leads to loss of aggregate income, dampening in self-confidence of the unemployed, and a spike in social vices (Clever, 2007). Rising Unemployment is indicative that there are idle resources yet to be maximized by the economy. As a result, there is a loss in the additional income that these unemployed persons could have produced if gainfully employed. In addition, the army of unemployed persons are potential triggers of social vices (except in developed climes were the unemployed are paid stipends by the government). Thus, Dogrul and Soytas (2010) asserted that unemployment has serious negative social- economic consequence on the economy; hence, it is imperative for policy maker to not only identify its determinants, but to formulate policies to ameliorate its effects. This is because it is one of the most visible indicators of the economic status of a country (Jeffrey, 2010). For the aforementioned reasons one of the major macroeconomic challenges of every economy and policy makers today is reduction of unemployment. Various theories on unemployment have been propounded each seeking to explain the origin, causes, effects as well as the possible mitigation strategies.

In this paper, a review of the various theories on unemployment is presented. The theories includes, but are not limited to; the Classical Theory of unemployment, the Keynesian Theory of Unemployment, and the Factor Price Distortion Theory. That is followed by rationale for government intervention in an economy. Next, is an analysis of the Songhai Farm and finally the lessons for the developing countries for dealing with unemployment.

LITERATURE REVIEW

The Classical Theory of Unemployment

The classical theory of unemployment is one of the oldest theories of unemployment. Traditionally, the classical economists are known for their liberalist approach or methods in addressing economic issues. According to them, markets will function better if unimpeded by government law and regulations. In other words, the government should hands-off their grip on the economy and allow the market forces of demand and supply to determine the optimum level of economic activities. The automatic alignment of the market forces of demand and supply that tends to lead to equilibrium in a capitalist economy is the main thrust of the classical economist. In the view of Neva *et al*., (2006), the classical stance on unemployment is predicated on the tenets of a single market economy characterized by perfect competition, spot transactions, and institutions for double-auctioning bid. According to them, involuntary unemployment exists when market forces (demand and supply) are deliberately interrupted.

In line with the postulates of the classical economists, the market forces of demand and supply automatically adjust themselves to ensure that the economy is at equilibrium. Thus, the economy is always at full employment at any given point in time. In their view, the existence of unemployment in an economy is an anomaly which will automatically disappear on its own by the workings of the market mechanism (Jhingan, 2008). The big questions is, if the classical stance on unemployment holds true, why do we still have episodic unemployment in an economy? Two notable Classical economists, Pigou (1933) and Solow (1980) posited that unemployment ensues when demand for labour is less than proportionate to its supply. Demand and supply of labour are both a function of the wage rate. Accordingly, a rise in wage rate ceteris paribus will result to an increase in labour supply by households and a decrease in demand for labour by firms. Equilibrium is attained in the labour market at the wage rate at which demand for labour equals supply for labour. The flexibility of prices and wages is such that at any given point in time, demand and supply will adjusts to ensure that the economy is at full employment (Kalu, 2001). The interaction of the market forces (demand and supply) in the labour market is graphically illustrated below;

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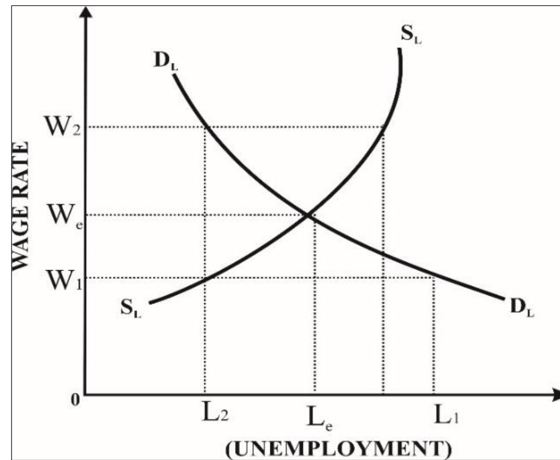

Figure 1.0: Classical Unemployment

As shown in figure 1.0, at wage rate (W_e), the quantity of labour demanded (D_L) by the firm is (L_e) which equals the quantity supplied (S_L). At that point, the labour market is at equilibrium. This implies that there is full employment. At any wage rate other than (W_e), the labour market will be at disequilibrium. For instance, at wage rate (W_2), there is excess supply of labour which suggests unemployment. According to the classical school of thought, wage must be reduced to (W_e) to restore equilibrium. Conversely, if the wage rate is below the equilibrium wage rate at (W_1), there will be excess demand for labour which will eventually be cleared as a result of the competition among firms that will result to the rise in wage rate to (W_e) thereby restoring equilibrium (Bredino, 2022).

The Factor Price Distortion Theory of Unemployment

The factor price theory of unemployment is a variant of the classical theory of unemployment. Like the classical theory, it is predicated on the tenets that the workings of the market mechanism are the key determinant of the level of unemployment. However, the theory posits that in the case of Less Developed Countries (LDC), the high rate of unemployment is as a result of the distorted prices of factors of production such as; labour and capital (Kalu, 2001). Specifically, the price of labour is more than proportionate to its shadow value i.e. the market determined price based on the interplay of demand and supply, while the price of capital is more than proportionate to its shadow value (Robert, 1980).

Government policies that makes labour price higher than its shadow price includes but is not limited to; minimum wage laws, hiring subsidies, union pressures and other employee benefits. Factors that make capital cheaper than its shadow price include; investment stimulants such as tax holidays, tax rebates, exemptions, subsidies etc. The above postulates has been empirically verified by Alessia *et al.*, (2009). According to them, they analyzed the relatively impact of fiscal stimuli in eradicating unemployment in the labour market. The outcome of the study show that there was a positive and significant impact of fiscal stimuli such as hiring subsidies, tax holidays etc. on the rate of unemployment.

The labour union may decide to restrict its supply of labour geared towards forcing the firm to increase their wages.

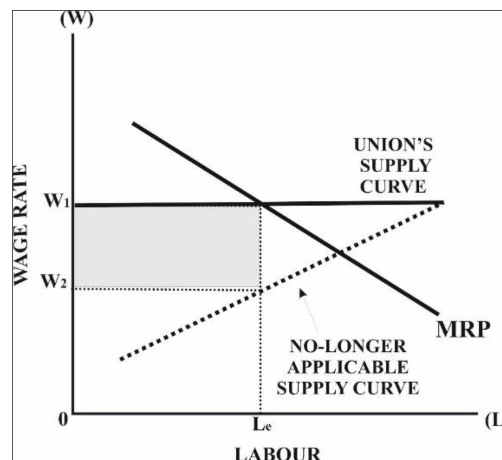

Figure 4.0: The Effect of Restricted Supply by Unionized Labour

From figure 4.0 above, the upward sloping supply curve (shown dashed) no longer applies as the union. Rather, the unionized (horizontal) supply curve at wage rate (W_1) is now what is faced by the firm. The monopsony firm may choose to hire as many workers it wishes at the unionized wage rate which has been pegged at (W_1). However, the firm will only hire workers as long as the MRP generated is greater than or equals to the workers MLC. Thus, the firm ends up hiring $0L_e$ number of workers because at $0L_e$ the MRP = MLC.

Keynesian Theory of Unemployment

Before the advent of the Keynesian school of economic thought, the theories of the classical economist held sway till midway through the 18th Century. However, the economic hardship that struck the world in the great depression of the 1930's with its attendant debilitating consequences shook the foundations of the classical beliefs which at the time was impotent in restoring economic sanity. It was the fallout of the aforementioned scenario and the search for a more effective solution to the economic ills of the time that heralded the advent of a new economic ideological leaning called the Keynesian school of economic thought.

The British economist John Maynard Keynes is the founding father of the economic school of thought known as the Keynesian school. Unlike the classical economists, Keynes advocated for the deliberate intervention of the government in achieving specified macroeconomic objectives such as price stability and full employment. He debunked the assumptions of price and wage rate flexibility which according to the classical school are the machinery for economic stabilization in the absence of government interference. To Keynesians prices are sticky downwards; meaning that, once there is an increase in prices it is very difficult for it to come down. In addition, they posited that it is difficult to find an economy that is perfectly competitive given that monopolies and the labour unions tend to be permanent fixtures in our economy, and the prices they create tend to be inflexible, at least downwardly (Keynes, 1936).

Figure 2.0 is a diagrammatic illustration of the relationship between changes in demand and its effect on production from the Keynesian point of view.

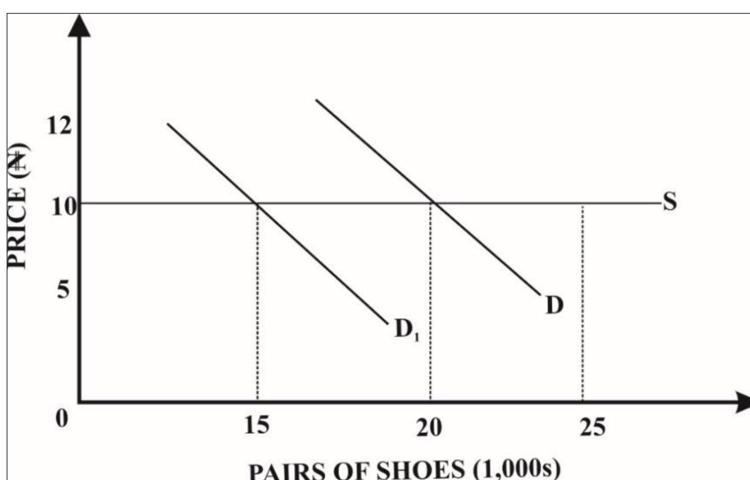

Figure 2.0: Keynesian View of Demand and Prices

Figure 2.0 shows the demand and supply curve in the shoe market using hypothetical values. Firms are faced with an infinitely elastic supply curve. It shows that an infinite quantity of output would be produced at a fixed price which in this case is ₦10. By implication, price is inflexible, while the firm's production level is flexible. The output level is 15,000 when the demand is D_1, and increases to 20,000 when there is an outward shift of demand to D. Note, the changes in output level from 15,000 to 20,000 is unaffected by changes in price as it remained fixed at ₦10. In line with the above reasoning, employment in the shoe industry is dependent on the level of output rather than the price level. Firms employ more workers at 15,000 than at 20,000. Using the above illustration, the Keynesians dubbed the classical tenets of flexible prices as a figment of the imagination.

The crux of the Keynesian school is the emphasis of effective aggregate demand as a tool to achieve specified macroeconomic objectives. They propose the adoption of an interventionist approach, by stressing the need for government involvement in the economy. By government involvement, we mean, the use of taxation and public expenditure to regulate aggregate expenditure.

According to Keynesians, aggregate demand determines the level of GDP and therefore the level of employment in the economy. Hence, the answer to why unemployment persists in an economy lies in the machinery of aggregate demand (Mouhammed, 2010). To illustrate the above stance, the aggregate demand and supply diagrams have been re-introduced in figure 2.0 to explain the Keynesian view of unemployment.

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The right-angled aggregate supply curve AS portrays the typical view of the Keynesians that as long as there is unemployment, the price level will remain unchanged. This can be seen in panel A, where at the equilibrium aggregate demand AD_1, the economy is at equilibrium at Y_1 real GDP, with price level P_1. This equilibrium position is also depicted in panel B, where aggregate demand $AD_1 = C_1 + I_1$ intersects aggregate supply AS at the real GDP level of Y_1. The price level remains unchanged at P_1 despite the increase in aggregate demand from AD_1 to AD_f because though the economy is at equilibrium, unemployment persists which justifies the Keynesian position that there is a possibility that an economy can be in equilibrium at less than full employment. At equilibrium level beyond aggregate demand AD_f such AD_3, real GDP remains static at Y_f, while the price level rises to P_2 creating an inflationary gap (P_1P_2).

In Panel A, aggregate demand must shift to the right from AD_3 to AD_f to achieve full employment without inflation.

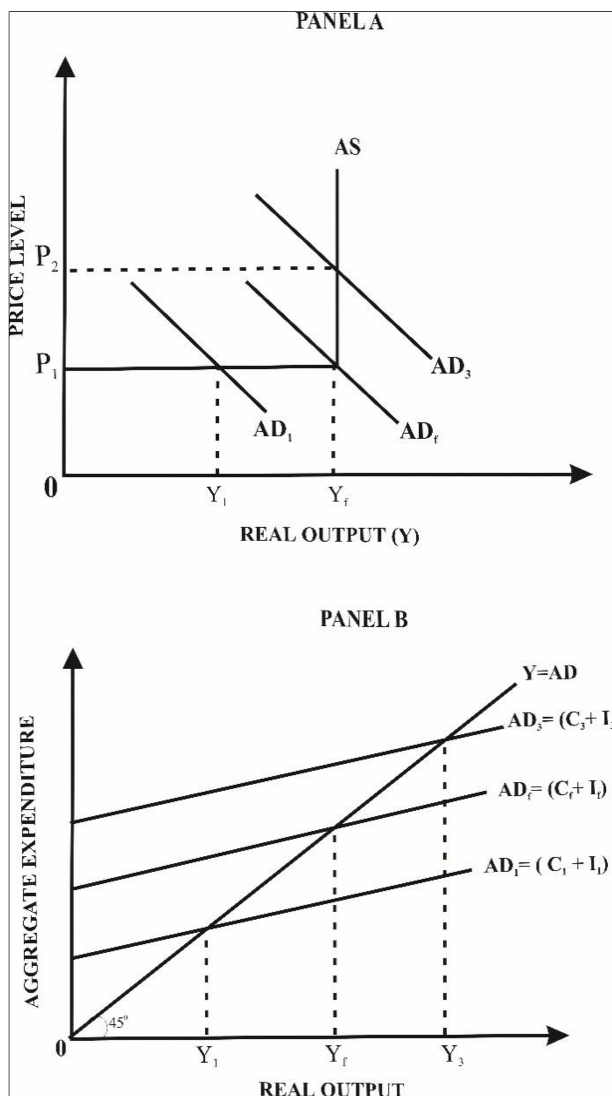

Figure 3.0: Aggregate Demand, GDP, and Unemployment

The above phenomenon where an economy can be said to be at equilibrium and yet experiences a high rate of unemployment justifies why Keynesians rejected the classical view that competitive markets will drive the economy to full employment.

The major task of the government, therefore, is to ensure that aggregate demand does not go beyond point AD_f avoid inflationary pressures, or below AD_f to prevent a high rate of unemployment. Note, however, that at every point in time the governments are either struggling to accommodate unemployment or inflation but not both. For instance, any equilibrium point beyond AD_f, will result in inflation, while at any point below AD_f will bring about unemployment. In the words of Gotheil (1999)*," It never occurred to Keynesians that they would ever have to choose between policies to control unemployment and policies to control inflation".*

The Rationale for Government Intervention

Agiobenebo (1998) rationalized government intervention in an economy with several reasons which include the presence of externalities, to ensure economic growth, for economic development, for economic stability and sustainability, for security, to supply and control money, the maintenance of the philosophy and ideology of the nation, technological advancement and the existence of market failure. For the purpose of this paper the most relevant of the various reasons is market failure especially failure by incentives and signal.

Market failure refers to situation where the idealized price mechanism failed to produce or sustain a desirable outcome or prevent an undesirable activity or phenomenon. It is also seen as a situation where market is transmitting inappropriate signal or information that misdirect the allocation of resources (Agiobenebo 1998).

Among the four types of market failure (market failure by existence, market failure by enforcement, market failure by structure and market failure by signal and incentive) market failure by signal and incentive best illustrates the challenge of unemployment the developing countries are facing. The incentive to an investor to invest is profit and the signal is rising price of the commodity. Where price does not exist or the price is too low or uncertain, the signal is zero or low profit and therefore there is no incentive for the private sector to invest hence the market mechanism will fail in allocating resources to that sector.

If we take job opportunity as a input commodity that has available close substitutes (close substitutes because there are different labour saving techniques and equipment that has been developed and today, we even have robots), a profit maximizing investor will choose a basket of inputs that will minimize job opportunities (labour) and cost of production. He will prefer equipment and machines to labour. This is because while labour continues to demand for payment of income on daily, weekly or monthly bases, the equipment or machine, once purchased will not demand any other money for some years, hence, saving him a lot of cost and increasing his profit. So if it is possible to operate his business without hiring labour, the investor will be better off doing so.

The foregoing demonstrates why the market fails to create employment opportunities hence unemployment. The labour market emits signals that misdirect the allocation of resources toward reduction of unemployment. Left alone the market will never solve unemployment problems in the LDCs. Hence government intervention is needed. John Maynard Keynes was right.

Government Effort to Minimize Unemployment in Developing Countries

While the job market is congested with cheap labour, the government is busy spending more time and available resources shopping for foreign investors. This is based on the traditional belief that a foreign enterprise comes with capital and creates employment opportunities for citizens of the recipient economies. Being on the begging side, the LDCs government have little or no bargaining power, and so the foreign investors capitalize on that opportunity to request for and get more than conducive environment before they accept to invest in the LDCs. In the process almost all the so called benefits of foreign investment are forfeited by the recipient economy. Experience have shown that the foreign investors are not interested in the development of the recipient economies but in profit. So they do everything possible not to employ citizens and even come with their own staff and equipment from their parent country.

Following the prescriptions of the classical economists this very important objective of minimizing unemployment should be achieved by the private sector. The public sector should be down-sized to create enough room for the private sector. Today even when vacancies exist in the public sector, the government is reluctant to employ hence creating more unemployment.

The government should only come up with the necessary policies and incentive mechanisms to encourage investors to invest in the sector. The Nigerian government has always adopted these prescriptions but unfortunately the private sector has been so weak and slow and hence the market has always failed in achieving agricultural development. It is the incessant failures of the market in this sector that informed government intervention in Rivers State, during the leadership of Governor Rotimi Chibuike Amaechi, in establishing the Songhai Rivers Initiative Farm.

Songhai Rivers Initiative Farm

Songhai derives its name from one of the largest and wealthiest empires of West Africa, which flourished during the early l6th to late 16th century. The Songhai Empire had its capital at Gao around the bend of the Niger River in present day Niger and Burkina Faso. It was noted for its learning, economic prosperity, agriculture, trade, military might and great political leadership, which created separate departments for agriculture, the army and treasury (source: RSSDA Songhai Rivers State Development Initiative Brochure 2011). The programme came about when the State Governor, Rt. Hon. Chibuike Amaechi visited the Songhai Centre in Porto Novo in 2007. Impressed with what he saw as a good model in developing agriculture in Africa, he decided to replicate it in Rivers State.

The Songhai Rivers Initiative Farm (SRIF) was developed to be the hub of agricultural development in the State. It is a partnership between the Rivers State Government and the Songhai International Centre in Benin Republic. Songhai Rivers Initiative Farm sits on 314 hectares of land and is about 20 times the size of the Songhai farm in Porto Novo. The farm was to provide the opportunity to train young Rivers State men and women in new farming methods. That way, low productivity which is associated with traditional agricultural methods are replaced with modern innovative and adaptable technologies in agriculture that would attract and keep young men and women in agriculture.

Work began at the farm in 2010. Before then a group of 110 young Rivers men and women from 23 LGAs had been sent to Songhai International Centre to receive an 18 months training in various specialized agric and agro based areas. They also imbibed an entrepreneurial culture. Fifty of them have already been deployed into the farm to form part of the first corps of workers. They were to be given opportunity to drive their own farm units and sharpen their entrepreneurial skills, and eventually progress to start their own businesses in their communities with the support of the center (source: RSSDA Songhai Rivers State Development Initiative Brochure 2011).

Songhai Centre, Porto Novo, Republic of Benin was set up 35 years ago as a centre for training, agricultural production, research and development of sustainable agricultural practices.

This model has developed new approaches and farming systems that rely heavily on the combined inputs from local experiences, indigenous knowledge base on one hand and business communities and research institutions on the other hand. The result is a robust, zero-waste, integrated agro-allied model promoting rural growth through training, technology adaptation and strong business and commercialization strategy.

One of the strategic beliefs in the Songhai model, according to the founder, Nzamujo (1985), is that sustainable agriculture could become a “weapon of mass construction”. That is why Songhai and its partners have been committing themselves to a high level of investment in human and material development.

The Songhai human capacity building model is quite a unique one. Songhai is an incubation centre. This innovative institution has four components. It is a technology park where new ideas and techniques are developed and contextualized. The model is also an industrial park/production centre where the techniques and ideas are turned into enterprises and many different types of production activities. The teachers are entrepreneurs. Songhai is as well a service centre. The game is not over after the initial formation period. Services like marketing, input procurement, networking, financial/loan and advisory services are provided to enable the young entrepreneurs to stand on their own.

Benefits of the Farm

The direct government intervention in agricultural sector in Rivers State developed agriculture in the state and drastically reduced unemployment. Over one thousand youths were directly employed by the farm thereby drastically reducing unemployment in the state.

The presence of the farm created indirect job opportunities for residents of Rivers State in commerce and transportation.

The community market improved from once a week to daily market as a result of the presence of the Farm. The communities also trade on the products of the farm which has enhanced their income.

Lessons for Developing Countries in Dealing with Unemployment

Having waited for the market to solve unemployment problems for over sixty years to no avail, government of developing countries should ignore the classical theories of non-interference take the lead to establish large scale firms in selected sectors that have the best inter-sectorial linkages. Such firms will employ the youths and definitely drastically reduce unemployment. Such firms should adopt labour intensive technology and make use of machines and equipment only when it is very necessary. This will make for optimum job creation.

This measure will not be successful if the government subject the firms to unnecessary competition from the external sector. Such competition will naturally kill the infant firms and throw the workers back to the job market. Therefore government of developing countries should also ignore classical and neoclassical theories of trade with their trade policy (free trade). Economic history has shown that none of the western economies that preach this policy today ever practiced it at the onset and developed capacity to produce. So the government of the LDCs should shield the firms at the onset, from competition with foreign products until such a time when it has perfected its technology and product quality.

The firms can be privatized after the government must have recouped its invested capital.

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