

**UNDERSTANDING RECESSION AND YOUTH  
UNEMPLOYMENT, THEIR IMPACT AND REMEDIES**

**BY**

**DR SAM NDEM**

**FACULTY OF MANAGEMENT SCIENCES,  
UNIVERSITY OF CALABAR, CALABAR.**

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## 1.1 INTRODUCTION

Economic recession is a business cycle contraction which results in a general slowdown in economic activities (Julius, 1974). Macroeconomic indicators such as GDP (Gross Domestic Product), investment spending, capacity utilization, household income, business profit and inflation fall; while bankruptcies and unemployment rate rise. In practice, recession is said to have occurred in an economy when there is a negative economic growth for two consecutive quarters.

Recession occurs when there is a widespread drop in spending (an adverse demand shock). This may be triggered by various events such as financial crisis, an external trade shock, an adverse supply shock, or the bursting of an economic bubble. Governments usually respond to recession by adopting expansionary macroeconomic policies, such as increasing money supply, increase government spending, and decreasing taxation.

Recession has many attributes that can occur simultaneously and includes declines in component measures of economic activity (GDP) such as consumption, investment, government spending, and net export activity. These

summary measures reflect underlying drives such as employment levels and skills, household saving rates, corporate investment decisions, interest rates, demographics, and government policies.

An Economist, Richard, C. Koo wrote that under ideal conditions, a country's economy should have a household sector as net borrowers, with the government budget nearly balanced and net export near zero (Richard, 2011). When these relationships become imbalanced, recession can develop with the country or create pressure for recession in another country. Policy responses are often designed to drive the economy back towards this ideal state of balance. A severe (GDP) down by 10% or prolonged (three to four years). Recession is referred to as an economic depression, although some argue that their causes and cures can be different (Saul, 2008).

## **1.2 TYPES OF RECESSION**

As informal shorthand, economists sometimes refer to different recession shapes such as V-shaped, U-shaped, L-shaped, and W-shaped recessions.

To avoid the technicalities involved in explaining the shapes, I will only consider the different types:

- 1. Psychological Recession:** This type of recession has psychological and confidence aspect. For example, if companies expect economic activities to slow, they may reduce employment levels and save money rather than invest. Such expectations can create a self-reinforcing downward cycle, bringing about or worsening a recession. This is exactly one of the causes of recession in Nigeria last year. Many people were apprehensive of the government of the day; even those that have money were afraid to spend it on the fear of being arrested by Government agencies like EFCC and ICPC. This fear caused many people to look for alternatives to banking and as a result there were shortfalls in capital within the system. Consumer's confidence is one measure used to evaluate economic sentiment. Because of lack of sense of trust we have for each other, our senses of fairness in economic dealings, and our sense of the extent of corruption and bad faith, people were no longer willing to live their normal life.



2. **Balance Sheet Recession:** This type of recession is a result of high level indebtedness or the bursting of a real estate or financial assets price bubble. When large numbers of consumers or corporations pay their debt (that is saved) rather than spend or invest, it slows the economy. The term balance sheet derives from an accounting identity that holds that assets must always equal the sum of liabilities plus equity. If the asset prices fall below the value of the debt incurred to purchase them, then the equity must be negative, meaning the consumer or the corporation is insolvent. Economist Paul Krugman wrote in 2014 that "the best working hypothesis seem to be that the financial crisis was only one manifestation of a broader problem of excessive debt. This type of recession was witnessed in Japan in 1990 when GDP fell by 22%. It got to its peak in 2003.
3. **Liquidity Trap Recession:** The liquidity trap is a Keynesian theory that a situation can develop in which interest rates reach near zero (zero interest-rate policy) yet do not effectively stimulate the economy. In theory,

near zero interest rate should encourage firms and customers to borrow and spend. However, if too many individuals or corporations focus saving or paying down debt rather than spending, lower interest rates have less effect on investment and consumption behaviour; the lower interest rates are likely; "pushing on a string". The US recession of 2009 and "Japan's lost decade" are as a result of liquidity trap.

4. **Paradoxes of Thrift and Deleveraging:** Behaviour that may be optimal for an individual (for example, saving more during adverse economic conditions) can be detrimental if too many individuals pursue the same behaviour, as ultimately one person's consumption is another person's income. Too many consumers attempting to save (or pay down debt) simultaneously is called the paradox of thrift and can cause or deepen recession. Economist Hyman Minsky also described a "Paradox of deleveraging" as financial institutions that have too much leverage (debt relative to equity), cannot all de-leverage simultaneously without significant declines in the value of assets (Yellen, 2009).

### **1.3 PREDICTORS OF RECESSION**

There are no known completely reliable predictors, but the following are considered possible predictors:

- Lowering of assets prices, such as homes and financial assets, or high personal and corporate debt levels.
- High level of unemployment and initial jobless claims.
- Inverted yield curve especially of securities.
- High rate of unemployment.
- Low level of productivity/GDP.

### **1.4 UNEMPLOYMENT AND RECESSION**

Unemployment is practically high during recession. Many economist are working within the neoclassical paradigm argue that there is a natural rate of employment which, when subtracted from the actual rate of unemployment, can be used to calculate the negative GDP gap during a recession. In other words, unemployment never reaches zero per cent, and thus is not a negative indicator of the health of an economy unless above the "natural rate" in which case it corresponds directly to a loss in Gross Domestic Product (GDP). The full impact of a recession on employment may not be felt for several quarters. Research in Britain shows

that low-skilled, low-educated workers and the young are most vulnerable to unemployment in a downturn. After the recession in Britain in the 1980 and 1990s, it took five years for unemployment to fall back to its original level.

Recession also affects businesses greatly. Productivity tends to fall in the early stages of a recession, then rises again as weaker firms close. The variation in productivity between firms rises sharply. Recessions have also provided opportunities for anti-competitive mergers, with a negative impact on wider company; the suspension of competition policy may have continued impact.

Recession also have a social effect on the people; the living standards of people dependent on wages and salaries are not more affected by recession than those who rely on fixed incomes and welfare benefits. The lost of jJob is known to have a negative impact on the stability of families, individual's health and well being. Fixed income benefits receive small cuts which make it tough to survive.



### **1.5 RECESSION: THE RECENT NIGERIAN EXPERIENCE (FACTS/FIGURES)**

The Nigerian Bureau of Statistics (NBC) has confirmed that the 2016 economic recession was a full year recession, and the worst in the country's history since 1987. In 1987, according to World Bank Data, Nigeria had a full year decline in Gross Domestic Product (GDP), it was put at 10.8 per cent. The country recorded recession in 1991 and 1995, recording a full year economic decline of 0.6 and 0.3 per cent respectively. According to NBS, GDP reported a released; Nigeria recorded a contraction of 1.51 per cent in 2016. In the fourth quarter of 2016, the nation's Gross Domestic Product (GDP) contracted by -1.30% (year-on-year) in real terms, from ₦18,533.75 billion in fourth quarter of 2015 to ₦18,292.95 billion in fourth quarter of 2016.

This decline was less severe than the decline recorded in the previous quarter of -2.24% but was nevertheless lower than the growth rate recorded in the final quarter of 2015, of 2.11%. "Quarter on quarter, real GDP increased by 4.4.09%, which partly reflects seasonal sectors as well as a rise in the general price level for the full year 2016, therefore GDP

contracted by -1.5% indicating real GDP of ₦67,984.20 billion for the year”.

According to the report, both oil and non-oil sectors recorded a decline, but the non-oil sector increased its share of the economy to 92.85 per cent. In the fourth quarter of 2016, this sector declined by -12.38% in real term (year-on-year). This was an improvement relative to the previous quarter when the sector declined by -22.01%, but nevertheless was more severe decline than the fourth quarter of 2015, when a contraction of -8.23% was recorded.

The non-oil sector declined by -0.33% in real terms in the fourth quarter of 2016. This was 0.36% point lower than the growth of 0.03% recorded in third quarter of 2016, and 3.46% points lower than 3.14% growth recorded in fourth quarter of 2015.

Given that the growth rate was stronger in the oil sector than the non-oil sector, it increased its share of GDP to 92.85%, from 91.94% in the fourth quarter of 2016 (Nigerian Bureau of Statistics, 2016).

### **1.6 EFFECT OF RECESSION ON THE NIGERIAN ECONOMY IN GENERAL AND AKWA IBOM STATE IN PARTICULAR.**

The effect of the recent recession in Nigeria which I am not sure we are truly out from includes the following:

1. High level of political tension as people now sees politics as a way of survival.
2. Low standard of living of the Nigerian people.
3. Increased level of unemployment.
4. Poor circulation of economic resources.
5. Untimely death of our people as a result of hunger and starvation.
6. Poor health facilities and other infrastructures across the nation.
7. Folding of business ventures and laying off of staff - thereby heightening the level of unemployment.
8. Low level productivity - as the people are discouraged and fade up.
9. High level of criminal activities like; insurgency, armed robbery, cultism, youth restiveness and agitations, prostitution, and other forms of social vices.
10. Higher desire for migration to foreign countries for greener pasture despite the horrendous treatments that