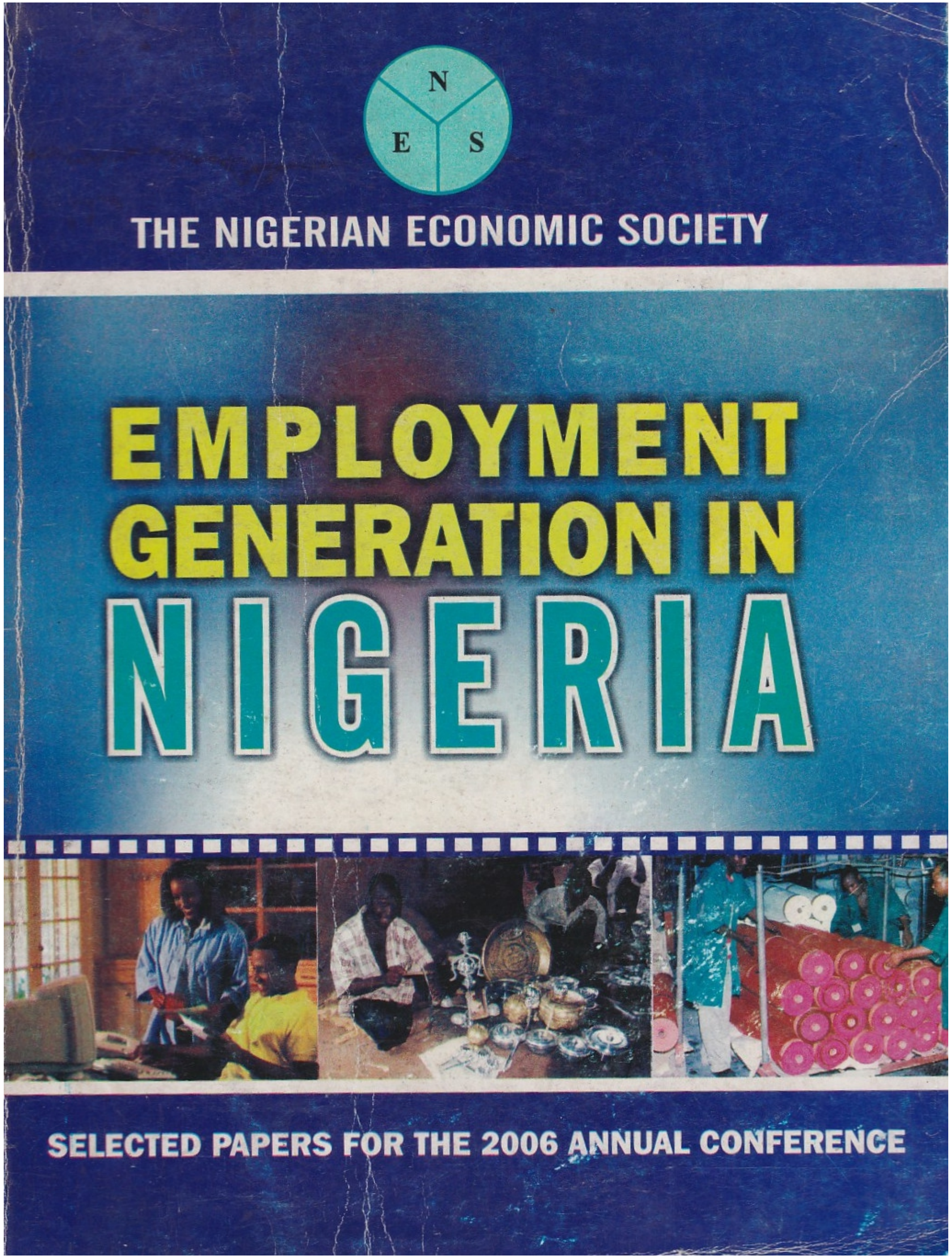

ECONOMIC INCENTIVES FOR EMPLOYMENT GENERATION

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ABSTRACT

This paper set out to identify economic incentives that can foster economic expansion for job creation and employment generation. The choice of policies should be based on the understanding of structures of and relationships between the various variables within the economy. Preference should be given to policies that enhance higher linkages in the economy. Integrated rural-urban development of infrastructures, a build-up of moral capital, enhancement of skill acquisition and entrepreneurial development are measures that would lead to employment generation, even as the traditional fiscal and monetary polices would, provided adequate precautions are taken concerning the expected policy interactions with economic variables.

1. Introduction

The theory of employment often concentrates on the factors/variables in an economy that must be adjusted to stimulate expansion in production capacity and, therefore, employment. As with all theories, there are assumptions upon which this analysis is based. But given the different stages of economic development, these assumptions can be taken for granted in some economies and be regarded as strong assumptions in others. Economic environments in less-developed countries are particularly more difficult than those in developed economies. There are also more complications in the problems that present in the less-developed countries (LDCs) than they can ever manifest in economically advanced countries. For instance, a typical problem of market failure in developed economies (DCs) does not give any consideration to incomplete market, and rightly so, because all markets are observably developed and are, thus, assumed away. On the contrary, incomplete market problems are easily observable in LDCs besides fragmentation and duality in some of the markets. Thus, information asymmetry that is frequently upheld as the basic cause of market failure in DCs will have to be complemented with the non-monetization of some economic activities in LDCs. Moreover, although information asymmetry lends some strands of explanation to market fragmentation in LDCs, the basic problem of duality inherent in the course of transformation of a backward, subsistent and primary economy into a modernized one is equally a weighty reason for it.

Also, the workability of policies depends on the environment in which they operate, apart from the orthodox question of how well the policies are formulated and implemented. Some LDCs are still seriously entangled with infrastructural shortages of various scales and scopes. This problem has imposed a binding non-negativity constraint on the quantities of inputs in some production processes. For instance, shortages (both in quality and quantity) of energy supply can force many producers to use more than one source of energy at a time. Poor transportation infrastructure also imposes addition cost parameter on the production processes in LDCs. Another set of constraints to the workability of policies in developing economies is the moral asset deficit: corruption, which has been identified as a problem associated with expanded participation of government in economic (development) activities.

All these problems reduce the effectiveness of macroeconomic policies and, therefore, constrain the size of employment generated in the economy. Also, the transformation of LDC to a modernized economy entails both job creation (growing the modernized sectors) and job destruction (depressing the traditional sectors). Even if sufficient amount of jobs were created in the modernized sectors, the necessary skills for employment therein are not transferable from the traditional sectors. This gives rise to the need for adaptive education for effective mobility of workers released from the subsistence sectors to the modernized sectors.

In the face of deregulation, with the need to achieve improved employment level, what are the economic incentives that can be adopted to transform the economy so that it grows rapidly to attain the goal of sustainable employment generation? This question provides the drive for this paper, which is mostly theoretical. Consequently, there are four more sections in this paper.

2. Bottlenecks in Underdevelopment and the Needs for Incentives: Theoretical issues

Underdevelopment is not only the manifestation of low output/income but also, and more importantly, the presence of incessant constraints in the process of production and income generation. Low output is therefore a noticeable symptom of shortages of social and private inputs to production and also hinders growth in output and the rapid economic transformation in LDCs. The removal of these constraints will necessarily lead to output expansion and increased income. Such expansion is positively correlated with employment. Thus, the search for ways of expanding employment frontiers in an LDC necessarily entails minimizing the constraints to investment and output growth.

This search involves the provision of both private and public incentives to income generation. Incentives can be designed/planned or unplanned. Policy incentives are planned incentives; but in the course of their execution, they generate or engender unplanned incentives. The latter are mostly market-generated. This set of incentives includes changes in prices of factors and output that increase investment, employment and output plans of firms and change the supply factors of members of a household along with their income and expenditure plans, in a way that improves the set goals of the firms and households. Public incentives may be grouped into infrastructural incentives, fiscal incentives, monetary incentives, trade policy incentives and social incentives. Private incentives are mostly market-generated but at the producer's end, being corporately more organized than the households. Planned private incentives are often offered as employment, sales and community relations incentives so as to attain the profit maximization goal of a business organization.

Incentives are necessary, especially in a high-cost economic environment, so as to moderate the costs of production and loss in welfare that would evolve from the producer's 'pass-the-bug' action to the final consumer. Nevertheless, adequate understanding of the structure of the economy and, hence, the cost structure of the economy is very important, as this prevents inefficient incentive structure, which can lead to wastefulness in resources. Development via capitalism and market mechanism requires four sets of structures:

a. well-developed stock of infrastructural facilities
b. developed and integrated markets
c. developed moral (social) system
d. developed governance that is supportive of other social systems.

The stock of infrastructures of less-developed economies is usually in short supply. According to Batten (1996: 2), infrastructures are complexly and systematically linked with economic activities (broadly with consumer demand and firm production and supply activities). The lack or malfunctioning of infrastructure or sets of it can lead to congestion in economic activities, in a manner that can be likened to traffic jam resulting from inadequate transportation network. The congestion in economic activities as a result of inadequate stock of infrastructure is mostly intangible and may be difficult to measure (Gramlick, 1994). The adversities inflicted on the economy by inadequate supply of infrastructure manifest as extra costs in production and consumption systems. For instance, given the production function, y, with its associated cost function, C, represented as:

$$y = f(K, L, R); \text{ and}$$
$$C = G(r, w, R, y)$$

$$\frac{\partial y}{\partial f_i} > 0; \frac{\partial K}{\partial R}, \frac{\partial L}{\partial R} >, < 0$$

$$\frac{\partial C}{\partial G_i} > 0 \text{ (for i = r, w)}; \frac{\partial C}{\partial R} > 0; \frac{\partial r}{\partial R}, \frac{\partial w}{\partial R} >, < 0$$

Where y = level of output; C = costs of production; K and L = capital and labour, respectively; R = stock of infrastructure; r, w = rental cost of capital and wage rate, respectively.

This means that if the supply of infrastructure falls, the effect in the production function will be a reduction in output. The associational factors effect will manifest as the declining productivity of other factors, which is similar to increasing the employment of other (associated substitute) inputs as infrastructure situation deteriorates. According to the cost dual analysis, as the user cost of infrastructure rises (that is, a fall in the supply of infrastructure), the prices of other factors rise, due to an increase in demand (employment) of private factor substitutes by the producers and also because factor-owners will demand higher returns to meet the rising cost of living imposed by the infrastructural problem.

If we take the welfare effect, adequate infrastructure conserves the consumer income and improves his welfare, since he can buy more private goods. The provision of infrastructures offers incentives to producers by way of reducing the costs of production, with a potential for downward revision of prices and also freeing purchasing power on the consumer's side. Such incentives increase the demand for private goods in the economy. This economic expansion no doubt leads to an increase in employment of labour in all the sectors where expansion has occurred and intensified subsequently due to some multiplier dynamics.

Even though these external economies are derived from the quantity of infrastructures, Johnsson and Wigren (1996) and Kessides (1996) point out that it is the consequence of infrastructure rather than the size or value of such stock that enters the production process. Thus, the physical presence of infrastructure notwithstanding, if its effect does not affect output (production) level, it would not constitute input. However, given the problem in modelling ex ante, the quantity or value of infrastructure can be captured in the production or cost function so as to verify the effects from their coefficient estimates.

Localization of infrastructures in some areas has been observed to lead to 'crowding-in' private investment to such a region (Kessides, 1996: 213 - 214). This will result in low transaction costs, reduction in factor costs and generation of employment directly because of the increase in investment, and indirectly through growth in supportive businesses and other linkage economic activities. This means that infrastructural policy can be adopted to target the employment of people in the region or sector where infrastructures are provided. Apart from the employment effect of

infrastructural accumulation, due to expansion in investment activities and the multiplier effects, some employments are generated during the process of providing infrastructure. Although such employments may be short-lived, they however provide some relief for some of the unemployed. The infrastructure sub-sector also provides employment in the maintenance of the stock. Besides, some direct users of infrastructures, such as commercial vehicle drivers, are in employment because of the availability of such infrastructure.

Infrastructural services can relate with some factor inputs as complement and with others as substitutes, meaning that infrastructural policy may possibly lead to unemployment in some industries if the infrastructural service substitutes for labour. But the net effect of infrastructures in the economy is that, when the multiplier effects are taken into account, there will be increase in employment. Again, this requires some more insight. As Feltenstein and Ha (1995: 292) note, good quality and large quantity of infrastructure shift downward the cost per unit of output. This positive effect on productivity will ultimately lead to expanded employment opportunities.

Estache (2004:4) observes that economic returns on investment projects for telecommunications average 30 – 40 percent, more than 40 per cent for electricity generation, more than 200 per cent for roads – if data for countries with outliers are excluded, the returns on roads become about 80 percent. The study also observes that these returns are higher in low-income than middle-income countries. The reason for these high returns on infrastructures in low-income countries is the sudden growth in economic activities that follows the provision of modern infrastructures in such economies. But the response to new economic opportunities in high-income economies accompanying expansion in the supply of infrastructure is less – in fact, a large proportion of growth responses in the latter economies is attributable to expansion in already-existing businesses).

Markets are assumed to be well-developed in most economic analyses, especially those that have western (or even westernized) authorship. Markets are very important institutions in economic analysis and policy administration in a market-oriented economy. The markets function in a way that gives answers to the basic economic problems of what, how and for whom to produce. The complexity of linkages and adjustment dynamics in all economic units are based on signals generated and transmitted in an assumed well-functioning market system (either measured in terms of efficiency or, at least, of effectiveness).

Markets in less-developed economies are, as of their associated economies, less-developed with fragmentations. Many reasons account for this imperfection, ranging from the existence of dual modern exchange sector, along with peasant and subsistence sectors, existence of information asymmetry among market participants, and the non-monetization of some economic activities. With these limitations on market expansion and development, economic activities are constricted and the capacity of the economy to absorb labour is curtailed. Demand is limited by income, which is constrained by employment and which in turn reduces output (supply) and the level of disposable income, turning again into low-level demand. This vicious circle of limited market on employment limits the supply capacity and so reduces demand (Say's law). Policies that aim at improving the workability and expansion of markets in a less-developed economy will engender employment and boost economic growth through a harvest of static and dynamic gains from specialization and trade (Akpan, 2005a). Expansion in market is also a function of monetization of economic activities in a peasant and subsistence economy. Such monetary growth will result in sectoral integration of the economy. Monetization therefore aids rapid translation of incentives into measurable variables and the transmission of such incentive signals – part of these being money, especially in newly monetized economies (Seavoy, 2000).

There is also a strong assumption about the moral value and status of the economic agents. The assumption of rationality of economic persons does not wholly mean that the agent is morally sound. The pursuit of rational self-interest could at times result in morally sub-optimal and socially unjust results, such as in optimization problem with information asymmetry and situations where consumption and/or production function of an economic agent depends on another agent of consumption or production activities – the negative consumption/production externalities (Broome, 1999). These sub-optimal results sometimes observed from the pursuit of rational behaviour interests notwithstanding, economics still falls back heavily on the assumption that the society and its economic persons pursue only lawful economic activities. This assumption is the basis for exclusion of some assumed illicit economic activities, such as smuggling and prostitution, from the national income accounts. This confers on economics the status of moral science. But the legal control of economic behaviour rest on sound, formal and informal educational system and good governance. These factors are lacking in developing economies, this lack being itself an indicator of underdevelopment.

The developing stage of an economy is replete with corruption in government, which generates high transaction costs of investment and disincentives for economic expansion. This constrains employment and income growth, reduces market size and discourages both domestic and foreign investment inflows. Issue of morale and governance cannot be taken for granted in less-developed countries. The monetary policy that may bring down interest rate may have its effects neutralized by high private demands by government officials in connection with establishment or expansion of business. Besides, insecurity and risky social environment can frustrate government policies aimed at business expansion and employment generation. These moral problems are preponderant in less-developed economies than in developed ones, where they are rightly taken for granted.

The negative effect of moral decadence and social strife on investment and employment in Nigeria was more evident between June 1993 and 1998, following the political crises that resulted from the annulment of a presidential election results. Whatever economic policies would have been adopted, the aim of raising employment would have been a mirage, since the social environment could not guarantee peace; it only encouraged riots and crimes. This means that in the process of positive change and transformation, order is required.

Closely associated with the need to accumulate moral capital is the demand for good governance, which is a supportive progressive social system. Although governance is not a concept that is domicile in economics – political science can claim such conceptual authorship – yet a vast nexus of relationship exists between governance and achievement of policy goals by the government, and between it (governance) and economic performance (in terms of investment, employment, output and profits) of the private sector. Needless to say that the performance of these two broad sectors determines the welfare level of the society. Therefore, governance not only affects directly the welfare of people (members of households) but also indirectly through its complex interaction with the goals of the private and the public sectors.

Governance can be defined as the exercise of political power to manage a nation's affairs (Ikpeze, 1994). It comprises all processes, arrangements and relationships with the government in decision-making and implementation, and between the government and the public. Governance may be considered good if it promotes the ideals of the public interest in the use of public resource, and bad, if national resources are diverted to private use by government agents. Factors that promote good governance include transparency, plurality in participation, accountability and the rule of law. Even though these factors are the essential characteristics of democratic governance, some of these features can be found outside the domain of democracy. It has been observed that existence of popular democracy may not necessarily ensure beneficial outcomes, for a popular decision might result in calamity. Nevertheless, if the worst scenarios are considered for a totalitarian and a democratic government, the society will reject absolute dictatorship and choose democracy because of the latter's gains.

Consequently, good governance is necessary to harness economic potentials that will encourage employment and economic expansion. For infrastructure to be provided in the right quantity and at the right time, for the right fiscal and monetary incentives to be implemented, if the moral capital (which is a social aspect of human capital) must be accumulated, and the trust between the public and private sector (the social confidence in the system) developed, then good governance is a necessity. And since these things are required for economic expansion and generation of employment, good governance is a requirement for employment creation in a country like Nigeria where the most illusive need is good leadership.

It will be mistaken therefore to fill this gap in our stage of our development with an unrealistic assumption that we have or are even close to evolving good governance. We need to develop it and use it to harness the rich resource-base of the economy for employment creation and rapid economic development.

Dualism and employment generation

Heterogeneity is a general feature of markets in less-developed economies, even for a given commodity. Each market is fragmented along the line of space (e.g. rural-urban) or technology (e.g. formal and informal, modern and traditional) or monetization level of economic activities (e.g. subsistence and traded sectors). Not only is the labour market in a less-developed economy heterogenized, based on the differences in the level of skills and location of the market (rural or urban), the level of imperfection in the commodity markets also shed some influences on their performance in the labour market. Such influences can impair or enhance the performance of the labour market. For instance, the existence of surplus labour in the peasant (subsistence) sector of the economy is sustained as long as the productive sector remains subsistent. Surplus labour wanes as commodity production transforms to monetized and exchange activities. The process of such transformation entails the change of the goal pursuit of the producer from welfare[1] to profit maximization, which involves cost minimization and retrenchment of redundant input particularly labour – that is, the release of the surplus labour.

The existence of surplus labour or disguised unemployment is common in family business ownership structure; in rural and traditional occupational activities like subsistence farming and fishing; in the urban informal sector with comparable ownership scheme; and in government establishments where there is under-employment (excess amount of labour for a given job). Withdrawal of the excess labour will, given the diminishing returns on variable factor, lead to an increase in the marginal output of employed labour and, and as matter of consequence, an improvement in the welfare of those employed and/or their employers (Sen, 1984).

Given the familial relationship that exists between surplus labour suppliers and business owners, it is unlikely that the disguisedly unemployed can be relieved of his job even if his contribution is obviously less than what is optimally desirable. The transition that would warrant the removal of surplus labour with the associated low productivity of labour requires expansion in the production capacity in the modern, monetized sector to absorb such releases of labour. But to check the backwash effect of the expansion of the modern sector on the traditional, subsistence sector (which is usually observed as the withdrawal of the better skilled class of labour from the subsistence sector to the growing modern sector, leading to a fall in output and standard of living of the participant in the traditional sector), there is a need for provision of some life-enhancing and work-facilitating infrastructures in the areas where subsistence activities are localized.

[1] Welfare maximization for members of household/family can also be the production goal of subsistence family (Sen, 1984).

This is also a way of checking the potential adverse effects of rural-urban migration that are caused by modernization of some areas at the expense of others. Among such effects in the urban centres are high and rising unemployment and crime rates, congestion, growth in urban slum and rapid environmental decay.

Generation of employment in a dual economy through voluntary economic incentive policies requires caution, to ensure that the development of some sectors, like the traditional, subsistence sector and informal sector, is not undermined to cause distortions in the development process. Distortions caused by rural-urban migration, which can manifest as reduction in rural unemployment and increase in urban unemployment, due to job-search migration, can frustrate economic policy goals.

Another problem of employment generation in a subsistence and dual economy is land tenure and land-ownership right system. The Land Use Act in Nigeria notwithstanding, land-ownership and transfer rights are gerontocratic and strictly patriarchal. Land is a communal property in most areas in Nigeria. Current patriarchal elders only hold it in trust for the community or a section thereof (Udo, 1999). This arrangement frustrates large-scale business plans in modern agriculture that would generate employment. Besides, since the land is owned by virtually everybody in the society, as is the case in eastern Nigeria, there have been continuous fragmentation and land cleavages which do not encourage cost-effective agricultural development. Within some ownership structure is the discrimination against some segments of the population, namely, the youths and the female population. All these intensify the problem of employment creation through land-base occupation, which is necessary for employment and income generation at the initial stage of development. The political solution, as attempted and currently in use in Nigeria, of alienation of land ownership right from the people and thrusting such right on the government has also been proved a wrong solution to the problem, given the crisis in the Niger Delta region. It has generated even much more unemployment problems accentuating to the current conflicts in the region. Extinction of traditional land right requires collectivization rather than exclusive legislative compulsion which has failed in many nations (Seavoy, 2000: 98).

The knowledge of the structure of an economy is necessary for the selection and execution of appropriate traditional fiscal, monetary and trade policy incentives. For instance, fiscal incentives pass through market prices to give profit signals; monetary incentives require the monetization of economic activities and modern banking operations, while trade policies take for granted developed domestic sectors that are internationally competitive. Market development and expansion, monetization of economic activities across sectors and space and integrated development of both the rural and urban sectors are important elements in the achievement of policy goals of traditional economic policy incentives.

3. Choice of incentive policies for job creation

Selection of incentive policies for generation of employment in Nigeria must take into consideration the economic environment of the country. Nigeria has remained a mono-export driven economy since the 1970s. The economy has heavily depended on the petroleum oil sector for its export earnings and government revenue, with the average weight totals of 92.4 per cent and 71.9 percent, respectively, in 1975 and 2004. Paradoxically, the sector's contribution to employment is very low – it only contributes about 3 per cent of employment even when the downstream sector is considered. Oil sector's share in the GDP has never risen beyond 14 per cent in any decade since its discovery and trade. Besides, the sector has very limited linkages with the rest of the economy.

Comparatively, therefore, the Nigerian economy is basically agrarian, if the ratio of employment in the sector to total employment is considered. The sector, on the average, provides employment for about 60 per cent of the workforce. This high level of employment in the sector is replete with low productivity and a preponderance of subsistence production and disguised unemployment. This assertion is supported by the weak contribution of agricultural sector to the GDP, which is an annual average of 34 per cent of the GDP in the period 1970 – 2003. The agricultural sector is evidently suffering from the Dutch disease, which has depressed its performance, given the growth in oil exploitation and trade.

The modern manufacturing sector is also lean and weak, with a low capacity utilization of 35.1 per cent in the 1990s, which slightly improved to an average of 42.3 per cent between 2000 and 2004. The formal financial sector concentrates in the urban sub-economies. The supply of infrastructures also concentrates in the urban areas. It is important to note that economic policy orientation has experienced a shift toward deregulation and a market-oriented policy regime.

In view of the state and structure of the Nigerian economy, economic incentives that are laid out here for the generation of employment are divided into two sets, based on the stages of development and the transformational requirements of the economy. Sustainable creation of jobs and generation of employment require the structural transformation of the Nigerian economy from a dual subsistence-modern, informal-formal, non-monetized-cum-exchange economy to a modern exchange economy. It is only after this has been realized that we can expect the traditional approach to economic incentives to offer widespread effects across the economy, because the mechanism for the transmission of incentive signals would have then been developed in the economy.

The presentation of these policies and their timing is sketched in figure 1. The segmentation of the chart into stages I and II does not suggest that there is a water-tight division in terms of timing; rather, it is only suggestive of the prominence of such policy, given the stage of development being addressed. For in either stage, there has to be a mixture of some proportion of policies that dominate the other stage, to address expansion of the modern sector and the elimination of the subsistence sector. However, as the modern sector expands, traditional economic incentive policies become more eminent and the intensity of direct development measure diminishes. Conversely, at the early stage of development where sizeable subsistence activities with associated surplus labour exist, prudence in employment generation policy calls for the proportionate combination of direct development and traditional incentive policies.

Due to the low level of development of some markets, especially in subsistence sector, there is a great need for adoption of infrastructural policies that would enhance the linkages between sectors and integration of the rural-urban markets. These include transportation infrastructures (road, railway, and inland waterway development), provision of electricity and other forms of energy, and provision of modern communication infrastructure. There is also a need to develop entrepreneurship and skill acquisition centres. Also, the development of physical market structure in some nodal and commercial rural centres is essential for the creation of employment. The creation of business opportunities will encourage employment specialization (supply) which will create demand (market) for other goods and services (Say's law effect) (see figure 1).

At any stage of development, information is very important. Unfortunately, the flow of this essential factor is often assumed away in many economic models as being free and perfect in supply and utilization. But it has never been. Information is essential for effective use of economic opportunities. Initially, there is the need to empower the people with information on existence of markets for different commodities. Information is necessary for sales to guarantee sustenance and commercialization of production. Through this, dissemination of information on existence of viable economic opportunities for production and profits helps create jobs and employment in a developing economy where people had been ignorant of the existence of such opportunities. This can be done through the mass media and schools. The various dimensions of public campaigns that would lead to job creation are listed in the second column of 'what to do' in stage I of figure 1.

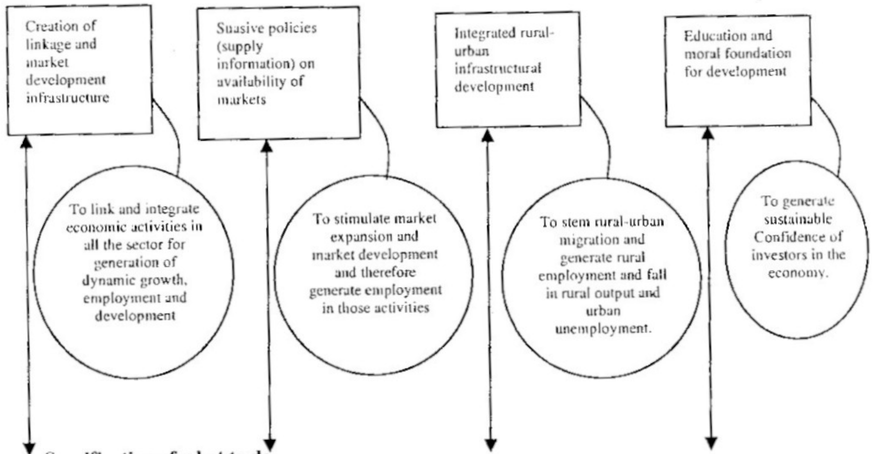
Although a balanced development is costly and may not be economical, given its resource requirement, some dosage of equitable and equilibrating (not necessarily balanced) supply of infrastructures between the rural and urban settlements is necessary for the mutually beneficial development of the two spatial sectors. This would make rural economic environments congenial for profitable investment even at the family business and small-scale levels. This will not only generate employment in the rural areas but will also reduce the rural-urban migration that is often seen as the major cause of urban unemployment. The provision of electricity to many rural communities in Nigeria has helped generate employment, as there are now small-scale businesses in villages. However, the rural electrification scheme has been marred with prolong cuts in power supply, poor quality of supply and indiscriminate billing. Some of the measures that should be adopted to engender rural development and employment generation are listed in column 3 of stage 1 of figure 1.

In order to create public confidence in the system, which is necessary for long-term investment and sustainable creation of jobs, there is a need to embark on policies that will ensure desirable moral values in the society. This cannot be underscored in the Nigerian system, where every indicator shows that the people are highly corrupt and that there is low level of trust among economic agents. This calls for moral education, especially for the youths, in schools and religious institutions. There should be moral training in the areas of honesty and trust. Besides, school curriculum should be revised to lay sufficient emphasis on entrepreneurial development and practical skill acquisition. The process of educational should be more thought-provoking, functional (life-problem-solving) and motivating, rather than the default goal of attainment of clerical proficiency. There should be incentives to create value (especially in the area of production) rather than the craze for money. People should be taught to be content with creating new things (commodities) that solve people's problems, to rejoice at creating employment rather than being employed. Some of the measures that can change the morale of people and generate employment are listed in stage 1, column 4 of figure 1.

The next stage, which must not be seen as mutually separable from the first, is when the traditional economic incentive policies can effectively work across the rural and urban economies. We still have to sustain the supply of infrastructures and maintenance of the stock of infrastructures. Fiscal and monetary incentive measures are also required to direct the economy on its path of growth and development. Better incentives should be provided for activities that have higher linkages and generate more employment than those which have limited linkages and are in capital-intensive industries. Campaigns on moral value intended to bring about investors' confidence in the Nigerian system must be continued. The political class must demonstrate that they are trustworthy in offices and that they adhere to the rule of law.

Figure 1: Economic Incentives for Investment and Employment Creation

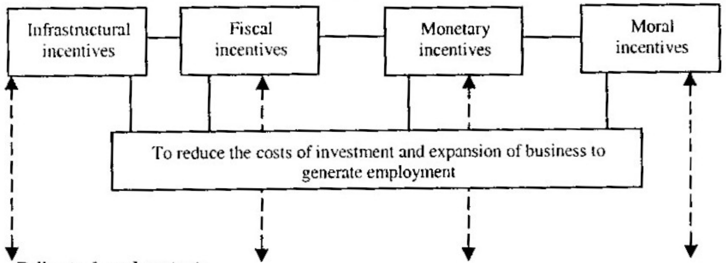
Stage 1: Foundational incentive policies for employment



Specification of what to do

1	2	3	4
1. Provision of transportation *infrastructure* 2. Provision of infrastructure like energy, water and communication in economy busy points (rural/urban) to enhance localization of production activities. 3. Develop and maintain entrepreneurial centers and physical markets	1. Public media campaign on the need to be involved in *trade, pointing out the* gains. Everything that is good has monetary value. Production and trade generate employment. 2. public circulation of information on the use of money in the rural/subsistence sector 3. Campaign on commercial production and use of improved technology 4. Encouragement of banking habit and commercial borrowing for business 5. Establishment of participatory governance and removal of traditional barriers (e.g. land, rights) to development	1. Provision of life-enhancing *amenities in the* rural to check rural-urban migration. 2. Provision of modern business establishment like bank at the rural areas 3. location of some government establishment at the rural centers e.g. agricultural establishments.	1. Revision of education curricula to accommodate production knowledge acquisition. 2. Moral education on the basic tenet of honesty, trust and accumulation 3. Training on the generation of thought on value creation and creativity in production. 4. Entrepreneurial training and development – risk-bearing and management

Stage II: Traditional economic incentives for employment generation



Policy tools and contents

1. Read/Rail and other transportation infrastructure. 2. Energy infrastructure for reliable supply of energy 3. Communications and e-infrastructure 4. Educational, health and environmental infrastructures.	1. Concessional tax rates on investment e.g. tariff concessions on importation of industrial machines and transportation vehicles for commercial uses. 2. Reduction in income tax rates to boost demand 3. Granting tax holiday to rural investors. 4. Granting of VAT refunds on financial transactions on investment funding. 5. Significant reduction of tariff (excise) on exports of wholly manufactured goods 6. Tax rebates on earnings from investment abroad. 7. Allowance on R & D in agricultural and manufacturing sectors.	1. Management of money supply in a way that makes interest rate stable and predictable to enhance investment 2. Fostering the gains from bank consolidation to engender stability in the banking sector to generate and sustain public confidence. 3. Fixing and enforcing credit allocation ratio to investment in the real sector and long-term investment activities. 4. Efficient management of money supply in a way that ensure modest inflation as incentive for investment. 5. Enforcing investment in small and medium industry investment scheme through mandatory allocation of credits to the SME. 6. Bank supervision to ensure minimization of transaction costs in terms of financial, time and bureaucratic requirements for loans.	1. Smooth legal system 2. predicable and reliable government transparent leadership 3. Maintenance of law/order 4. Entrenchment of honesty and trust 5. Provision of data and information on investment opportunities (e.g. in EPZ, etc)

A conflict-ridden society cannot generate employment; rather, jobs are destroyed. Conflict gives birth to conflict. The primary role of the government of maintaining law and order should not be undermined. However, better results will be attained through persuasive and educational techniques than through militancy. Bureaucratic bottlenecks within the business sector and government agencies should be curtailed. The legal system should be made smooth and swift. Time specification for obtaining any thing from the government should be enforced. *Moral incentives are very important in the Nigeria business environment.* For some reasons, there has been a lack of trust and confidence.

4. Other Issues in Economic Incentive and Employment Generation

Some issues are often overlooked when dealing with policies aimed at generating employment. Apart from the classical conceptualization of labour as a commodity and therefore subject, in all respect, to their unrealizable market clearing, there is a constraint imposed by the capacity of an economy to employ additional labour – the absorptive capacity of the economy. But if incentive policies are not well combined with a sound knowledge of the economy in which the policies are being administered, they may crowd out their effects or even leave the economy in a worse state than before the policy was undertaken.

Labour is not just one of the economic commodities, it is different and its market too is in many respects different from those pertaining to goods and services. Labour is a harbour in a person who, unlike ordinary goods (things), has his will and choice and can freely exercise his right to choose. Besides, his choice is sometimes dependent on the choice and preference of others, especially members of his household.

Again, the production and preservation of labour is remarkably different from those of ordinary commodities. Raising and training people and building human capital take time and committed participation of parents and teachers. The preservation of labour is not only of housing (warehousing in appropriate environment), it entails keeping alive at minimum level of comfort. These characteristics have some implications for the activities and decisions in the labour market and the growth of commodity markets (since labour earnings are used for payments for goods).

The freewill, free-choice right of an individual can make him choose some jobs, irrespective of wage rate; influence of interpersonal preference can result in accepting lower wages and living together with members of one's household than be separated by high income. The survivalist strategy leads an unemployed person, in the absence of social security support, to accept pittance, provided it is enough to meet his basic survival needs.

All these mean that economic incentive for employment generation should answer more questions than just attempting to deal with wage rate adjustment. Some of the issues here, especially those that address the character of persons, may be addressed through suasive, educational and informational measures. The barriers to employment generation that have affinity to space can be overcome through the spread in job opportunities and rural-urban development. It should be noted that when an unemployed person faces basic survival need, the pressure may find relief and expression in crime and illicit economic activities, such as prostitution.

Another set of issues that need not to be glossed over is the effect of conflict in policy, or the goals of policies. The crowding out effect of policies can be overcome by policy makers, who would base their decision on sound knowledge of current relationships among economic variables and other variables that may be affected by the policies. This calls for knowledge-based policy-making. This can be achieved through the direct employment of highly skilled policy-makers into the civil service or through reliance on consultation with specialists outside government. This is a very serious issue, especially in developing economies, because the dearth of policy technocrats is an aspect of underdevelopment itself. In addition, the process of development generates more goal conflicts in policy administration than the stabilization process that characterizes developed economies.

Also, even the policy making and execution processes vary in intensity, depending on choice. For instance, the process of providing some infrastructures may be labour or capital-intensive, although all approaches have their costs. The labour-intensive approach of infrastructural provision may entail more supervisory demands on the government than the capital-intensive technique. For an economy with high unemployment and government supervision, labour-intensive technique of infrastructural provision may be advisable, to reduce unemployment. But where the capacity to supervise is limited or hindered by high agency costs, capital-intensive approach to infrastructural provision becomes a prudent choice even with unemployment. Nevertheless, the provision of infrastructures and other policies that will ensure greater link and higher dynamics of growth should be adopted because they will generate more employment.

Another issue is the alternative policy consideration. This has to do with weighing the costs and benefits of all policies that can be adopted to achieve a laid out goal and choose the best policy from the point of expected benefits. These are some of the issues, among others, that must be considered for effective economic incentives for achieving expansion of job opportunities and creation of employment.

5. Conclusion

Job creation and employment generation are very important goals of economic development. In a developing economy, employment generation policies should take into consideration the stage of economic development and the spatial characteristics of the economy. Dualism in economic development that evolves as a result of development processes and the spatial characteristics of labour and its markets should be address with the aim of creating income-generating employment. Incentive policies are particularly attractive as a tool of managing the problem of unemployment, because they work through the market mechanism to stimulate economic growth and expansion in production capacity and employment. This is in tandem with the general trend in the policy of deregulation, which entails reduction in direct government intervention. Policy incentives are meant to encourage the expansion of the private sector to absorb labour. There is a need for policy choice to be knowledge-based. Policies which generate high linkage should be given preference.

In Nigeria, there is the urgent need to adopt suasive method to engender trust and confidence among economic agents. Education should emphasize on entrepreneurial development and direct skill acquisition that would result in direct employment. Good governance will also ensure investment confidence and, as a consequence, create employment. Job creation and employment generation are an aspect of building the absorptive capacity of the economy, because aggregate demand is expanded with the increase in employment, which in turn results in increased income.

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