

## St. Louis Model for Macroeconomic Policy Determination in Relation to Employment Generation in a Developing Economy: Some Simulation Results

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**Abstract** *This study uses St. Louis model to econometrically answer the question of whether the Keynesian policy or the Monetarist's policy was more efficacious on employment generation in Nigerian with quarterly data for sample period of 1992 to 2016. The empirical finding is that cumulative effects of Keynesian of increasing aggregate government spending on the growth rate of employment in Nigeria is dominant in contrast to Monetarist's policy. The policy simulation results reported negative dynamic multiplier of -0.01 of monetary policy on employment; fiscal policy gave a dynamic employment multiplier of 0.12 respectively. The study thus bears out fiscal policy as more effectual in inducing employment in Nigeria by imposing positive feedbacks. The study remarks on feasible implementation of empirical finding.*

**Key words** Employment, St. Louis model, fiscal policy, monetary policy, Nigeria

**JEL Codes:** E52, E60, E68

### 1. Introduction

Policy makers are most often confronted with the task of stabilizing prices, stimulating growth and creating employment (Andersen and Jordan 1968). This arises due to theoretical developments have it that government and monetary authorities exert independent influences on market system through public spending and money stock. This is why the monetary-fiscal policy debate has gained the attention of economists and policy makers.

Even when considerable research has been devoted to the empirical test of both policies, no general consensus on the policy that is more potent in influencing growth of employment. Much of the research works done so far were triggered by the controversial results obtained from studies using St. Louis relation in America.

The debate dwells on validating or invalidating the St Louis model results. In the regard that the findings of studies in some nations are inconclusive, we are motivated to re-examine relative effectiveness of fiscal and monetary policies in influencing employment in Nigeria. The choice of Nigerian economy took a lift from the fact that the country is largest in Africa. Even at that, the country is bedeviled by a chronic unemployment problem. The literature is reviewed in section two. Section three highlights theoretical framework with model specification and data sources. Section four explains the results. Finally, conclusion is in last section.

### 2. Literature review

These recent studies, Nijkamp and Poot (2002), Dar-Atui and Amirkhalkhali (2002), Algan (2002), Ewing, Levernier and Malikin (2002), Ajisafe and Folorunso (2002), Berument, Dogan and Tansel (2006), Omitogun and Ayinla (2007), Alexis and Holmlund (2007), Mansouri (2008), Shahid *et al.* (2008), Adefeso and Mobolaji (2010), Khosravi and Karimi (2010), Jawaid, Arif and Naeemullah (2010), Simorangkir and Adamanti (2010), Philip (2009) and Medee and Nenbee (2011), Mahmood and Sial (2011), Senbet (2011), Sanni *et al.* (2012), Ogege and Shiro (2012), Effiong (2012), Ezigbo (2012), Munongo (2012), Anna (2012), Enahoro (2013) have all investigated the comparative efficiency of both policies in countries using St. Louis model.

Shahid *et al.* (2008), Adefeso and Mobolaji (2010), Anna (2012), Ezigbo (2012) validated the effectiveness of monetary policy for the economy of Zimbabwe. The empirical findings of Mahmood and Sial (2011), Simorangkir and Adamanti (2010), Effiong (2012) supported effectual policy mix for the economies of Indonesian, Pakistan and Nigeria respectively. Sanni *et al.* (2012) upholds the empirical findings of Enahoro (2013) that policy mix remains the panacea to the attainment of economic prosperity. Many studies have confirmed the relevance of fiscal action in rejuvenating economic performance (Philip 2009; Medee and Nenbee 2011; Munongo, 2012). These studies revealed the important role of government spending in accounting growth.

While Olawunmi and Tajudeen (2007) found government expenditure as a veritable instrument for achieving aggregate demand consistently with full employment growth, Ajisafe and Folorunso (2002) upholds the fact that monetary policy rather than fiscal policy exerts a great impact on economic activity in Nigeria. Nijkamp and Poot (2002) found that twenty-nine percent out of forty-one studies indicate a negative relationship linking fiscal action to full employment growth; seventeen

percent shown positive relationship and fifty-four percent of the studies found an inconclusive relationship involving fiscal action with productive employment.

Dar-Atui and Amirkhalkhali (2002) found that in the endogenous growth model, fiscal action remains the most significant variable that explains full employment growth. In panel data study, Senbet (2011) found countries with enormous government expenditure have a propensity to induce higher employment growth. Omitogun and Ayinla (2007) found empirical evidence in support of usefulness of fiscal action. The empirical results of Mansouri (2008) showed existence of a long-run link connecting fiscal measures to productivity growth. Khosravi and Karimi (2010) found that fiscal action is a useful instrument for stimulating employment and growth.

### 3. Methodology of research

#### 3.1. Keynesianism vs. Monetarism: Theory of Policy Determination

Theoretical framework of the study is rooted on Friedman's theory of money stock and Keynesian theory of government expenditure. Friedman's theory of money eludes that adjustment in money stock affect the economy through prices, interest rates and spending (Friedman, 1954; Bernanke and Reinhart, 2004). When an adjustment in monetary base of the economy, investment spending would rise given changes in interest rate relative to the supply price of capital (Chowdhury, 1986; Snyder and Bruce, 2003).

To the monetarists, monetary authority ought to target growth in a monetary quantity from monetary base to intermediate aggregates. In practice, the upshot to dedicating monetary action to price stability is the systematic unresponsiveness to real macro-economic outcomes such as growth of employment rate (Rakic, Pesic and Radjenovic, 2012). Conversely, the Keynesian theory asserts that when the government changes the levels of taxation and spending, it influences aggregate demand plus economic activities (Keynes, 1936, Miller and Russek, 2003).

To achieve full employment growth, the government uses fiscal policy to control aggregate demand. In framework of fine-tuning, the theory is that the government and central banks uses both policies to boost employment provided that the government is able to curtail its own borrowing and monetary action is credible in the hands of independent central bank so that people's expectations of inflation are controlled.

#### 3.2. St. Louis Model

The study specified the St. Louis model to measure the short-term relative effects of *Keynesianism* and *Monetarism*. While expansionary fiscal action is measured by increased aggregate government spending, expansionary monetary action is measured by increased money stock in circulation. The original St. Louis relation as specified in equation (3.1) consist of narrow money ( $M$ ) and government expenditure ( $G$ ) as the exogenous variables. Nominal GNP ( $Y$ ) is the endogenous variable and it is the indicator of full employment growth.

$$\Delta Y_t = \Phi + \sum \beta_i \Delta M_{t-i} + \sum \gamma_i \Delta G_{t-i} + u_t \quad (1)$$

St Louis relation in its original form is heteroskedastic, our contribution to knowledge here thus derived is that we transformed our St. Louis relation into a natural logarithmic model before taking the first difference of the fiscal and monetary variables. Also, original St. Louis equation focuses on narrow money alone, this we acknowledged as a misspecification because monetary activities of central banks are not completely reflected by the narrow money variable but at least, the broad money in circulation. Thus, our modified St. Louis relation is k-period distributed as re-specified below.

$$\Delta \ln(E_j) = \Theta + \sum_{j=0}^k \xi_j \Delta \ln(M_{t-j}) + \sum_{j=0}^k \zeta_j \Delta \ln(G_{t-j}) + \mu_t \quad (2)$$

$$\text{Where: } \sum_{j=0}^k \xi_j = \xi_0 + \xi_1 + \xi_2 + \dots + \xi_k = \xi \quad \sum_{j=0}^k \zeta_j = \zeta_0 + \zeta_1 + \zeta_2 + \dots + \zeta_k = \zeta$$

By definition,  $E$  is growth of employment,  $M$  is the vector of past and present broad money in circulation,  $G$  is the vector of past and present government spending,  $\mu_t$  is the disturbance term which is highly stochastic.

#### 3.3. Method of Data Analysis

The study adopts the Batten and Hafer method that gives the cumulative effects of both fiscal and monetary policies (Batten and Hafer 1983). Since our modified St. Louis model is k-period distributed (Batten and Thornton, 1983a), the marginal effects of the policy variables are given by  $\xi_0$  and  $\zeta_0$  which contemporaneously articulates variation in mean value of employment against a percentage variation in government spending and money stock for equivalent period.

For purpose of simulation, changes in fiscal spending with money stock are kept the same such that the proportion of variation in employment that is respectively explained in the delayed period by the model would be given by  $\sum_{j=0}^k \xi_j$  and  $\sum_{j=0}^k \zeta_j$  such that at end of k-period and provided the sum of model parameters exists, it is the *overdue multiplier effect* of the policy variables that would be derived. The study obtained the *standardized estimates* of St. Louis relation as  $\xi_j^S = \xi_j / \sum \xi_j$ ,  $\zeta_j^S = \zeta_j / \sum \zeta_j$ . The St. Louis relation was estimated with the Generalized Least Squares (GLS) with heteroskedasticity-and-autocorrelation-consistent (HAC) covariance matrix estimator. The HAC standard errors were estimated over the bandwidth grid of 2.365 using the Bartlett for the Newey-West estimate with a zero Whitening order. The HAC estimator was chosen to correct for the bias in the OLS standard errors due to non-spherical innovations and so supply more robust scenery for inference about the significance of OLS coefficients. Time series data on government spending, money stock and employment were sourced from the CBN publications of various issues. The Phillips-Peron test was conducted to ascertain the time series properties of the variables. The study also tested for multicollinearity using the variance inflation factor (VIF) on the basis of the following standardized correlation coefficient matrix and the matrix of regressors:

$$R = \begin{bmatrix} 1 & r_{12} & \dots & r_{1k} \\ r_{21} & 1 & \dots & r_{2k} \\ \vdots & \vdots & \ddots & \vdots \\ r_{k1} & r_{k2} & \dots & 1 \end{bmatrix} \quad Z = \begin{bmatrix} z_{11} & z_{12} & \dots & z_{1k} \\ z_{21} & z_{22} & \dots & z_{2k} \\ \vdots & \vdots & \ddots & \vdots \\ z_{n1} & z_{n2} & \dots & z_{nk} \end{bmatrix}$$

Given the linear form of our empirical model, with  $k$  explanatory variables:

$$\Delta E_t = \delta_0 + \delta_1 Z_{1,t} + \delta_2 Z_{2,t} + \delta_3 Z_{3,t} + \delta_4 Z_{4,t} + \dots + \delta_k Z_{k,t} + \mu_t \quad (3)$$

Accordingly, the variance of the estimated coefficient  $\delta_j$  is:

$$Var(\delta_j) = \frac{S^2}{(n-1) \sum_{j=2}^n (Z_{jk} - \bar{Z}_j)^2} \quad (4)$$

The standard error of the regression estimate (s.e.e) is the square root of the  $j+1$  element of  $S^2 [Z'Z]^{-1}$ , where  $S^2$  is the root mean squared error, that is, an unbiased estimator of the true variance of the error term,  $\sigma^2$ ,  $Z$  is the regression matrix,  $Z_{i,j+1}$  is the value of the  $j$ th policy variable for the  $i$ th sample observation. The estimated variance of the regression estimate of  $\beta_j$ , can as a result be equivalently expressed as:

$$Var(\delta_j) = \frac{S^2}{(n-1) \sum_{j=2}^n (Z_{jk} - \bar{Z}_j)^2} \cdot \left( \frac{1}{1-R_j^2} \right) \quad (5)$$

Where  $R_j^2$  is the coefficient of determination for the regression of  $Z_j$  on other regressors, that is, the regression of one policy variable on other policy variables in which the regress and is omitted. This distinctiveness separates the influence of several distinct factors on the variance of the coefficient estimate. The *VIF* confines all other factors that control the uncertainty in the coefficient estimates. The *VIF* is equal to one when the vector  $Z_j$  is orthogonal to each column of  $Z$  matrix for the regression of  $Z_j$  on other regressors. Intuitively, the *VIF* exceeds one when the vector  $Z_j$  is not orthogonal to all columns of  $Z$  matrix for the regression of  $Z_j$  on other regressors.

The scale of  $Var(\delta_j)$  is determined as the ratio,  $\frac{Var(\delta_j)}{Var(\delta_j)_{\min}}$  and it equals *VIF* of the  $j$ th predictor variable. So,

$$\frac{Var(\delta_j)}{Var(\delta_j)_{\min}} = \frac{\frac{S^2}{(n-1) \sum_{j=2}^n (Z_{jk} - \bar{Z}_j)^2} \cdot \left( \frac{1}{1-R_j^2} \right)}{\frac{S^2}{(n-1) \sum_{j=2}^n (Z_{jk} - \bar{Z}_j)^2}} \quad (6)$$

Thus, the study calculates  $k$  different VIFs, one for each Zon other regressors  $Z_i$ ) in three steps: Firstly, we ran an OLS that has  $Z_i$  as function of other regressors as follows:

$$Z_{1j} = \phi_0 + \phi_2 Z_{2j} + \phi_3 Z_{3j} + \phi_4 Z_{4j} + \phi_5 Z_{5j} + \varepsilon_{1t} \quad (7)$$

$$Z_{2j} = \beta_0 + \beta_1 Z_{1j} + \beta_3 Z_{3j} + \beta_4 Z_{4j} + \beta_5 Z_{5j} + \varepsilon_{2t} \quad (8)$$

$$Z_{3j} = \pi_0 + \pi_2 Z_{2j} + \pi_1 Z_{1j} + \pi_4 Z_{4j} + \pi_5 Z_{5j} + \varepsilon_{3t} \quad (9)$$

$$Z_{4j} = \omega_0 + \omega_2 Z_{2j} + \omega_3 Z_{3j} + \omega_1 Z_{1j} + \omega_5 Z_{5j} + \varepsilon_{4t} \quad (10)$$

$$Z_{5j} = \eta_0 + \eta_2 Z_{2j} + \eta_3 Z_{3j} + \eta_4 Z_{4j} + \eta_1 Z_{1j} + \varepsilon_{5t} \quad (11)$$

Where  $\phi_0, \beta_0, \pi_0, \omega_0, \eta_0$  regression intercepts and  $\varepsilon_{1t}, \varepsilon_{2t}, \varepsilon_{3t}, \varepsilon_{4t}, \varepsilon_{5t}$  are the stochastic disturbances. Secondly, we calculated VIF factor for  $\delta_j$  with the following formula:

$$VIF(\delta_j) = \frac{1}{1 - R_j^2} \quad (12)$$

Where  $R_j^2$  is the coefficient of determination of each of the regression equations in step one.

Thereafter, we analyzed magnitude of multicollinearity by considering size of the  $VIF(\delta_j)$  on the basis of the rule that if  $VIF(\delta_j) > 10$ , then multicollinearity is high. The square root of the variance inflation factor evaluates how much larger the standard error is, compared with what it would be if that variable were uncorrelated with other regressors of the model. Since  $(Z)'(Z) = R$ , the least squares estimates of  $\delta = (\delta_1, \dots, \delta_k)$  is given by  $\delta = R^{-1}(Z)'W$  such that  $\text{Cov}(\delta) = R^{-1}(\sigma^2)$ . If all regressors are uncorrelated then  $R = I_k = R^{-1}$ . So the  $j^{\text{th}}$  diagonal element of  $R^{-1}$  is a gauge of variance of regression coefficient that is inflated owing to link with all the regressors in the model.

Accordingly, the largest  $j^{\text{th}}$  variance inflation factor,  $VIF = (1 - R^2)^{-1}$  is taken as measure of the gravity of the multicollinearity among the regressors, with  $\max_i VIF > 10$  indicating that multicollinearity is overly affecting estimates of the regression coefficients. Consistency was made certain by Wald test for joint significance of every policy variables. The study exploits annual data sourced from the CBN's data base which was accessed through the bank's official website.

#### 4. Empirical analysis

Table 1 shows the Phillips-Peron test results whereby the lag order was determined by Newey-West criterion. The results of PP test authenticate stationarity at first difference. Given that no variable was stationary at level, the regression was done with variables in the first difference form. Table 2 presents the Johansen co-integration test results. The maximum lag length selected for the co-integration test is one.

Table 1. Phillips-Peron Stationarity Test Results

Variables	Level	Transformation/Order	$R^2$	PP Critical Value @ 5%	Results
$\ln(M)$	-1.2357	-11.593, $I(1)$	0.5	-3.975	First difference stationary
$\ln(G)$	-2.5789	-19.367, $I(1)$	0.2	-3.975	
$\ln(F)$	-1.4267	-21.845, $I(1)$	0.4	-3.975	
$\ln(E)$	-1.6589	-25.945, $I(1)$	0.6	-3.975	

Source: Author's results

The co-integration test encompasses a trend and constant estimation. With our results, variables are co-integrated by one rank and this is validated at 5% significance level as indicated by  $f$ . Consequently, the linear unification of variables which were found to be integrated of order one became stationary.

Table 2. Johansen Co-integration Test and Lag-Length Selection Results

Co-integration rank	Trace Statistic	Eigenvalue	5% Critical Value	VAR Lag Length
0	353.6	0.393	325.8	1
1	248.2 <sup>f</sup>	0.426	226.6	
2	152.4	0.265	159.5	
3	142.3	0.228	175.2	

Source: Author's results

The St. Louis model estimates are reported in Table 3. The estimated coefficients with \* and \*\* indicates the marginal coefficients and delayed coefficients respectively. The marginal effect of the variation in money supply on employment generation is -1.056. Such marginal effect due to monetary action is negative. In particular, a 10 percent variation in money stock reduces employment by exactly 10.56 percent variation.

Also, the overdue effects of monetary policy on employment for previous one year and two years are negative while the delayed effect for last three years is positive. In accordance with results, the overdue effect of money stock reduces with passage of time. The negative feedback effect of monetary action for the previous one year and two years could be indicative of negligible level of overall success of monetary policy in rejuvenating economic activities due to lack of CBN independence. Evidently, the degree of efficacy of the delayed multipliers of money stock on growth rate of employment declines in relation to the duration length of the delay. The implementation of monetary action suffered a major interference especially when the monetary effect even became negative for periods, previous one year and two years respectively and also loses statistical significance for the same periods.

With an error tolerance of one percent, the model reported a significant monetary effect for only the previous three years while with an error margin of five percent, only the monetary effect of current year was statistically significant. This point to irregularity of policy effect and consequently the incompatibility of monetary action with employment generation.

The marginal effect of the variation in fiscal policy on employment generation is 0.576. In particular, ten percent variation in government spending generates employment by exactly 5.76 percent variation. The marginal fiscal effect is positive. The overdue effects of government spending for previous one year, two years and previous three years are 1.329, 1.572 and 0.048 respectively. Undeniably, the overdue effects of government spending on employment are positive all through the years of our study. This implies fiscal policy stability and consistency.

The St. Louis model estimates subsequently depict positive linear association between Keynesian fiscal action effect and employment creation in Nigeria. With exception of previous three years, the overdue effects of the Keynesianism policy increases progressively. This shows no similarity with the delayed monetary policy effect whose size of effect declines as the delay period increases not including the previous three years however.

Given the low error of estimate of 0.002, it thus implies an accurate measure of average relationship of distribution around the predicted and actual employment generated having implemented the two macroeconomic policies for the Nigerian economy. The *F-statistic* stood at 39.2. So, the overall significance of estimated St. Louis model is acceptable even at the conservative one percent level. In passing, hypothesis of an infinitesimal and hence lack of a positive linear relationship between employment generation and macroeconomic policy implementation is rejected in favour of the alternative of a monumental relationship. In validation, 76.9% of the general variation in the growth rate of employment was caused by the variation in fiscal and monetary policies having adjusted for degrees of freedom in the estimation process. Only a minute variation of 23.1% in the growth rate of employment is elucidated by other macroeconomic policies outside the prediction of Keynesians and Monetarists. The *Durbin-Watson statistic* of 2.049, the St. Louis model estimates are statistically reliable and economically meaningful and robust to stand the test of time for economic forecasting.

Table 3. St. Louis Model Estimates

Parameters	Coefficient Estimates	Remarks
$\Theta$	0.629	*
$\xi_0$	-1.056*	*
$\xi_1$	-0.438**	**
$\xi_2$	-1.257**	**
$\xi_3$	1.963**	**
$\zeta_0$	0.576*	*
$\zeta_1$	1.329**	**
$\zeta_2$	1.572**	**
$\zeta_3$	0.048**	**
Parameters	Standardized Estimates	Remarks
$\xi_0$	1.340101523	*
$\xi_1$	0.5558375635	**
$\xi_2$	1.595177665	*

$\xi_3$	-2.491116751	**
$\zeta_0$	0.1634042553191	*
$\zeta_1$	0.3770212765957	*
$\zeta_2$	0.4459574468085	**
$\zeta_3$	0.0136170212765	**

Source: Author's results

Table 4 shows the cumulative effects of both fiscal stance and monetary policy. From the cumulative coefficients, cumulative effect of the variation in money stock is -0.788 while the cumulative effect of the variation in aggregate government spending is 3.525 respectively. Intuitively, a negative cumulative coefficient is indicative of policy somersault, inconsistency and hence irregularity of policy effect.

As it were, monetary effect of employment generation in Nigeria is contrary to policy objective. Accordingly, a comparison of the cumulative effects of variation explained by both policies of increasing government spending with money supply shows that the efficient policy is Keynesian expansionary fiscal policy, not the Monetarist's expansionary policy.

The policy implication is straightforward; the St. Louis model estimates reveal that Keynesian policy of increasing government spending had more efficacious impact on employment generation in Nigeria in the past. Fiscal policy impacted significant positive short-run effect on employment as against the significant negative short-run effect of monetary policy. This lay credence to fiscal policy as more effectual in stimulating growth rate of employment by imposing positive feedbacks.

Table 4. St. Louis Model Estimates

Parameters	Cumulative Effects of Policy Preference
$\sum_{j=0}^3 \xi_j \Delta \ln(M_{t-j})$	-0.788
$\sum_{j=0}^3 \zeta_j \Delta \ln(G_{t-j})$	3.525
Parameters	Standardized Cumulative
$\sum_{j=0}^3 \xi_j \Delta \ln(M_{t-j})$	1
$\sum_{j=0}^3 \zeta_j \Delta \ln(G_{t-j})$	1

Source: Author's results

The study conducted policy simulation by dynamically simulating effects of N80 million persistent increases in government spending and money supply on employment generation in Nigeria over sample period of 2010 to 2015. Results of controlled and disturbed solutions are found in Table 5. The simulation results show N80 million increases in fiscal spending generated a mean percentage increase of 9.5% in employment while such N80 million increase in money stock generated a mean percentage decline of 1.02%.

Table 5. Policy Simulation Results for Employment Generation in Nigeria

Endogenous Variable	Periods	Controlled Solution	Disturbed Solution		Employment Multiplier of Government Expenditure	Employment Multiplier of Money Supply	Employment increase due to changes in government spending	Employment increase due to changes in money supply	Percent (%) increase in employment due to changes in government	Percent (%) increase in employment due to changes in money supply
			Changes in Government Spending	Changes in Money Supply						
Employment	2010Q1	5,692,432	6,892,837	5,792,837	0.015005063	0.001255063	1,200,405	100,405	21.08773544	1.763833103
	2010Q2	6,287,231	6,987,292	6,587,292	0.008750763	0.003750763	700,061	300,061	11.13464735	4.772546134
	2010Q3	6,582,143	7,282,973	6,982,973	0.008760375	0.005010375	700,830	400,830	10.64744415	6.089658034
	2010Q4	7,626,352	7,926,382	7,726,382	0.003750375	0.001250375	300,030	100,030	3.934122107	1.311636284
	2011Q1	7,942,135	8,145,656	8,249,656	0.002544013	0.003844013	203,521	307,521	2.562547728	3.8720193
	2011Q2	8,679,314	8,739,334	8,779,334	0.00075025	0.00125025	60,020	100,020	0.691529308	1.152395224
	2011Q3	8,654,126	8,754,656	8,954,656	0.001256625	0.003756625	100,530	300,530	1.161642435	3.472678812
	2011Q4	9,246,259	9,526,839	9,346,839	0.00350725	0.00125725	280,580	100,580	3.034524557	1.087791289
	2012Q1	9,352,262	9,462,732	9,452,732	0.001380875	0.001255875	110,470	100,470	1.181211561	1.074285558
	2012Q2	9,363,274	9,763,054	9,563,054	0.00499725	0.00249725	399,780	199,780	4.269660377	2.133655386
	2012Q3	94,521,436	9,832,736	9,652,736	(1.05860875)	(1.06085875)	(84,688,700)	(84,688,700)	(89.5973)	(89.78778105)
	2012Q4	9,505,427	9,945,387	9,675,387	0.0054995	0.0021245	439,960	169,960	4.628513795	1.788031195

2013Q1	9,625,124	10,152,474	9,752,474	0.006591875	0.001591875	527,350	127,350	5.478890454	1.323099837
2013Q2	10,046,113	11,246,803	11,246,803	0.015008625	0.015008625	1,200,690	1,200,690	11.95178673	11.95178673
2013Q3	12,904,234	13,904,864	13,204,864	0.012507875	0.003757875	1,000,630	300,630	7.75427662	2.329700469
2013Q4	13,485,474	14,485,954	13,585,954	0.01250600	0.0012560000	1,000,480	100,480	7.418945749	0.745098022
2014Q1	14,658,216	14,958,346	14,538,346	0.003751625	(0.00150000)	300,130	(119,870)	2.047520653	(0.817766637)
2014Q2	17,585,355	17,785,675	16,724,675	0.002504	(0.010758500)	200,320	(860,680)	1.139129691	(4.894299831)
2014Q3	17,956,298	18,356,468	17,856,468	0.005002125	(0.001247875)	400,170	(99,830)	2.228577405	(0.555960922)
2014Q4	18,393,756	19,393,756	18,259,756	0.012500000	(0.001675000)	1,000,000	(134,000)	5.436627516	(0.728508087)
2015Q1	18,567,692	29,767,692	18,367,692	0.14000000	(0.002500000)	11,200,000	(200,000)	60.31982866	(1.077139797)
2015Q2	18,935,464	29,935,464	18,593,526	0.13750000	(0.004274225)	11,000,000	(341,938)	58.09205415	(1.805807346)
2015Q3	19,374,656	29,374,656	18,759,465	0.125000000	(0.007689888)	10,000,000	(615,191)	51.61381962	(3.175235731)
2015Q4	19,936,356	29,536,356	18,954,635	0.120000000	(0.012271513)	9,600,000	(981,721)	48.15323322	(4.924275028)

Source: Author's results

The impact multipliers on employment are 0.015 and 0.001 given the sustained N80 million increase in both government spending and money supply respectively from 2010 - 2015. The policy simulation results show that the impact multiplier is the same for both fiscal and monetary policies. However, while fiscal policy gave a dynamic employment multiplier of 0.12, monetary policy gave a negative dynamic multiplier of -0.01.

These policy effects validate the St. Louis model estimates. Consequently, monetary policy implemented so far did not enhance employment creation in Nigeria. To control for possible multicollinearity between the current and past values of the policy variables which may distort the validity of the estimated results; we estimated variance inflation factors. The results show that multicollinearity does not exist in the St. Louis model as reported in Table 6.

Table 6: Variance Inflation Factors

Variable	VIF
$\Delta \ln(M_t)$	5.62
$\Delta \ln(M_{t-1})$	6.23
$\Delta \ln(M_{t-2})$	7.28
$\Delta \ln(M_{t-3})$	8.52
$\Delta \ln(G_t)$	8.53
$\Delta \ln(G_{t-1})$	5.42
$\Delta \ln(G_{t-2})$	8.22
$\Delta \ln(G_{t-3})$	6.56

Source: Author's results

The Ramsey RESET test rejects the hypothesis for possible omitted variables at the five percent level as shown in upper bloc of Table 6. With a RESET statistic of 4.162, there are no specification errors or structural breaks. In the lower bloc of Table 7, the computed Elliott-Muller test statistic of -20.539 which passes the test of significance after accommodating an error margin of just one percent, shows evidence of stability of model estimates and hence valid estimates.

Table 7: Ramsey RESET Test for Omitted Variables/Elliott-Muller Test Results

Ramsey RESET Test using Powers of the Fitted values of Employment		
$H_0$	F-value @ 5%	P-value
No omitted variables	4.162	0.0004
Elliott-Muller Test Statistic		
Test statistic	Critical value @ 5%	Critical value @ 1%
-20.539	-25.746	-26.928

Source: Author's results

## 5. Conclusions

We estimated the St. Louis equation for the relative strength of fiscal and monetary policies in influencing employment in Nigeria. The empirical finding upholds Keynesian expansionary fiscal policy as effectual policy for employment generation in Nigeria. In the present Nigerian economic situation, government spending is the indispensable instrument for building full employment growth framework. In fact, further reducing government spending only reduces aggregate demand with a contrasting effect on the economy. Emphasis should be on government spending as this could enhance the performance of the non-oil sector in creating more employment. This the study so recommends as a policy.

Prominently, such dominant effects of fiscal action over monetary policy as reflected in irregularity of the monetary effect is attributable to lack of independence of the CBN in operational terms, but rather under the “political will” of the government as in Nigeria. In fact, the empirical finding could be reflecting central bank which in reality has lost its power of monetary control due to excessive political measures.

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