

THE ECONOMIC RECESSION IN NIGERIA: HOW DID WE GET HERE AND WHAT DO WE DO?

Introduction

The economic recession that has hit Nigeria has been described by some commentators as a blessing in disguise. For those who hold this view, the recession is a blessing because it will force the Nigerian government and leaders to do what they should have done many years ago, namely to diversify the domestic economy. These commentators point to a large number of studies dating back to the 1970s which stressed the dangers of relying on a single economic resource, namely crude oil, and advised economic diversification, which successive Nigerian governments and leaders ignored.

Initial reactions to the recession by both the government and its advisers gave the impression of a panic about what had happened. Consultations were made, and publicized meetings were held by government officials to figure out how to get out of the undesirable situation. In all this, there was little serious thought about how Nigeria got into a recession, and virtually no attempt to examine the factors that made it so difficult for past governments to diversify the economy as advised. The decision to examine this issue is evidence of a high level of social consciousness, and I am delighted with the opportunity to explore the topic with the respected audience we have here today.

The ideas I wish to share are organized in three short parts to facilitate communication. In part one we briefly examine the phenomenon of economic recession, focusing particularly on how it occurs. In part two we examine the factors that triggered the recession in Nigeria. In part three we outline some of the things we should consider as we search for a way out of the recession.

1. What is an Economic Recession?

An economic recession is a period of a general downturn in economic activities in a society. It usually shows up in a fall in the **gross domestic product (GDP)**, a variable by which economists measure the overall performance of an economy. Thus, the *Oxford Dictionary of Finance and Banking* defines a recession as "A

slowdown or fall in the rate of growth of gross national product”.¹ Another indicator is a rise in unemployment rate, which would necessarily follow the downturn in economic activities.

A recession is usually recognized when the conditions have lasted for more than two successive quarters of a year, i.e., when the GDP falls and unemployment rises in two successive quarters. When a recession becomes prolonged, for instance, lasting longer than four quarters, and gets more severe, it becomes a **depression**.

What are the Causes of an Economic Recession?

Recessions are inherent in market economies, i.e., capitalist economies. This is due to the behavior of private investors – the people who cause production to take place in such economies – which is characterized by what a great British economist, John Maynard Keynes, once described as “animal spirits”.

Private investors in a typical market economy invest their resources in response to profit opportunities; they are guided by the profit motive. They rush to invest where they see the prospects of making profit. As they invest, the economy expands, i.e., grows. Where the prospects of making profit dwindle, private investors generally rush out of the activities, or withhold their investments, and the economy contracts. Thus, a typical market economy is characterized by alternating periods of strong spending and expansion, and periods of weak spending and contraction. Economists describe this feature of the economy variously as “business cycles”, “trade cycles”, “economic cycles”, or economic fluctuations, and traditionally represent the phenomenon as in Figure 1.

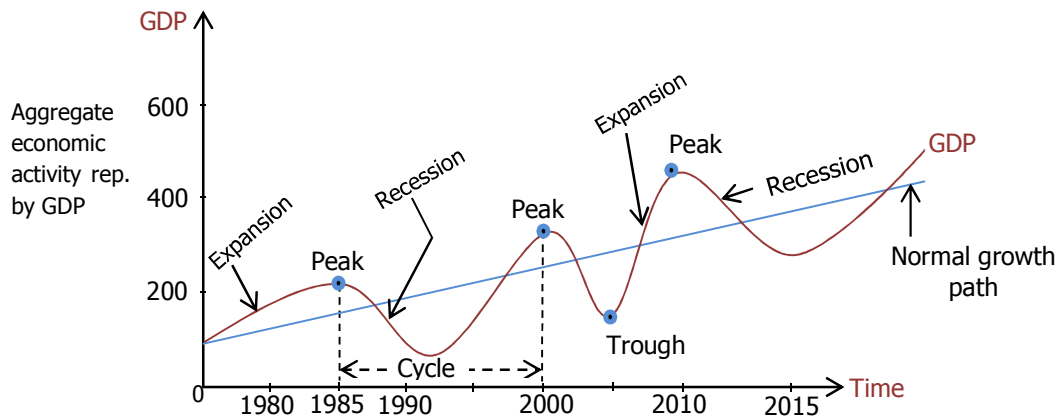


Fig 1: Business Cycle

During the period of strong spending (strong demand) the economy expands, hence the expansion phase. There may be inflation during such periods. During periods of weak spending the economy contracts, hence the contraction phase. The contraction may result in a recession if it lasts for two successive quarters of the year. Both the magnitude of the swings (i.e., the fluctuations) and the duration of a cycle (from one peak to the next or one trough to the next) depend on how quickly action is taken by the government, the managers of the economy, to arrest the underlying factors.

For any market economy, a period of weak spending may be triggered by one of several factors, or a combination of factors. They include:

- a fall in government spending, resulting from a fall in revenue accruing to the government;
- high interests rates, which limit liquidity, discourage consumption spending, and reduce funds available for investment;
- increased inflation, which reduces real wages and the ability of consumers to buy goods and services; and
- loss of consumer confidence, which makes people generally spend less.

Where, as a result of any of these factors or combinations of the factors, aggregate spending (i.e., aggregate demand) is weak, the weak spending may cause a recession if it lasts for two successive quarters. The fluctuations would be less pronounced in a well-planned and carefully managed economy.²

2. What Caused the Recession in Nigeria?

The foregoing discussion gives us a real insight into the causes of the present economic recession in Nigeria. The first thing we learn is that we should have expected to experience an economic recession at some time in our life as a nation, and we should in fact expect recessions in the future, as long as we operate a market economy. There was therefore no need to panic as we did.

The second thing we learn is that the economic recession in the country was triggered by a combination of factors. They include almost all the factors that were outlined in the previous section, namely a fall in government revenue and government spending arising from a fall in oil prices (from about \$140.00 to about \$40.00 a barrel), high interest rates maintained to induce foreign investment, and increased inflation, which we have witnessed over the last one year or so. Real wages have also gone down given the fact of rising prices and stagnant nominal wages (money incomes). These factors created a perfect condition for a recession, and are the reason the recession is persisting.

3. How do we tackle the Recession?

The discussion of the causes of a recession also gives an indication of what needs to be done to overcome the crisis. An analysis of the factors shows that they all have their roots in the **low level of production** resulting from the weak productive capacity in the country. This shows that the solution lies largely in stimulating production.

The low level of production in our country accounts for the fall in government revenue and government spending. It explains also the high and rising prices of goods and services. It is only by producing and efficiently distributing a variety of goods and services in the system that we can realistically bring down prices, boost government revenue and spending, boost consumer spending, and lift families out of poverty. This can be achieved only if we develop the capacity to produce goods and services, and stimulate a variety of productive enterprises in the various sectors of

the economy other than the oil sector. This means that the government and the analysts who are advising economic diversification are right.

But the idea of economic diversification has been around for some four decades or so. Social scientists in general, and economists in particular, have suggested a diversification of the Nigerian economy since the 1970s, and successive government plans and budgets up to the close of the 1990s showed a desire to implement such a policy. Unfortunately the expected diversification did not take place. Instead, the nascent industrial activities in consumer goods production, including textiles, and basic capital goods, including building materials, basic agricultural tools, general tools and machinery, and automobiles were, in a thoughtless compliance with the free market economic ideology, allowed to collapse and disappear.

Why then are we talking about and advising economic diversification as if it is something new! What are we offering that should make economic diversification happen this time, and happen in a way that will generate the stimulating effects—a variety of non-oil enterprises in the system, job opportunities for those who are looking for work, greater output of goods and services that should bring down prices, and increased non-oil revenue sources for government—which we want to see !

I believe we failed to act on the policy of economic diversification mainly because, as a nation, we were superficial in our attitude to the matter of economic organization in general and production in particular. We did not think deeply enough about production—about its organization, what goes into it, the challenges that must be faced, and what must be done to ensure success. The anguish at the homes of many parents who cannot feed their families and cannot send their children to school, the anger and frustrations that are being expressed in our streets daily by armies of unemployed youths, and the fear on the faces of citizens generally about the economic future of the country, require that we abandon old habits and doctrines and act quickly on the ideas that work for real people in real societies.

4. Implementing the Policy of Economic Diversification

To ensure success with the policy of economic diversification, we, as a nation, led by the government, must do first things first; we must prepare the ground for it. This requires that we consider the following actions:

- i. Invest more in education – more time (monitoring and evaluation) and more money – to promote effective teaching.
- ii. Review the curriculums of our primary and secondary schools to ensure that courses that are likely to improve skills, or to facilitate the acquisition of modern skills, are taught.

These should serve to prepare the work force for modern industrial enterprises.

To reduce cost for local enterprises, and stimulate industrial investment, the Government should:

- i. Provide technical and financial support to private entrepreneurs in their negotiations with potential foreign technical partners to minimize the imposition of contract clauses that frustrate their efforts to acquire modern technologies.
- ii. Improve the environment for doing business.
 - Tackle infrastructural problems: energy, transport,
 - Tackle the security challenges effectively,
 - Review the rules pertaining to business in the country to minimize frustrations.
- iii. Lead the way in the establishment and operation of some desired enterprises, for instance enterprises involved in capital goods production. In this, we will be in compliance with the Constitution of the Federal Republic of Nigeria, 1999, chapter 16, section (1) subsection (c), which requires the government to “**manage and operate the major sectors of the economy**”—a provision successive governments have ignored and nobody is shouting.
- iv. Put emphasis, **in all we do as a nation**, on the development of the capacity to do things for ourselves, and reliance on our own capabilities.

In the short run we need to try and improve things for families. I suggest the following actions to be considered by the Government:

- i. Improve communication with the public in order to give hope.
- ii. Pay all local contractors in order to boost spending in the system.
- iii. Borrow to invest, not to consume.
- iv. Regulate the use of foreign resources in the economy, including labour.
- v. Scrutinize the activities of firms generally and insist on producing in, not just selling to, Nigeria.

Conclusion

Economic recession is an inherent feature of a market (capitalist) system such as ours. It is often triggered by a combination of factors which weaken aggregate demand in the system. The way out is to boost aggregate demand in a way that is sustainable, which must include stimulating domestic production of a variety of goods and services. We can achieve this if we make up our mind to do the tough things we have been avoiding, and to act on them quickly.

Notes

1. Gross domestic product (GDP) and gross national product (GNP) measure essentially the same thing, namely the output of a country. The difference is that GDP includes the output of all the factors of production in the domestic territory irrespective of national origin, whereas GNP includes only the output of the factors owned by nationals. GNP also includes the output of factors owned by nationals resident abroad. Many countries now simply use the GDP to avoid the complications of the adjustments that have to be made to arrive at the GNP.
2. The idea here is that in well-planned economies, for instance socialist economies, planning minimizes the fluctuations. But there will always be some degree of fluctuation.

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