Economic Recession in Nigeria: A case for Government Intervention

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Abstract

The Nigerian economy slid into recession path in the first quarter of 2016. The negative consequences of the recession has led to the reduction of standard of living and the quality of life of the people and increase in poverty rate. This paper seek to examine and analysed the main reasons for the emergence of the current economic recession in Nigeria. The paper gives a theoretical exposition of how government policies can potentially curb the recession and enhance better economic well-being of the Nigerian populace. The findings of the study indicates that the main causes for the emergence of the economic recession in Nigeria can be group under three main factors: legacy factors, policy factors and political/security factors. The paper recommends among other, effective government intervention through an effective synchronization between measures of fiscal and monetary policy in the direction of increasing liquidity in the economy, decreasing interest rates, increasing investment and employment, increasing the income of economic entities and finally, in the direction of increasing aggregate demand as an exit from the phase of recession.

Keywords:*economic recession, Nigeria economy, government Intervention, investment. Unemployment, economic growth*.

I. INTRODUCTION

Economic or business cycle is one of the major topic of interest in modern macroeconomics theory. Every economy (country) is affected by business cycle (or economic cycle). Business cycle refers to economy-wide (nationwide) fluctuations in production, trade and general economic activities over medium-to-long-term in a free market system. Free market economy is one where there is no government intervention in economic activities; rather demand and supply interact to correct disequilibrium (anomalies) in the market. The business cycle is the upward and downward movements of levels of gross domestic product (GDP), and refers to the period of expansions and contractions in the level of economic activities (business fluctuations) around its long-term growth trend. These fluctuations involve shifts over time between periods of relatively rapid economic growth (boom), and periods of relative stagnation or decline (a contraction or recession (CBN, 2012).

Recessionas a phase of economic cycle occurs after two consecutive quarters of negative growth featuring low output and investment, abnormal increases in unemployment due to massive retrenchment, falls in the availability of credit facilities, fluctuation in forex market, illiquidity, downsizing and layoff as well as reduce amount of trade and commerce.

According the National Bureau of Statistics (NBS) the Nigerian economy slid into recession path in first quarter (Q1) of 2016 (since 2004) with real GDP of-0.36 percent, the contraction of economic activities resulted from an evaporation of confidence and no new investments, inordinate delay in government speeding during the period, acrimonious legislative squabbles in approving budget, erosion in the value of Naira in the forex market, pipelines vandalism, misaligned currency and forex shortages, high interest rate environment as well as trade and import restrictions. The current recession seems to affect socio political structures, Nigeria's credit condition general living standards, imports, production and employment as well as consumption demand in Nigeria (Agri, Maliafia and Umejiaku, 2017).

The economy lost over 500,000 jobs, power supply down from the grid, down to 2,2023.3MW from 3593MW, unemployment and under-employment now up 31.2 percent, labour productivity growthdown to (-0.4 percent) , stagnant wages and decline in retail sales. Macroeconomic indicators get worsen by the day, showing that, if there is no appropriate intervention by the government, the economy may slip further into depression.

Governments in market economies perform several tasks. These include: promoting production and trade by defining property rights, enforcing contract and settling disputes; enforcing laws design to maintain competition; redistribution of income via taxes and transfer; reallocating resources by providing public goods and intervening to correct negative and positive externalities and promotion of economic growth and full employment. (Mankiw& Taylor, 2011)

It is against this background that this paper seeks to examine the causes of the current economic recession in Nigeria and how government policies can potentially curb the recession and enhance better economic well-being of the Nigerian populace.

II. LITERATURE REVIEW

The National Bureau of Economic Research (NBER), defines recession as "a significant decline in economic activity spread across the macro-economy, lasting more than a few months, normally visible in real gross domestic product (RGDP), real income, employment, industrial production and wholesale-retail sales". When a country is in the phase of recession, the economy is far from the point of effective use of resources, i.e. Far from the optimal production and the natural rate of unemployment (Nikoloski and Lazarov, 2000).

Usually, recession may be triggered by financial crisis and or credit crunch, as well as demand and supply side shocks. Globally, there is geopolitical tension around the world, causing global crisis and commodity prices dropping, the drop in crude oil prices, Brexit, crucial American election in 2016, South China Sea issues, Russia-Syria crisis, ISIS, illegal migration and refugee crisis which are remote but important causes of economic recession around the world.Theglobal financial crisis of 2007 and the ongoing recession was triggered by the United States housing bubble; excessive lending of banks into high-risk subprime and adjustable rate mortgages resulted in high default rates as well as downfall of banking sector. Defaults and losses on other categories of loans also rose considerably as the crisis expanded from the housing market to other sectors of the economy. Bankruptcy of several high rated investment banks started to panic on the inter-bank loan and stock markets and eventually, the bubble busted. This resulted in the fall of global GDP, rising unemployment and economic difficulties in emerging markets and frontier where Nigeria unfortunately stands today.(Adelmann, 2011, Kamar, 2012).

A. Causes of the Current Economic Recession in Nigeria

Economic recession can be caused by two broad factors: internal (endogenous) and external (exogenous) factors. The former is usually as a result of conflict of ideas, misapplication of economic theory and regulatory negligence or policy inconsistency. The external causes of recession have to do with factors that are exogenous to the economy over which policy makers have little or no control. Factors like natural disaster, climate change, revolution and wars (CBN, 2012).The reasons for the emergence of the current economic recession in Nigeria, can be linked to the above aforementioned factors to include; legacy factors, policy factors and political/security factors.

The legacy factors involves; over dependence on oil production for government revenue, low sovereign savings, political risk and fiscal leakages and official corruption. The negative demand-side shocks that affect the aggregate demand in Nigeria work through a global economic slowdown that impacts major trading partners of a country. When there is economic slowdown in the U.S., China, India and EU, it could have negative impact on the demand of Nigerian crude oil from these countries (CBN, 2012). As a result, the price of crude oil which was sold for over \$100 per barrel went as low as below \$50 per barrel.Government's revenue and spending would drop, taxes will rise, disposable income will fall and aggregate demand will fall, adversely impacting the production of goods and services in the economy. These developmentsconsequently result into economic recession. From the foregoing, it is clear that Nigeria's GDP is quite diversified, so the problem is not the structure of domestic production. The issue is undiversified structure of government revenue and export revenue.

Nigeria's foreign reserves down to \$30billion at 2015 from over \$65billion in 2007. This fund is intended to safeguard the economy against budgetary deficits. It would be a last resort from which government may withdraw annually to meet shortfalls in the budget brought about by falls in oil prices or other budgetary constraints.

The policy factors involves the lack of clarity over economic policy; wrong policy choices and no strategy for private capital. A major contributor to the current economic recession in Nigeria was the denial and policy incoherence over forex policy. The ban on 41 items in a market-baseforex market perpetuates multiple exchange rates. Manufacturers who rely on some of these imports will have to buy from the parallel market at a very high rates, leading to high cost of production and a rise in the general price level (inflation).

Also the inconsistences between monetary policy which pursued monetary tightening through treasury single account (TSA), raising cash reserve requirement (CRR) and monetary policy rate (MPR) further worsen the economic sanity. Furthermore, the budget relies exclusively on borrowing for fiscal stimulus in the absence of private capital strategy. And the big gap in policy is the lack of a strategy to leverage and optimise private capital. From the preceding, the consequence of policy factors has resulted in low investment and market confidence from both domestic and foreign investors and has impacted forex flows, foreign direct investment (FDI), new domestic investment, capital markets, employment and economic growth negatively.

The political/security factors involves the impact of Niger-Delta militancy on oil production, impact of herdsmen/farmers conflicts on agricultural production across the country, but particularly in the North-Central and the continuing (though reduced) impact of Boko Haram activity on agricultural output and trade in North-East and impact of grave internally displaced persons (IDPs) situation in the regionhas contributed to the current economic recession in Nigeria.

III. A CASE FOR GOVERNMENT INTERVENTION

The current economic crisis Nigerians are going through is taking its toll on almost every sector of the economy. Both the rich and the poor are adversely affected by the economic recession.

Findings across the nation indicate that the economic situation is getting worsen by the day, as the prices of foodstuff and other basic need has sky-rocketed to an alarming rates; the price of a bag of rice which was sold for ₦9,000, now sold for ₦22,000 which is above the minimum wage of an average civil servant, garri that is commonly tagged as poor man food is out of reach of the poor masses now, as a rubber cost ₦1,400, price of vegetable oil have increase by 100 percent, cement that was sold for ₦1500 is now ₦2600 only but to mentioned just few amongst many commodity whose price has doubled with reduce quantity and quality.

The current economic recession has caused extreme poverty and suffering of the masses; children right to quality education, affordable inclusive healthcare are deprived, cost of living has gone extremely high for the core poor and the middle income class. There is also increase in crime rates as life gets harder for a greater number of the people (the poor), living conditions are getting worse, crime rates have escalated: increase in kidnapping, petty stealing, child trafficking, robberies and other financial crimes and fraudulent Ponzi schemes: the like of MMM, givers forum, ultimate cycler,twinkers etc. which has further worsen the welfare of some Nigerians seeking ways to leverage themselves from the economic hardship posed by the recession.

The basic needs of life have eluded almost 85% of Nigerians. There is high cost of transportation, lack of portable water, epileptic power supply and poor aggregate infrastructure. Social indices are fast declining as oil revenue continue to fall. The economy is deteriorating in human development indices, the quality of education and healthcare has collapsed, with extreme poverty, acute hunger and starvation prevailing amongst the poorest poor (Agri, Maliafia and Umejiaku, 2017).

Government whose main objective is ensuring a maximized social and economic welfare of the citizenry should intervene using various tools at its disposal in order to alleviate the negative effects of the recession and create enabling conditions for the achievement of positive economic growth rate.

IV. KEYNESIAN APPROACH TO ECONOMIC RECESSION

Keynesians believed that the major cause of economic recession are ineffective demand and bad economic planning. Keynesian economists posit that, because wages and prices adjust slowly during recession, distortions in production or consumption may move the economy away from its desired level of production and employment for a longer period of time. According to the view of Keynesian, the stateshould intervene through measures of economic policy,in particular, monetary policy actions by the central bank and fiscal policy actions by the government, can help stabilize output over the business cycle. Keynesian economists often advocate an active role for government intervention during recessionsto alleviate the consequences of the recession and the reduction of overall economic activity in the economy.

The focal points of the Keynesian approach to economic recession is to increase aggregate demand through the manipulation of government spending, taxation, money supply, interest rates regulation and devaluation to stimulate production, employment and creation of new investment.

V. POLICY RECOMMENDATIONS TO END THE ECONOMIC RECESSION

Nigeria is a mono-product economy, which solemnly dependence on oil exportation for its survival. Therefore, the fall of oil price in the international market and the activities of the Niger-Delta avengers' calls for and inward looking into the Nigerian economy and the need to shore up the non-oil sector of the economy to diversify the structure of government revenue and export revenue. Mere increase in government spending will not solve the problems posed by the recession, but rather planned and strategic spending in area with high multiplier effect such as the agricultural, manufacturing, and construction sectors that has the ability to stimulate aggregate demand.The government needs to expand her export earnings and production base away from the oil sector through wise investment on non-oil sector with high multiplier effect, because such sectors will produce alternative goods and goods that can be exported to make up for the earning or deficit for imported goods.

Tax rates on individuals, small and medium scale enterprise, and corporations should be reduce by at least 20 percent. This in effect will increase disposal income, purchasing power and the ease of doing business in Nigeria. Foreign investor will be encourage with the reduction in tax rate. This will increase the inflows of dollar to Nigeria and ultimately increase new investment and also solve the problem of high exchange rate resulting from forex scarcity.

The raising of the cash reserve requirement (CRR) and monetary policy rate (MPR) which pursue monetary tightening is not an accommodative monetary policy for an economy in recession. Therefore, the CBN should increase access to credit facilities by reducing the real interest rate to encourage new investment by both foreign and domestic investors. With the increase of money supply and reducing interest rates in the short run, central bank can improve the deteriorated economic performance.

The government should ensure continued efforts to restore normalcy in the North-East and also resolve the IDPs situation in the region. There should be political engagement and security measures to end the sabotage of oil infrastructure in Niger-Delta as well as zero tolerance for herdsmen/farmers clashes in the North-Central and across the country.

There should be an improvement of the business environment through government conscious effort by way of providing economic and social infrastructure, particularly electricity, in order to lower the cost of doing business and encourage or attract foreign direct investment into Nigeria.
There should also be improvement in institutions to make them more functional to reduce the level of official corruption, fiscal leakages as well as, political, social and religions crises(the likes of Boko Haram, Fulani herdsmen, Niger-delta avengers etc.) to ensure stable government and guarantee the sustainability of democratic rule free from unwarranted changes, or intervention by the military.

In order to reduce unemployment, the government should invest in the informal sector of the economy since it can no longer absorb the increasing number of job seekers in the country by providing the necessary infrastructures and enforcing laws to protect and support the sector. Government should also invest in skill acquisition such as; soap making, beads making, cake baking, event planning, event decoration, photography, IT, telecommunication, agro-allied, sports among others. Government should empower the youth to go into agriculture by providing a platform for free training on various aspect of agriculture.

VI. CONCLUSION

Recession as a phase of economic cycle in one point or the other has affected every economy (country) around the globe. Economic recession is a very serious symptom that indicate that the economy is diseased and requiresvigorous economic measures to be taken for its faster recovery. The Nigerian economy slid into recession path in Q1 of 2016. The negative consequences of the recession has led to the reduction of standard of living and the quality of life of the people and increase in poverty rate. In the phase of recession most macroeconomic fundamentals (variables) such unemployment, inflation, exchange rate and economic growth gets worsen an life become unbearable for the majority of the population (the poor) indicating that if there is no appropriate policy responds from the government, the economy may slip further into depression. According to the view of Keynesian, the government should intervene through measures of economic policy to alleviate consequences of the occurrence of recession and the reduction of overall economic activity. This paper suggest an effective synchronization between measures of fiscal and monetary policy in the direction of increasing liquidity in the economy, decreasing interest rates, increasing investment and employment, increasing the income of economic entities and finally, in the direction of increasing aggregate demand as an exit from the phase of recession.

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