Reversing the Economic Downturn in Nigeria: Realign Markets to Spur Growth and Jobs

Nigeria should brace itself for impending recession. Or so the World Bank suggests. Specifically, the bank in a recent report stated that Nigeria is facing “potentially the most severe downturn in four decades… even if the outbreak is contained.”

Apart from the series of foreign loans the government recently added to its debt stock, the devaluation of Naira, dwindling revenues, etc., there is little being discussed publicly to suggest a crisis is imminent or that measures are being put in place to avert it. Are we missing something or is the government deliberately taciturn to avoid causing alarm? Or perhaps people are so overwhelmed by so many mundane issues, which non-Nigerians familiar with the situation cannot comprehend, that they have no time for even worse news.

Lest we kid ourselves otherwise: The only solution to our predicament lies in the economy, but this time that does not mean praying for oil prices to somehow return to the dizzying heights of yesteryear. No, the only way Nigeria can avert the impending crisis is, firstly, to get the economy working, at an accelerated rate, creating jobs, and, secondly, to ensure that the economic growth is inclusive to improve the lives of Nigeria, not just statistically (as in: higher GDP per capita) but in a way that sees poverty decrease and HDIs increase.

Are we looking for the silver lining in these dark stormy clouds? It is there, and government must make hay with urgency. We should agree, at least in our resolve going forward, that successive administrations have not only been remiss in fixing socioeconomic problems but have been in denial as regards the scope and scale. Everyone, from the citizens, politicians to ministers, seems transfixed on the waiting for Godot in the hope that he will arrive with the panacea to cure all socioeconomic ills.

Put bluntly, the Nigerian economy is in dire need of structural change. And this goes far beyond mere reform and minimal tinkering with the system. No, what is required is the construction of a new economy that can provide prosperity and jobs for all. Central to this new economy must be clarity on the socioeconomic problems we face, on the desired realistic outcomes, and on the resources required to achieve this. You cannot leave a nation of 200 million people to contend with the twists and turns of a nascent democracy and not expect chaos, unless you harness resources and organise markets that function properly.

Today’s reality is, by contrast, one of informal markets. Which is why there are very limited avenues for job creation, why the preponderance of transactions are in cash, why black market thrives, why the tax base is extremely narrow, why the government's monetary policies are blunt, why fiscal policies and expenditures do not impact on the majority of the citizenry. This is why subsidies meant for the poor are enjoyed by the wealthy middle class, this is why taxes and charges are inordinately increased – for the hapless few. The harsh social and economic realities the country groans under today are the only too predictable result of a casual laissez faire approach to the economy by various administrations, when deliberate and more purposeful management of the economy was called for.

Let the truth be told, government is not doing enough to diversify the economy. Indeed, diversification must go far beyond merely reducing the reliance on oil. Diversification must put all average Nigerians squarely in the centre, front and back of the economy in terms of their needs, jobs and wealth creation. The economy we currently run is for a few and to a large extent a dichotomous one: oil and non-oil economy. The oil and gas sector that is the cynosure of all Nigerians, with everyone seeking to get a slice of the cake, has not served the nation; instead it has lined the pockets of businessmen and feathered the beds of politicians and bureaucrats, the custodians of our national patrimony. The sector has shut its doors to the majority. Indeed, to think that the sector we clamour to enter to "hammer" accounts for less than 10 percent of our GDP. Thank God for GSM and the spinoff industries that breathed a lease of life into the real sector of the economy. Even then, the predominance of foreign interests and investments mean the bulk of the money that would ordinarily stay in the economy constitutes a leakage – as dividends, fees, debt servicing, etc., are repatriated to foreign countries. Further, the capital intense nature of ICT has limited the scope for job creation. So, yes, ICT has been a boon, its impact on job creation and inclusiveness has, however, been limited. We need more sectors to breakthrough.

So whither way forward? To be very frank, we look as if we do not know where to start. What we have done to date is to throw money at the symptoms rather than the causes in the form of social investment programmes. Obviously, these cannot make any meaningful impact on the underlying and fundamental problems. The latter tend to be simply be ignored, yet they are staring us all in the face. We need to square up to them, go back to the drawing board, start from the known and proceed to the unknown.

The knowns

- The informal sector of the economy is remarkably large.
- Services dominate GDP while manufacturing is shrinking.

• Agriculture is characterised by high wastage, low productivity, and small holders.

• Physical infrastructure is inadequate: poor electricity services and limited transportation network and linkages.

• Limited access to credit and dearth of long-term development/investment capital.

• Shockingly high level of unemployment.

• A widening income gap, increasing inflation, growing inequalities, and high population growth rate, the condemnable epitaph “the capital poverty of the world” conferred on Nigeria may find long term residence here if care is not taken.

• Rampant corruption, inefficient uses of public resources.

• A fundamental lack of security and unstable business environment.

In light of these knowns, it seems clear that we need to redefine the economy and the various constituent markets. And by this we are not limiting “market” to “marketplace” but the embodiment of people, their needs, production and distribution of goods and services. Businesses invest using personal funds or borrowings. Savings typically account for the bulk of investment. What if domestic savings are insufficient to meet investment requirements? This is where foreign investment comes in. The role of government in mobilising savings and spurring investment is not trivial. The mechanism for this is usually the management of public resources and taxation, both spheres were the Nigerian governments have not fared too well creating a situation in which government has had to increase taxation on those already in the narrow tax base and reliance on domestic and foreign borrowings to meet revenue shortfalls.

More needs to be done to address the challenges of the economy, starting with the basics. First, the generality of the populace must be included. To this end, we must start by reducing the informal sector. The rationale for this is twofold: a) enhancement of financial inclusion and effectiveness of macroeconomic policies; and b) expansion of the tax base and enhanced efficiency of fiscal policies and public expenditure.

There are many ways to achieve this. Bearing in mind that commerce and trade are common economic activities in Nigeria, and marketplaces play key roles, these activities should be formalised. Government should develop and formalise markets with suppliers, traders (petty, retail, wholesalers), etc. for example, by registration. Trading in markets, on the streets without registered trade number should be prohibited in phases. Incentives should be considered. The authorities could provide stalls etc. Think of the hundreds of billions of Naira worth of transactions taking place on a daily basis in markets all over the country, and the amount of VAT government could thus potentially collect. Government may initially have to incentivise the collection and payment of VAT with rebates or so on purchases of essential goods and services such as kerosene and healthcare. A key policy objective will be fiscal sustainability. We need money. Money for what purpose? Surely not merely to meet recurrent expenditures and pay off debts but for real economic activities – production of goods and services – to create jobs and wealth. It will be incumbent on government to make stakeholders see that this is a win-win strategy.

Where to start? Possibly with all state capitals and major cities. Markets can play a central role in the development of infrastructure on a meaningful and sustainable basis. They can be used as catalyst for job creation, poverty reduction and rural development. And by extension they will pull in infrastructure as they develop.

Placing markets at the centre of economic activities is deliberate. Markets do not just facilitate the exchange of goods and services but play a critical role in their production and consumption. An efficient market provides goods and services consumers want, and it sends price signals to consumers and suppliers. It promotes efficiency in production and consumption, and, therefore, assures efficient allocation of resources. Moreover, Nigerians by habit and disposition are intrinsically suited to market economy. So, government must see getting markets to work efficiently as an imperative for the economy to deliver growth, job creation and therefore prosperity.

The Nigerian economy today is characterised by imperfect markets whose proper functioning is impeded. This is one main reason why the Nigerian economy cannot in its present form serve its people. Policymakers need to ask fundamental questions of how the economic functions are managed. Put differently, is the purpose of the economy primarily to serve the people of the government? Should the economy be structured in such that it continues to cater to the interests of this small segment of society at the expense of generality of the country? Should production or exchange of goods and services be promoted to encourage domestic production or importation?

Any attempt at answering these questions will reveal that the status quo is not meeting the needs of the people. Apart from a handful of goods, there is a heavy reliance on imports, and consumers have to contend with goods and services limited in scope and quality. Agriculture and rural areas receive little attention, despite accounting for half the populace, which explains why wastage remains high and low productivity persists.

To all intents and purposes, Nigeria runs a mixed market economy, and it does so improperly. A market economy is defined as an economic system in which the decisions on what to produce, distribute and invest are determined by price signals that come from the interplay of demand and supply forces. Central to market economy is existence of an input or factor market. This is important in determining the allocation of factors of production, namely, capital, labour and land, to economic activities.

Market economies range from laissez-faire markets at the one end of the spectrum, where government focus on provision of public goods and promote private ownership, to arrangements where government is more actively involved in correcting market failures and promoting social welfare. Market economies that are state-directed (dirigiste economies) in which government uses industrial policies to guide the market – but not as substitute for economic planning – are broadly termed mixed economy. At the other end of the spectrum of market economies are planned economies. These are arrangements where investment and production decisions are integral variables in holistic economic plans. In centrally planned economies, government is responsible for allocating resources to firms rather than leaving it to.

Although the Nigerian economy from the colonial days to the present is best defined as a mixed economy, the role of market as mechanism for allocating resources has been largely ineffectual. This is due to several reasons ranging from, among others, a lack of clear economic direction, inadequate factor markets, insufficient enablers such as energy and transportation infrastructure, etc. Rather than government's efforts directed at ameliorating market failures so that markets can function better, interventions have supplanted measures that tilt the balance towards a planned economy. These shortcomings, undoubtedly, explain the preponderance of the failings of the economy.

Markets are pivotal to economic activities. Reviving or reconstructing the Nigerian economy must leverage on markets to enhance efficient and prudent utilisation of resources in production and distribution of goods and services. At the same time, with the focus on addressing a myriad of social and economic challenges, the economy must be guided. Identification of key sectors to revamp the economy is key, here. Addressing shortcomings in factor markets is important for efficient decisions in investment, production and distribution. This must be preceded by clarity on what needs to be produced, identification of the necessary factors of production, and ensuring their availability. The role of properly functioning markets cannot be overemphasised. Shortages in financial and physical capital have blighted the activities of MSMEs, inadequate infrastructure has amplified distortions of factor and output markets making outputs expensive and non-competitive.

The market economy has played a key role in countries that have successfully transformed their economies and simultaneously lifted significant numbers of people out of poverty by creating jobs and prosperity, prime examples being Turkey and to a lesser extent India. The less said about centrally planned economies, the earlier Nigeria can focus on the task on hand. While a market system offers Nigeria the best and realistic option to create socioeconomic challenges, efforts must be on efficiency and efficacy of factor and product markets. This will require an alignment of needs, resources and enablers for both factor and product markets with all the fiscal, monetary and real sector policies geared to achieving this overarching goal. Government must promote the market economy, eliminate distortions where they exist, and nudge, but only nudge, markets in the appropriate directions such that jobs and prosperity are produced to address poverty, unemployment, income- and gender-inequalities. The problems we contend with are neither random nor spurious; they are the outcomes of a dysfunctional system.

While it may be too late in the day for Nigeria to completely escape the ravages of the economic downturn predicted by the World Bank, the focus of government must now be on immediately minimising the buffeting of the economy, shortening the painful period and priming the economy to embark on a strong and inclusive steady growth path. The authorities will not only need, as a matter of urgency, to get on with the arduous business of fixing, nay, constructing a new economy that works for all, but be seen to be doing so to bolster responsiveness to the plight of the people and legitimacy.

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