Global Economic Crisis and Power of Productivity

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The global economic crisis has rattled markets and economies around the globe and its duration is very unpredictable. Because of its pervasive impact and uncertainty, the crisis has continued to dominate national and international economic discourse; and world political leaders and ordinary citizens now share concern about it. This paper argues that how quickly a nation recovers from the economic downturn depends on the strength of the economy (institutions and infrastructure), ingenuity of the leaders, and productivity of the workers.

Brief Overview of the Global Crisis

The crisis that started in the United States in late 2008 has since become a major concern for political leaders, economists, and managers of financial institutions around the globe as its impact has gone beyond the borders of the United States. Analysts have noted its numerous causes, including excessive corrupt practices, particularly the 'Sub-prime mortgage lending' that led to high mortgage default and delinquency rates in the United States, the "hands-off approach to regulation" of George W. Bush (or greed and unregulated capitalism), massive funding of the "war on terrorism," and erroneous belief that "free market" principle is perfect, fair and efficient (*The New York Times*, Nov 20, 2008). Others have observed that 'financial instability' is caused largely by inconsistent monetary and fiscal policy, politicians spending and borrowing excessively, inconsistent and unsustainable macro-economic policy, weak financial systems and institutions, and poor structure of international financial markets (Eichengreen 2004). Yet it is possible that the crisis was caused by nature or regular economic boom-bust cycle.

The global crisis has slowed down economic activities around the world as it has affected productivity, business operations and investments by way of reducing domestic and international demand for goods and services. It has pushed up unemployment as many industries and organisations are shedding off workers, affected global oil prices, exchange and interest rates, and national income and budgets. As economies are falling like dominoes, political leaders and managers of financial institutions are scrambling for strategies to mitigate its impacts on their domestic markets. However, not every nation has done a good job in managing the challenges. While some nations have rolled out various bailout and stimulus plans to assist their citizens and troubled financial institutions/organisations that are the hub of their economy, others remain passive. Nigeria is among the nations that are yet to tackle the challenges of the global economic crisis. Meanwhile, the World Bank and other International institutions plan to provide billions of dollars in new aid to developing countries that are expected to be critically affected by the crisis. Although, there are no quick fix to the damages inflicted on domestic economies, the economic reality is that nations with "the power of productivity" (Lewis, April 2004; Dike, Jan 31, 2006) are expected to recover from the economic turmoil faster than others.

Power of Productivity

The impact of the economic calamity on nations depends on their level of development and effectiveness of their infrastructure and institutions. Contrary to the initial overstated confidence or "irrational exuberance" (Shiller 2000) in government circles that Nigeria was immune to the economic crisis the nation is today among its major causalities. Oil prices and naira value are falling, government revenue is dwindling, and some development programs have been abandoned. Also, it has worsened the problems facing the nation's industrial sector and further lowered the productivity or capacity utilisation of the manufacturing sector. And many individuals and organisations have problem getting new loans to start new businesses or operate old ones.

Productivity is 'an economic indicator that measures' "the output of goods and services in the economy or in an industry from the effective use of various inputs used to produce those goods and services." It is "used to measure the efficiency of production, and is most often expressed as a ratio of outputs over inputs." And to measure productivity, economists usually focus on labour productivity (Mankiw 2001). Labour "…productivity is the amount of output produced by a worker with one hour of labour input" (Mankiw 2001; Dike, May 15, 2003; May 22, 2003). So productivity growth rate is among the determinants of how fast an economy can grow.

But because of weak institutions and infrastructure (spotty electricity, bad roads, etc) and obsolete machinery, bad governance and poor labour-relations, the worker productivity is low. Lack of ethical politics or destructive politics is part of the challenges facing Nigeria today. Most of the politicians do not think that politics is a service, but a business; and many of them are ruthless businessmen and women. Thus what they say is not what they do. National newspapers are awash with reports of fraud in government. It was recently reported that the leaders spent about N1.4billion to celebrate Christmas and Sallah festivals in 2008; and they have also spent trillions of naira on power projects, yet the society is groping in the dark. The schools cannot educate because of lack of resources and the police cannot properly police the society because of lack of modern tools. Hospitals are no more a place people go to get their ailments treated, but where they go and die; and because of poor supervision and regulation, fraudulent activities are prevalent in the banking sector.

According to the World Bank, Nigeria faces two fundamental development challenges: managing the macro-economy to build and maintain strong competitiveness of the non-oil sector, and addressing the culture of rent seeking and corruption. Meanwhile, the working poor are battling with rising inflation, which went up from 14 per cent in January 2009 to 14.6 per cent in February 2009. According to Soludo (the former CBN Governor), the prices of foodstuffs increased to 20 percent from 18.4 per cent during the same period (*Nigerian Tribune,* April 9, 2009). Nevertheless, without effective monetary and fiscal policy, working with other institutional and regulatory policies, the economy may not produce enough goods and services to push down inflation. Nigeria needs leaders who can articulate visions to get the nation on the path to sustainable economic growth and development.

Nigerians have in the past faulted the military for the nation's problems. But what excuse has Nigeria now that it is experimenting with "democracy"? Without technological capability (and other deficiencies already mentioned) the Yar'Adua administration thinks it could transform Nigeria into an industrialised nation in the year 2020. And he was recently disappointed over the exclusion of Nigeria from the just concluded G20 summit in London: "Today is a sad day for me and it should be to all Nigerians when 20 leaders are meeting to find solution to the economic meltdown and Nigeria is not there" (*BusinessDay*, April 3, 2009). Inviting him to the august meeting could have created an impression that Nigeria is making some progress. Let's hope that the exclusion would enable Nigeria leaders reflect further on the problems facing it and properly diversify the economy.

To Diversify the Economy

The economic downward spiral has again exposed the nation's weak economic foundation and amplified the danger of depending on crude oil whose prices are determined by the vagaries of global political economy. The oil sector was said to have contributed 19.3 percent of the nation's GDP in 2008, the manufacturing sector accounted for about 4 percent, while agriculture that has been neglected contributed 40 percent of the total GDP. And Nigeria earned about "N4.7 trillion from the sale of oil" in the "first eleven months of 2005." It is expected that the crisis reduce the contribution of oil to Nigeria's GDP in coming years. Yet, there are no serious plans to diversify the economy and give special attention to agriculture and other non-oil economic sector. The government should encourage farmers with financial assistance to invest in modern agricultural inputs, processing plants, and storage facilities. Sadly, the economy planners are busy following the curves in the world oil prices and the naira/dollar exchange rate instead of broadening the nation's economic horizon.

As noted before, how fast Nigeria recovers from the crisis depends on its ability to produce enough goods and services for its citizens and with excess for export.

Some Nigerians expect the Central Bank to perform magic and push up the naira value. Others even think that Soludo is responsible for the ills in the economy. This group does not seem to understand that CBN alone cannot fix the ailing economy and maintain a high naira value. For example, the apex bank will not fix the spotty electricity and pot-holed roads, perform the functions of the National Assembly, and police the society.

To recover from the crisis, Nigeria must rethink its governance strategy and assemble innovative teams in government and organisations to diversify the economy. The crisis has started to reduce the influence of petrodollar on the economy; and the prospect of the western world finding alternative source of energy evokes fears in Nigeria. The nation should begin to innovate and look beyond oil and invest in human capital development and increase incentives for hard work; and entrepreneurship with innovative ideas should be rewarded. As noted before, how fast Nigeria recovers from the crisis depends on its ability to produce enough goods and services for its citizens and with excess for export. But Nigeria cannot increase productivity without effective institutions and infrastructure.

Institutional Factors

As mentioned earlier, many factors are working against the productivity and competitiveness of Nigerian industries. Despite the huge sum of money Nigeria made from oil (before the economic downward spiral), it was unable to fix her infrastructure and fund education and hospitals. As Simon Kuznets has noted, the "Welfare of a nation" would "scarcely be inferred from a measurement of [its] national income…." but how well the income could be managed (Clifford and Rowe, October 1995). It takes committed leadership to undertake a propitious socio-economic re-engineering for sustainable economic growth and development.

As *Edison* (June 2003) has observed, a nation's "economic outcomes could be substantially improved if developing countries strengthened the quality of their institutions." Here, institutions are "defined in terms of the degree of property rights protection, the degree to which laws and regulations are fairly applied, and the extent of corruption." Nigeria's poor institutions affect productivity and economic growth.

Nigeria has abundant human and mineral resources but lacks leaders (and individuals) with wealth-creating mentality. Many Nigerians are rich without producing or inventing anything. But most of the entrepreneurs in advanced societies have innovative ideas; they are always trying new things or engaged in what could be termed "creative destruction." In the process they create new goods and services and employment. Innovation has been noted as among the core drivers of growth, performance, and values in government and industries. To accelerate its pace of development and compete effectively in today's knowledge-driven global economy, it is imperative for Nigeria to build enduring institutions and effective "change agent teams" (Barsh, Nov 2007). The "change agents" would implement new processes, train employees on new procedures, and demonstrate new and better ways of doing things. (Arrata, et al., Nov 2007).

Among other ways to increase productivity is to properly motivate workers and train them in skills they need to effectively perform their duties (Dike, January 2, 2005; Dike, March 2, 2005). In fact, in the current crisis-ridden global economy, "the only enduring competitive advantage is a high-quality, well-motivated workforce willing to work together as a team to increase productivity" (Greene, April 1991). Employee motivation "is the art of stimulating someone to action by creating a safe environment…" (Donadio, March1992). Lack of basic needs impact negatively on workers morale and productivity. Furthermore, "to improve the economic welfare of individuals, countries must increase their productivity, primarily, by encouraging economic competition" (Lewis, April 2004). Real competition plays an important role in productivity because it leads to the adoption of innovative ideas as business enterprises and unproductive workers and tools would be replaced with better ones.

Also, Nigeria's poor reward system and labour relations have negative impact on workers morale and productivity. The workers in advanced economies are the main tools for economic growth and prosperity; and bad economy is worrisome for politicians who depend on the people for votes. But in Nigeria nobody cares about the welfare of the people because votes do not determine the outcome of elections. Good benefits and health care services are part of motivation, as good health would enhance workers productivity, all things being equal. High productivity is impossible if the workers are perpetually sick and die out of minor ailment due to lack of medical care.

The *United Nations Children's Fund* (UNICEF) in the State of the World's Children (2009), noted Nigeria's poor ranking in maternal, neonatal and infant mortality. According to the report, Nigeria and India account for one third of maternal deaths worldwide. In 2008, *Save the Children*, a US-based humanitarian organisation, claimed that about one million under-5 children die in Nigeria annually. And the *World Development Indicators* published by the World Bank in 2007 shows that about 70 percent of Nigerians are living on less than $1 per day. Another study shows that only about 37 percent of Nigerians have access to good drinking water, and 30 percent use modern sanitation facilities. This is among the consequences of bad governance in both the public and private sector of the economy.

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The Nigerian economy is reeling because the political institutions, as currently constituted, are unable to support the economy and protect and promote sustainable democracy. But bad situation does not change itself – the people effect the needed change. As Popper (January 26, 2006) has noted, poor institutions hinder the creation of truly open societies in Africa where there is always attempts by corrupt politicians to subvert democracy for the benefit of a few in the corridors of power. Nothing works in any society where the people fail to properly control the activities of the leaders. Thus, to increase productivity in Nigeria, the policymakers must "reduce barriers to competition," by instituting appropriate policies, enforce the laws and improve security in the society. The people deserve the leaders they created.

Concluding Remarks

Nigeria's economic growth and development have been retarded by corrupt practices at the high level of governance. Good policies supported by effective institutions and infrastructure promote economic growth and prosperity. Economic growth and higher living standards benefit a society in various ways including reduction in crime rate. However, because Nigeria's leaders are unable to provide a solution to the problems facing the nation, Nigerians have often resorted to praying and waiting for the elusive messiah, thereby leading to the growth of mushroom churches in the society. But prayers cannot resolve Nigeria's spotty electricity, rising unemployment, poverty, insecurity and electoral frauds. And prayers cannot fund schools and hospitals, fix the pot-holed roads and improve productivity. Nothing is possible without supportive environment. Nobody wants to do business in a society that is perceived as corrupt and lawless.

Thus, to increase productivity in Nigeria, the policymakers must "reduce barriers to competition," by instituting appropriate policies, enforce the laws and improve security in the society.

The people should not blame the government alone for lack of progress in the society, but rather should blame themselves, because according to Popper (January 26, 2006), "in a non-democratic state, the only way to achieve reasonable reforms is by ….the introduction of a democratic framework" that could improve the people's living conditions. Any government that does not improve the lives of the people it serves has failed and should not be allowed to remain.

Since Nigeria is not lacking in human and natural resources, one could argue that Nigeria's "development failures," like those in many other developing nations, would be attributed to "institutional failures and not lack of [human and natural] resources" (Sachs, June 2003). Nigeria cannot compete in the global marketplace if it cannot educate her citizens. High productivity will boost a nation's economic growth and the economic health of a nation lies in the quality of its education and the workers productivity.

To recover quickly from the economic meltdown and prevent the crisis from degenerating into social crisis, Nigeria must fix its rickety institutions and infrastructure and strengthen other basic market institutions (Rogoff, June 2003), and increase productivity (produce enough good quality goods and services for domestic consumption and extra for export). Without supportive structures for investment and economic activities, and without implementing appropriate growth strategies and increasing productivity, economic prosperity will continue to elude Nigeria. How quickly a nation recovers from the economic crisis depends on the strength of the economy (institutions and infrastructure), ingenuity of the leaders, and productivity of the workers. epr

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