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THE POLITICAL ECONOMY OF GLOBAL FINANCIAL MELTDOWN (DEPRESSION): THE IMPLICATION FOR NIGERIA

E. O. FRANK

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ABSTRACT

This treatise set out to examine if indeed the global economy and by implication the Nigerian economy had progressed into depression. Applying the political economy paradigm as a perceptual prism of analysis, the paper established the linkages between political and economic sphere and upheld that political decisions determine who gets what when and how in the economy. It averred that the dominant socio-political ideology is the 'free-market' which goes into crisis occasionally. It upheld that the current global economic meltdown is not unconnected with the occasional crisis of capitalism. It submitted that the global economy was indeed in depression. The implication of mono-economy based on crude oil, purchased only by the west whose economy is shrinking is very dire to the Nigeria it observed. It recommended the adaptation of the Keynesian principles of economic management which involved massive public intervention in the various sectors, stimulating employment, demand and above all allowing the private sector to participate while the commanding heights of the economy remained with the state. The paper concluded that the economy should progress with a development plan for both the global and the Nigerian economy as a way out of depression. This was how past depressions were managed.

KEYWORDS: Depression, Crisis of capitalism, Dependency, Comprador-elites

INTRODUCTION

It is a common feature of all international news channels (CNN, BBC, Euro-news, AJE, and VOA) to broadcast the falling price indices in international stock exchanges. In the USA, Japan, Germany, Britain at the international level, there is decreasing trading in the stock exchanges. Nigeria has caught the contagious effect. Attempt at working out a synergy to forestall the continuous sliding of the stock market was recently worked out. We shall examine this in subsequent section. It is however instructive to state herein one of the thesis of this paper, that the global economy is progressed into Depression, given the present vital signs. Secondly, it is the logical outcome of the anarchy of production which is the major characteristics of unregulated capitalism.

The capital and money market operators recently met to stem the tide of sliding fortunes of stocks in the country. The decision was a fall out of a meeting between officials of CBN and operators of the capital market, at the behest of the Presidency. Specifically, a Capital Market Stabilization Fund would soon be established, as an intervention instrument to curb the spate of bearish trading in the market (Daniel, 2008:1). What this means is that, there is an incremental decrease in trading in both international and national stock exchange. This further means that less funds are being raised therein and many businesses would not be able to raise capital to expand their operations, thereby generating employment, goods and services which would add value to the lives of the citizenry. It further means that investors have lost confidence in the capital market, and have rather taught of alternative ways of investing or keeping their funds. These acts, contract the economies in such a way that in the absence of aggregate demand, industries would lay-off their personnel-hence pervasive unemployment.

Statement of the Problem:

The latest development in the global economic system starting from America the global economic power house, including the lull in trading

E. O. Frank, P. O. Box 882 Uyo, Department of Political Science, University of Uyo, Akwa Ibom State, Nigeria

in stock exchange, the inability of the three giant auto makers, Chrysler, Ford and General Motors to remain in business because of financial crisis. They are not realizing revenue as a result of low trading and poor turn over. They are threatening to lay-off (many of which they have done) workers-without financial bail-out. Data obtained across Europe indicated the same trend in the business world. In Far Eastern economies of Japan, China is no different. Many giant corporations are laying-off their personnel and requesting bailout from the state. Britain has done so thrice in a month. Is this an economic depression that started in 1929-35 ? If in the affirmative, can Nigeria be insulated from this, given its dependent economy? What consequences are likely to occur in Nigeria? What is the way out of this, if any?

Framework of Analysis:

In order to evaluate and contribute in finding answers to the questions which had arisen in the previous sections, the adopted perceptual prism for evaluation is the 'Political Economy Paradigm'. This is because the developments at the superstructural level (politics and law) determine the nature of economic production, distribution and the social relations thereof. The policy decisions which engendered the economic framework emanates from the political realm and defines who gets what when and how in the substructure. This explicates the appropriateness of political economy as a framework of analysis. Political economy is the scientific study of the reciprocal influence of economics and politics (Igwe, 2005:333). The impact on the substructure (economic base) of the society of the decisions, actions and inactions of those who control the political decision-making machinery which relates to the social relations. Given the shrinking of the industrial capacities in the western world, consequent upon many factors, one of which is the many wars they are engaged in. The need for raw materials from Nigeria declined hence depression. Thus, political economy could then be described as the historical sequence of the systems of production relations, that is, the economic relations between people…studies the economic laws that govern the production, distribution, exchange and consumption of material values in society at different stages of its development (Ilyin, etal, 1986: 119). The impact of the decisions taken at the superstructural level has failed hence the economic decisions and arrangement has become depression. The position of this paper is that the nature of political decision (idea of government) has transformed itself in the economic realm to depression. Nigeria, which had subscribed to this idea of governance, would not be able to find a hiding place from the tidal waves of economic depression. This lead to the positions of this paper as stated below.

The Prepositions of this Paper

In this paper, it is herein averred that;

i) The Global economy has progressed into a Depression;

ii) The Depression is one phase of the contradiction of capitalist economy which relies on the proclivity of the individual bourgeois (the private individual as the engine of growth);

iii) The situation holds dire consequences for dependent economies and Nigeria in particular;

iv) That the blind and greedy pursuit of profit in the capitalist economy and war expenditures which it generates contributes to economic depression (anarchy of the system);

v) The practice of Keynesian political economy characterized by massive governmental intervention in the system in violation of the prescriptions of the Bretton Woods Institutions (BWIs) remains the only way out of this situation. We shall address each of these assertions in the various sections of the paper.

The Elements of Political Economy

It is instructive to note that since after the World War II, the quest to prevent the re-occurrence of the holocaust had led to the development and enforcement of set of rules, institutions and procedures to regulate important aspects of international economic interaction…the Bretton Woods system, was effective in controlling conflict and in achieving the common goals of the states which had created it. The concentration of both political and economic power in these states enabled them to make and impose decisions for the entire system…The foundation of that agreement was a shared belief in capitalism and liberalism…all relied primarily on market mechanisms and on private ownership. For the international economy they all favored a liberal system, one which relied primarily on a free market with the minimum of barriers to the flow of private trade and capital (Spero, 1977:21-2). This divided the global political economy into those who had power who define the course of the global economy at the international superstructural level for other sovereign states to abide. The IMF, IBRD, IFIs and the "Washington Consensus', its subsidiaries constitute the international superstructure. The logic of the economic policy guidelines of these institutions requires revenues to exceed costs. The policy upheld that the profit motive, is not to deny that it confers benefits on a large number of people other than its shareholders…and through the taxes it pays on the general public…if it makes losses the enterprise can not survive unless it receives a public subsidy. There is, of course, the metaphor of the 'invisible hands', the 'deus ex machina' postulated by Adam Smith that so directs the self-seeking proclivities of the business world that it confers benefits on society as a whole (Mishan, 1972:12).

In order to push through the ideology of small government, absence of subsidy and 'glasnot and perestroika' of the African economies, several position papers of economic prosperity were preached by the World Bank, IMF, BWIs and their subsidiaries. Some of these included; 'Accelerated Development in sub-Saharan Africa: An Agenda for Action (the Berg Report) meant to negate the 'Lagos Plan of Action' an indigenous blueprint for the development of Africa based on massive governmental intervention in the economy. The themes of the Western Political Economy Report were that;

(i) the government lacks the capacity to the extent that even well-conceived policies do not work;
(ii) that the rent-seeking activities of government are often to the detriment of the health of the national economy (World Bank, 1981).

By 1989 the World Bank in the report 'Sub-Saharan Africa: From Crisis to sustainable Growth' identified Africa's problem as that of deteriorating governance. It sought to address same by (i) creating an enabling environment for economic activities by ensuring macro-economic stability regarded as an imperative of growth and development (ii) Undertake political reforms to achieve improvements in public sector management, economic and financial accountability, productivity underlined by the rule of law and transparency in public affairs (World Bank, 1989). These were all aimed at unleashing the private sector on the economies of African states, thereby reducing the role of the Government in economic management of the state. This is the enthronement of capitalism-expressed through the garb of reforms. The following section examined the contradictions which emerged.

Capitalism: Its Contradictions

The efforts of the World Bank and the Bretton-Woods Institutions established 'free market enterprise' a euphemism for capitalism in the international economic relations and exported this all over the world. By the nature of its operation, the market society is subject to occasional crisis. How does this happen? In the capitalist system the role of the individual who possesses the means of production is given prominence as against the majority. Production is for the market rather than on needs. The means of production is monopolised by few individuals while the rest exchange their labor power for wages determined by the purchaser.

As a result of its nature, there are several centers of decision-making by individuals which generate both centripetal and centrifugal forces on the economy. The Marxist refers to this as anarchy of production. The anarchy of production is manifested in cyclical fluctuations, disjunctions instabilities in the economies (Onyekpe, 2004:135). These refer to occasional depression of the economy because production is not base on need but profit. The economy has no backward and forward integration; hence the sporadic problems. It is furthermore instructive to state that the system contradicts itself in several fronts. While it socializes production by the multiplicity of centers of production, it privatizes the appropriation of profits thereof. The workers who get together to facilitate production are not the end beneficiaries of the gains of the production process. It is the owners of capital who appropriate the sweat and labor of the workers. Those who produce are disconnected from the gains of their production. This is not only a contradictory, but also a conflictual social relation. Capitalism also generates a disparity between the level of what is produced and what is consumed. Because the goal is profit maximization for the capitalist, the tendency is for him/her to ensure unmitigated production, even when the consumption rate lags behind what is being produced. In a sense, there is anarchy of production (Adejumobi, 2004:67).

These pulls, strain the system to breaking point, resulting into a depression, thereby requiring subvention or bailout as it is in America, Britain and Germany and may soon happen in dependent economies of the 3rd World states. The bourgeois scholars would refer to this as 'Business cycle'.

Could this be what the international economic system is witnessing presently? It is the position of this paper, that one of the contradictions of capitalism is depression, couched as “Financial Meltdown”.

Financial Meltdown and Depression

The three major American auto industries can no longer continue in business without massive state intervention, as a result they have embarked on considerable job cuts. The steel industries are also victim of keen competition from emerging economies. The stock exchange Markets in America, Germany, England and Japan (Nas Daq, Dow Jones Index and even Nigeria’s NSE etc) have all been recording low businesses. The Bank of England has received Government intervention three times in three months without any hope of appreciation. The situation is the same across the European economies. The hard fact is that the global economy is shrinking and unemployment is rising across Europe. Could the situation be the reincarnation of the great Depression?

Economic Depression

Economic Depression has been described as a prolonged period of recession, or a significant and prolonged downturn in the economy, Characteristics of an economic depression include declining business activities, falling prices, rising unemployment, increasing inventories, public fear and panic (http//www.yourdictionary.com 1/16/09). History has shown that the global economies went into depression by 1929-40s. What were the indications? By 1929-40s the USA went into depression. What were the features that could be compared to the current one to ascertain where we are presently? The features of the 1929-40s were:

i) The great Depression originated in the United States of America. The stock market crashed on October 9, 1929, which was known as ‘Black Tuesday”.
ii) It had devastating effects on virtually every country’s economy, rich or poor;
iii) Construction was virtually halted in many countries;
iv) Farming and rural areas suffered as crop prices fell by roughs 60%;
v) International trade plunged by half to two-thirds, as did personal incomes, tax revenue, prices and profits (Wikipedia, 2009).

The outcome of the above scenario was that people lost confidence in the system, saving and lending from the financial institutions even when interest rate dropped; they were not willing to add to their business portfolios. It was a state of business uncertainties. These were the nature of the political economy as shown by the economic histories of the years, 1870s, 1914-18, 1929-33, 1939-45 and now 2008/2009. The above scenarios are being duplicated in the European economies with considerable consequences for dependent economies

In his critique of the Political Economy of Capitalism, Karl Marx had emphasized the tendency of capitalism to create unbalanced accumulation of wealth, leading to over production of capital and a repeating cycle of devaluation through economic crisis (Burns, 1937). Marx saw recession and depression as unavoidable consequences of free-market capitalism as there are no restrictions on accumulations of capital other than the market itself (Burns, 1937). Thirdly it is herein averred that this hold dire consequences for the dependent economies in the third World and particularly –Nigeria.

Nigeria’s Political Economy: Implications of the Meltdown

At the superstructural level, the ruling class in Nigeria have two major characteristics; (i) they are comprador bourgeoisie who preside over the property of their western masters; ‘Comprador’ a Portuguese word for ‘buyer’ is used here to describe those state officials who perform the function of organizing the foreign traders’ access to local markets (Panter-Brick, 1978:171); (ii) The economy is dominated by ignorant elites at the driver’s seat; (iii) Consequently, the public polices emanating thereof, are dictated to them by the operators/owners of the BWIs; (iv) Thus, public policies such as ‘glasnost and perestroika’ euphemism for “Reforms, Privatization and Disinvestment’ from the commanding heights of the economy becomes the main thrust of the economic policy of the state. This is giving a central place to the principles of neo-liberalism with its attendant confidence in the proclivity of the individual businessman to make profit for himself and inadvertently benefits the society at large. This is the policy which emerged from the Nigeria’s superstructure to guide the substructure, as illustrated in the section on element of political economy and the contradiction of capitalism.

The Nigeria's substructure has been aptly described as being basically dependent neo-colonial capitalist economy…it is not an interdependent economy but an economy that is vertically integrated with the international political economy dominated by western capitalist states of North America, Europe, and Japan an their imperialist interests. The economy in Nigeria, is structured as an appendage to meet the industrial and energy needs of the western capitalist economies. Production in Nigeria is primary or extractive… since independence, crude oil has been the most important product demanded from Nigeria not only by the former imperial controller of Nigeria, Britain, but also other western capitalist states such as Germany, France, United states, Japan etc…One major problem of the economy is the absence of manufacturing indeed, indigenous investors and the captains of industry, so called, are simply agents and representatives of manufacturer in North America, Europe, Japan and newly industrializing countries of South East Asia. As agent and representatives, they are no producers but importers of goods produced in the centers of world capitalism and exporters of locally produced raw materials (Onyekpe, 2004:134). The above situation is what is open to the dictates of the Bretton Woods Institutions (BWIs) in the name of making it productive. It would be recalled that Nigeria has been categorized as a LICUS-Low Income Country under stress by the World Bank*

Implication of Depression: Specificities

In order to evaluate the specific implication of the depression on the Nigerian economy, we look through the mechanism for conducting the public administration which includes the Ministries –Departments and Agencies (MDAs), thus;

i) Ministry of Industries: This is the arm of government which was set-up to provide the enabling environment for the development of industries. Industries are organizations that are meant to process by changing the nature of primary products to finished goods with value added. They require enormous fiscal capital outlay usually obtained from banks/stock exchanges.

As a result of limited resources available in the financial institutions as a result of peoples' lack of confidence in the economy to save. The cost of money rises for the manufacturers (It would increase the cost of obtaining loans) who then factor the various cost element incurred in the process of producing goods into the cost of their products. This would impact negatively on prices of finished goods and as a result, would compound woes of many Nigerians. The prices of goods would hit the rooftop. The inflationary trend would reduce the expendable income of the worker. This would lead to the demand for more wages. It would be recall that the NLC is currently asking for N52, 000 as minimum wage.

Secondly, for the industries, the increase cost of obtaining loan and by implication production, would cause many manufacturing companies to prefer to relocate to neighboring countries where prices of inputs to production are relatively cheaper as well as easy access to power. For instance, it is on record that Dunlop Nigeria Plc, Michelin tyres Companies have both left the country to Ghana (because the refineries are not producing in full capacity-the hydrocarbon use in the manufacturing of types are not obtain-they import it, hence high cost of input) power is not there, they generate for themselves- another high cost of inputs, they would lay off Nigerians-unemployment). Nigerians auto owners may have to pay more to obtain tyres for their auto.

ii) **State-consolidated revenue**

Nigeria has a mono-cultural dependent economy based on crude oil sales. This is allocated at the ratio of 48.24:20 to the Federal, State and the local governments respectively (www.fmf.gov.ng). The income is likely to drop as a result of the fall in demand by the user nations of Western Europe. This means a drop in the consolidated revenue of these tiers of governments and a slash in their 'developmental activities'. The Federal government would be compelled to slash monthly allocations to the three tiers; this would reduce the latitude of its services. Capital projects in the government would suffer set back for lack of adequate funding.

Closely related to the above situation, would be massive job losses as government at all levels might resort to huge borrowing of money for payment of salaries, and introduction of severe austerity measures and inflationary trend. It would recall that the Federal Government recently announced its budget of N2.87 trillion Naira (Budget 2009). In the light of the depression-most of the proposed programs in the budget would remain largely unrealized. This would affect the MDGS, Seven point Agenda etc. This situation would cut across the entire spectrum of the MDAs and the resultant shrinking of the economy, attendant unemployment, high crime rates and low productivity of the entire economy.

iii**) Labor-Relations**

The industrial sector would must likely stop manufacturing because of the high cost of inputs and resort to trading. In order to remain in business, there would be considerable job-cuts. The various labor unions would then be busy negotiating, redundancy, conditions for lay-off and payments. Whatever the condition reached, people would have been laid-off to enable the organizations conserve funds and remain afloat. More people would join the rank of the unemployed with the attendant less money for the purchase of the available goods and services. The further implication of this situation is that people would not pay taxes and internally generated revenue capacity of the government at all levels would shrink.

iv) **Poor Service Delivery**

Nigerians are already use to poor public service delivery which does not add value to their lives. We do not need to wait for the 'verdict of history' in its various interpretations to know that there was little or no improvement in the quality of life of the mass of the population of Nigeria between May 1999 and May 2007. Specific examples would include, among others, electricity supply that was as epileptic in May 2007 as it was in May 1999. The majority of roads…Roads for which the sub-national governments were responsible were not in better condition…in the education sector-from the primary through secondary to the tertiary level- is regularly documented…for example, it is on record that all the public universities that have become uncompetitive, even by African standards, were in the midst of a 3- month shut down. Whether it was a knee injury or catarrh, or any other ailment that afflicted any of the rulers during the period, overseas treatment was the solution. The idea that government is accountable to the governed has not yet become established in the governance culture in the country. One explanation is the incapacity of the sovereign people to use their votes at periodic elections to sanction unaccountable and poor performing governments at any level. (Adamolekun, 2007:17). Consequent upon the global economic depression, Nigerians should expect more robust poor service delivery capacity from the government at all levels as explicated.

The Management of Depression: Nigeria

It would be recalled that in the analysis of this paper so far, ineffective demand for goods and services has become a central theme arising from unemployment, low wages, hyper-inflation absence of infrastructure, and investing so much in war to the detriment of other social sectors.

John Maynard Keynes in his '<u>The General Theory of Employment Interest and Money</u>' stressed both the philosophical and theoretical bailout for Nigeria and the global economy. The substance of the bailout which include;

i) Effective demand manifests itself in the spending of income, as employment increases, income increases. A fundamental principle is that as the real income of a community increases, consumption will also increase. Therefore, in order to have sufficient demand to sustain an increase in real investment. In other words, employment cannot increase unless investment increases; this is the core of the principle of effective demand (Dillard, 1979:29). Consumption demand depends on the size of income and the share of the earnings that is being spent on consumer goods. This is the only way to keep the industries producing these consumer goods to remain in business and retain those in their employ.

The principles of the Keynesian postulate which are apt for the management of the depressed Nigerian economy, which is under stress, could be surmise as; (i) Generating income in an economy under stress depend to a large extend on the total employment stimulated, this is a function of public investment; (ii) Consumption of goods and services depends on income obtained from employment; iii) Government investment (Public works) should not decrease private investment, that is, Government and the private sector should simultaneously intervene in the economy to stimulate, employment, and raise both income and demand. These remained the only way to bring the Nigeria economy out of recession.

The above postulate is anti-thetical to the ideology of liberal economy which recommended the 'police-man' function of the government and a greater latitude to private comprador sector.

CONCLUSION

The Global economy is in depression and Nigeria can not e insulated from it. The assurance that the Global depression would not effect Nigeria, because the Banks and Insurance have been consolidated, couple with a large foreign reserve, is a false one. Budget 2009 is already in trouble with the level of expected income dropping as a result of the fall in the price of the only mono-product, crude oil. This has repercussion for all other sector of the economy.

Nigeria is in for a greater period of poor public service delivery, as public operating norm would be ‘everyman to himself-God for us all’. The way out remained a reverse of public policy from ‘Reform and disinvestment’ and faith on the private sector to drive the economy; to a designed Marshall Plan or National Development Plan in which all the sector of the economy would go into production-manufacturing in a backward and forward integration.

This is because during and after the deflation of the 1920-21, Britain experienced very heavy unemployment- It was the Government intervention euphemism for ‘public work’ which salvaged the situation. If the American firms are requesting for governmental intervention, Britain has already done so with the Banks and many European countries are following in that footsteps. This is the signal that Liberal free market economy is becoming an anachronism

Recommendations

The Government is under contract with the people to do for them those things; they could not individually and collectively do for themselves. It has a central place in the economic governance of the society. Thus; (i) the Government should direct the economy by laying down public polices and ensuring that all abide by it; (ii) The public policy should be that which enhances forward and backward integration of the productive system. (iii) It is through National Development Plan, that the Government can control and stimulate aggregate demand in the various sectors. (iv) The Government industrial policy should be tied to Research and Development in the research institutes and Universities and connected to the manufacturing sector. It is such synergy which integrates the entire economy and avoids depression. Finally the economy should diversified to avoid the consequences of the fall in aggregate demand for the only foreign exchange earner.

Notes

* This was stated by the World Bank Country Representative during a workshop in Abuja organized by ActionAid Nigeria- the author was a participant- 2006

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