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Conscience, Nurtured by Truth

How not to manage the economy

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- Written by Temitope Oshikoya

"It is the Economy, stupid! "James Carville, President Bill Clinton's Strategist. "It is those who have no answers to the central question of the political economy who divert attention by their inflammable recourse to religion and ethnicity." Kayode Komolafe in Now is the Time for the Big Issues, This Day, December 17, 2014

THE merchants of misery (MOM) are afraid of discourse on the worsening economic facts and issues. It is the wobbling re-based economy which has suffered a hair cut of $50 billion, stupid. It is the value of the Naira, which will hit N200 to $1 soon. It is the stock market which has declined by almost one-third. It is the dwindling foreign reserves of $35 billion, when it should be 4 times at about $135 judging by the experience of Algeria and Angola over the past eight years. It is the inter-bank borrowing rate, which shot to over 70% recently. It is the one-year Treasury bills true yield now at 19%. It is the increasing real borrowing cost of over 20% for local businesses. It is the rising and high misery index of 50, the third highest among 90 countries. It is the rising and high inequality, with nearly one-third of Nigeria's wealth in the hands of 15,705 people, less than 0.01% of the population. It is 100 million people living below the poverty line. It is the high unemployment of 50% among the youth, who are left at the bottom of the pyramid.

On the macroeconomic fronts, economic growth fuelled by oil commodity windfalls and capital inflows has stalled. Second, the Excess Crude Account (ECA) or Stabilization Fund has failed us when it was needed the most. The objective of the ECA is to enable the use of counter-cyclical fiscal policies to attenuate the impacts of negative oil shocks to the economy, while attempts are made to diversify the economy away from oil over the long term. However, in response to the emerging oil price shocks, MOM as the nation's economic managers have been in panic mode and adopting pro-cyclical, instead of counter-cyclical policies.

Meanwhile, real diversification that should make the economy less vulnerable to oil price shocks has been taken forever! We are paying the price not for low oil prices, but for the inability to build a buffer when prices were as high as $120. But the attempt to shift blame to State Governments on this issue by the nation's economic managers is a lame excuse. Whatever happened to the Federal Government portion of the ECA? Are not the majority of the State Governments in the same camp or party with the Federal Government? Are the leaders and majority of the National Assembly not in the same party with the Executive at the Federal level?

MOM keeps referring to scenario-based budget. But they need to be transparent about the budgetary scenarios for $60, $50, $40, $30, oil prices. Nigerians need to have forward-looking rational expectations, and not adaptive expectations, about the budgetary scenarios. In the context of Ricardian equivalence fiscal policy, we know that taxes and spending must adjust to ensure inter-temporal budget balance. As economists, MOM should tell us the Ricardian fiscal policy or otherwise for each scenario. How much further adjustments are needed? How much of the budgetary shortfall at each scenario will be financed by primary fiscal surplus, by seigniorage, by internal borrowing at higher costs, and by budgetary support financing from ADF and IDA, with lower borrowing costs and longer maturity? In the context of the classic Ramsey economic problem, whose utility or representative agent are they trying to maximize with each scenario? A rising tide lifting only luxury yachts and private jets?

On the microeconomic front, the economic doctrine of MOM is of the trickle down principle of "a rising tide would lift all boats," where privatization has simply transferred public monopolies into private oligopolies, which favoured a few oligarchs, with a network of patronage and opaque system fuelling rent-seeking opportunities. The rising tide has been lifting only luxury yachts accompanied by private jets. Several public affairs analysts have raised this issue long before the current decline in oil prices, but nothing was done as the MOM hobnobbed with the ultra-rich oligarchs. The belated attempt to tax these luxury goods in the revised budget is too cosmetic and too little. During the oil boom period, economic gains were privatised among a few elite; now with the fall in oil prices, pains are being further socialised among the poor. Meanwhile, new research, even within the neo-liberal framework, titled "Inequality is bad for growth of the poor, but not that of the rich" by World Bank staff, Branko Milanovic and Roy van der Weide has decimated the myths of a rising tide that would lift all boats. The research finds evidence that high levels of inequality help the growth of the rich, while reducing the income growth of the poor by reducing both demand and upward mobility. The poor are left behind as higher inequality provides the rich a reason to pull up the ladder.

Blips in employment figures are concentrated in the informal urban sectors as the NBS and the MPC noted. Dani Rodrick, an Economist at Princeton University, has demonstrated that the bulk of excess labour absorbed in non-tradable activities informal retail trade and housework services, operating at very low levels of productivity and low-income trap is a symptom of premature de-industrialization. According to Dani Rodrick, ever since the Industrial Revolution, manufacturing has been the key to rapid economic growth in Britain, Germany, the United States, and Japan. The European periphery during the 1950s and 1960s, the East Asian countries since the 1960s; and China in the 1970s traveled a path of building up their manufacturing base and industries. As Ricardo Hausmann, a Harvard Economics Professor has argued in The Economics of Inclusion, modern production is based on networks as a modern manufacturing firm is a network of people with different expertise: production, logistics, marketing, sales, accounting, human-resource management, and so on. But the firm itself must be connected to a web of other firms – its suppliers and customers – through multi-modal networks. According to Hausmann, "the majority of people – need access to networks – the grids that distribute electricity, urban transportation, goods, education, health care, security, and finance. Lack of access to any of these networks causes enormous declines in productivity. …A strategy for inclusive growth must empower people by including them in the networks that make them productive."

But in Nigeria, oil commodity boom and windfalls have not been used to build a strong manufacturing base that can connect poor people to key networks. Keith Richards, a director of a number of Nigerian institutions and manufacturing businesses has been discussing the key issues which put Nigeria's manufacturing under pressure including uncompetitive costs, high real cost of borrowing, poor skilled labour, and poor transport infrastructure, among others.

Putting Lipsticks on Pigs

You get the picture. These are the stark macroeconomics and microeconomics facts and issues now steering us in the face. Now, MOM as the nation's economic managers would like us to believe that it is the merchants of fear, the ethnic bigots, the religious bigots, and the pseudo-intellectuals that are reeling out those statistics and discussing real economic issues. We are to believe that the leading manufacturers who are members of the Manufacturing Association of Nigeria (MAN) or the Lagos Chambers of Commerce and Industries (LCCI) are all merchants of fear and religious bigots for speaking on the basis of their daily practical business encounters. The members of the editorial boards of This Day, The Guardian, and Business Day, three of the leading Nigerian Newspapers, must be merchants of fear and pseudo-intellectuals for writing independent editorials on rising inequality in Nigeria.

Of economic misery like putting lipsticks on pigs by using every opportunity and events such as the rebasing exercise and the WEFA events in Abuja to over-hype and spin the economy against the realities on the ground. For example, in an article on WEFA in This Day, I had emphasised that while WEFA may have generated a vaporware of over $60 billion in investment announcement, the import of WEFA was actually the imperatives of a developmental state on tackling the five Is: insecurity, inequality, institutions, incentives and infrastructure.

In another article on the Golden Girl and the Icarus Paradox in The Guardian, it was also observed that judging by Nigeria's high misery index, unemployment crisis, and a job-less growth in a period of high oil prices, the Minister of Finance and CEM has either simply been taking Nigerians for a ride on the economy or blindsided to the economic realities on the ground. But the commentators would rather be labelled as "ethnic bigots;" MOM are the ones who need to be broad-minded and to put the Nigeria project and our collective good ahead of individual, regional, and ethnic selfish interest.

The extreme aversion of the nation's economic managers to discourse on the management of the Nigerian economy is legendary. As noted in, NOI: The Iron Lady, by Adekeye Adebajo: "The reformers often come across in the book (by NOI) as a secret society and cabal of unaccountable priests championing a religion of neo-liberal reform. Such dogma was, however, not to be challenged, and anyone who tried, was branded a heretic to be burned at the stake."

As I have noted previously, all media image laundering and gymnastics are happening at a time when energy should be focused in helping the Government to attenuate the deepening socio-economic misery and crisis. We hope that MOM would now focus their energy on tackling the rising economic misery indices.

• Dr. Oshikoya is an economist and a chartered banker.