GLOBAL ECONOMIC MELTDOWN: IMPLICATIONS TO NIGERIA

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Abstract

The global economic meltdown is already causing a considerable slowdown in most countries of the world. Governments around the world are trying to contain the crisis in their own different ways. The reason for this crisis are varied and complex; largely, it can be attributed to a number of factors. In this speech, Professor Ikenna Onyido traced the origin of the crisis, its impact globally, its effects on the Nigerian economy generally and on the Public Service, specifically. He reiterated the challenges and opportunities inherent in the crisis, and proffered what he termed “survival strategies” for mitigating its devastating effects. Copyright © IJEBF, all rights reserved.

Keywords: global economic, Nigerian economy, Nigeria, implication

Introduction

The term economic meltdown refers to the severe economic recession that is used to characterize the current global economic crisis. The concept epitomizes the current economic scenario where virtually all countries of the world have been severely affected. Consequently, the gross domestic product (GDP) of countries has gone
into the negative zone, generally characterized by severe liquidity crunch, giving rise to diverse economic intervention programmes. However, in Africa most of the steps being taken are lopsided when one considers the Chinese meaning of crisis, which aptly describes the current meltdown. The word crisis in Chinese is made up of two components “Wei” which means danger and “ji” which means opportunity. Kassé (2009), reacting to the current global economic crisis, had argued that African governments have too often seen the economic crises only in the light of the first meaning whereas it is the second that is more crucial because every crisis has an inbuilt opportunity, a chance for change and adaptation.

Global economic meltdown is a topical issue because of its universal effect. It connotes near catastrophic circumstances necessitating scarcity or unavailability of otherwise available exploitable resources, thereby incapacitating political leaders from meeting their campaign promises, targets, plans and programmes. It has many implications for both developed and developing economies. It is characterized by severe closures of companies, loss of jobs, the crash of share prices, and squeeze in consumer credit facilities, crumbling mortgage facilities among others. In the case of the developing countries, Nigeria inclusive, the implications are manifest in the area of crash in share prices, dwindling revenues, and declining dividends from limited direct investments by developed countries. The universality of the impact of the crisis is a direct consequence of the information and communications technology revolution, which unified the world through the internet, global electronic media like the Cable News Network, (CNN), the African Independent Television (AIT), and revolutionary technologies like the mobile phone, iPod, iPhone and so on. These have facilitated interconnectivity of banks and stock exchange markets universally given that the world is now a global village where what affects one entity quickly impacts the neighbours. Economic conditions in every country are strongly influenced by the development of the world economy. It makes itself felt through international trade, global production, and international finance. Other important sinews connecting the economies of different countries into one global entity include international migration, creating a migrant labour force, and the international diffusion of technologies. Consequently, there is a tendency for interest rates or the prices of securities, bonds, and shares in one country to be affected by interest rates and financial prices in others. So, instead of one country’s interest rates being wholly determined by its own conditions, they have become the outcome of world forces (Harris, 2005).

Factors responsible for the Melt Down

It is difficult to simply pin down the global economic crisis to a particular factor or set of factors. Some of the widely discussed immediate factors are examined below. The crisis was a result of the developments in the world since Neo-Liberalism (Belaúnde 2006), became the major guiding philosophy in pecuniary reforms. It is the existence of the ingredients of globalization, particularly globalised capitals that mastermind the financial institutions’ repeated borrowing, lending and collateralizing. Consequently, the real issue is discovering the conditions that led the financial institutions to lure the unsuspecting consumers to carry excessive debt burden and not why the consumers acted recklessly by agreeing to take on intractable, choking risks. The US President Barack Obama and renowned monetary experts have exonerated borrowers and everything to do with the fancy financial packaging and creative marketing techniques that the debt originators resorted to. Many of the loans and mortgages were made to look artificially alluring through teaser rates. The upward setting of the interest rates resulted in a
larger debt service burden for the same size loans and the additional sums of money required to finance the newly set rates had to be found somehow. The credit crunch affected project finance by placing constraints on the market, higher funding costs, tighter financial covenants, lower leverage, wider spreads, and fewer banks in the market, leading to increased costs of lending. Likewise, the collapse of Lehman Brothers weakened the market and had a negative effect on the project finance market. The implications of an additional debt service burden combined with relatively stagnant wages and negative personal savings rate are close to devastating and the public service was worse for it.

**Greed on Wall Street**

It is generally believed that the primary trigger of the crisis was the sub-prime mortgage loan sub-sector in the American financial industry. Over the years, a number of mortgage loans were issued without due recourse to the ability of the recipients to meet up with repayment commitments. In other words, the grantors of the loans as well as their agents were only interested in the yield per loan rather than the viability of the instruments. Eventually, these crystallized into a massive body of non-performing loans and defaults which set-off a cascade of failures in the financial sector. Confidence in the financial sector plummeted and investment snow-dived creating the swiftest contraction in the world’s largest economy ever recorded in history. Consumer spending fell rapidly which affected the manufacturing sector, retail sector and that led to the declaration of projected losses and job cuts. All these regenerated in other economies across the world leading to what is now called the global economic meltdown.

**Lax regulatory and supervisory frameworks**

While the unwholesome deals on Wall Street were being perpetrated, the regulatory institutions and agencies simply looked the other way on the pretext of adhering to the principle of laissez fare to which Republicans subscribe. The financial system ran amok in the absence of effective institutional oversight. Thus, while the crisis was brewing, early warning signals were either unnoticed or ignored by relevant agencies and the chances of nipping it in the bud were squandered. The outcome is now common knowledge.

**External military Engagements**

Another line of thinking is that the extensive external military engagements of the previous American administration diverted the attention of American leaders from the looming crisis. By the time the mortgage bubble burst, the administration had no immediate response strategy. The mortgage crisis permeated the entire financial sector and infected the global economy with one of the worst economic downturns in modern history. This sagged the already low approval rating of the administration to the lowest level in the history of American presidency. (Hassan and Aremu 2009).

**The Public Services**

For expediency, we will use the term Public Services to describe the group of elites that administer the Federal, State, Zonal and Local Governmental /International agencies (system). It can also refer to the use of available resources in administrative units in the systems through team efforts to achieve the service objectives of
the government or international agencies’ systems (Boesky 2006). Our definition includes the use of public servants as government workers, usually hired on the basis of competitive examinations and in this case the civil services are those branches of public services that are not legislative, judicial, or military and in which employment is usually based on competitive examination and criteria (Houghton Mifflin Company 2009).

The first set of Nigerian civil servants inherited from the British colonial masters in 1957 were carefully recruited directly to the colonial administrative service then under the leadership of the English Chief Secretary, Sir Ralph Gray, preparatory to home rule. There recruitments were based on merit essentially and not on quota system. This was with the assumption that Nigeria would build upon the best tradition and value of its inherited service. However, midway into the postcolonial era, the service lost its direction and was further degraded and corrupted by subsequent military interventions with the military leaders co-opting the civil servants in their regimes. So what emerged by 1970, after the civil war and subsequently was a sarcastic and careerist service. Subsequent reforms were tepid and arbitrary. The civil service became over bloated, dull and unimaginative, careers were stymied. Consequently, the Nigerian civil service has been bedeviled by poor remuneration packages as they are the most disadvantaged and depressed wage earners in Nigeria. Their salaries and wages are very poor in relation to the rising cost of living and the amount required for reasonable subsistence. The gap in salaries between the public and private sector is 300—500%. Even within the public sector, the salary of civil servants is worse. The situation is exacerbated by the current global economic meltdown.

With this understanding the main issue in this paper is to identify the impact of the present global financial crises on the public services in Nigeria and suggest the way out of the economic quagmire. Consequently, government intervention may be justified when the characterization of public and private goods and services is based on the criteria of economic theory. In the latter, market failure is the standard economic rationale for government intervention in an economic crisis situation. The private sector tends to under invest when the prospects of outfit are slim as in the case of agricultural research and the present economic and financial crisis, because the private sector is generally averse to long term, large-scale and risky enterprises. However, in the case of negative externalities in agriculture related to the environment and the quality of food, the public sector needs also to invest. There are various other ways of defining private and public goods and roles. The balance between public and private goods and roles has changed during the past decades. The changing balance is also a result of private sector initiatives related to improved intellectual property regimes. A country’s level of development is another factor which affects the public/private sector balance.

In many cases solutions must deal simultaneously with several sources of market failure. The public sector should not be monopolistic; instead a multi-organizational service system should evolve.

**Effects of the Economic Meltdown**

The instantaneous and caustic effect of the economic meltdown on several organizational systems worldwide is the inability to maintain the current productive capacity owing to inadequate finance. The global economic crisis is expected to lead to a dramatic increase in the number of people joining the ranks of the unemployed, the working poor and those in vulnerable employment. Based on new developments in the labour market and depending on the timeliness and effectiveness of recovery efforts, global unemployment in 2009 could
increase over 2007 by a range of 18 million to 30 million workers, and more than 50 million if the situation continues to deteriorate (Ilo, 2009). Consequently, some 200 million workers, mostly in developing economies, for governments’ control measures, such as the cutting down of expenditure, which may likely affect expenditure on most public services. Consequently, the adverse effect is reduction or even amputation of statutory allocations to the public services. The public services system could also wind up if it gets to the extreme, leading to massive retrenchment of public servants and consequent graduation of large number of the population to state of poverty. For example it is recorded that the current global economic meltdown pushed 90 million more people into extreme poverty thus prompting the 2009 L’Aquila G8 Summit to hail the Food Security Initiative as a major commitment to root out hunger and poverty (Nwanze 2009).

The reverberating effects of the meltdown have been felt in the banking industry, the capital market and other vital sectors as exemplified by the collapse in investment, while rescue packages are being drawn up and interest rates cut across the world. As the stimulus programmes are increasing public sector debt, more countries are now turning to public private partnership (PPP) to harness private sector debt and use the private sector to carry out services previously run by the public sector. Economists have projected that as the world moves out of recession, we will see a further expansion of public private partnership (PPP) across the world.

**Global Economic Meltdown and its Adverse Effect on Nigeria**

In these trying times, the economic meltdown has caused the crumbling of many businesses including otherwise formidable corporate giants across the world. In Nigeria, the crisis stumbled on the existing pervasive and convoluted business environment. At the pinnacle is an intractable power crisis. Other numerous factors stringent to business growth include rising cost of refined petroleum products, high interest rate, chaotic ports and intensifying crime rate. The public service sector was not immune to the destructive consequences of the global economic meltdown. As a developing country, the only attractive way the additional debt service payments resulting from the crisis can be made is to spend less on food, transportation, medical care and other expenditures that are deemed to be necessary.

The global economic recession stares everyone in the face, and no reasonable nation or responsible leader will run from the reality of the crisis by telling her nationals that everything is fine. Nigeria’s annual GDP growth in 2008-09 is reported to have fallen to 6.7 percent from over 9 percent in 2007-08 due to the economic meltdown. Certainly, this has affected our capacity to respond effectively to our economic challenges.

Other numerous factors astringent to business growth include rising cost of refined petroleum products, high interest rate, chaotic ports, poor and collapsed infrastructures including roads that are now death traps and intensifying crime rate. Under this precarious situation, the onset of the economic meltdown sent shockwaves to the business community. There is the speculation that some of the airlines in the country may not survive the next couple of years considering the gloomy situation of the domestic airline business. The majority of the airlines are indebted to banks and various aviation authorities. Would-have-been passengers cut costs by opting for road transportation. The public service sector is not insulated from the destructive consequences of the global economic meltdown. Effects of the global meltdown include lower economic growth, translating into a higher poverty index,
increased crime rate, weaker health systems, poor education system and difficulty in meeting the targets of the Millennium Development Goals (MDGs) (Fabunmi, and Aileonokhuoya 2009).

The petroleum sector, which is the major source of revenue for Nigeria, seems to be the hardest hit following the crash in the price of crude oil from a high of about $145 last year per barrel to an average of $35 per barrel at the climax of the crises and now $70. Consequently, the Nigerian economy, within the context of the effects of the global crisis, is such that unless urgent steps are taken to reverse the negative trend, the consequences could lead to dwindling federation account allocations with multiplier effects on the social and economic wellbeing of Nigerians. The Nigerian stock market plunged 67 percent in 2008, earning it a categorization of one of the worst performing markets in the world. The dwindling fortunes in the capital market continued into the early part of this year until May 2009 when the market rebounded partially. This strong relationship between crude oil prices and the performance of the Nigerian stock market is attributable to the oil constituting just about 30 percent of our GDP but driving 95 percent of Nigeria’s formal economy. There had been some valid uneasiness over the yet unknown effect of the crisis on all sectors of the national economy including the banking sector, which was until recently, regarded as one of Nigeria’s best performing sectors. However, the crisis has started to bite hard on the economy of Nigeria, judging by the alarming increase in the prices of goods and services, especially in urban centres, impelling the federal government to initiate distribution of the national strategic food reserve, early in September 2009. Many housewives groan under the yoke of outrageous prices of foodstuffs in markets in most states of the country, as they now spend between 60 and 70 per cent of their monthly housekeeping on food alone since the global financial crises (Ahmed 2009). Unemployment continues to rise. A number of states are unable to pay staff salaries as and when due and government investments are drastically being reduced along with budget cuts in many states and by the federal government.

Survival Strategies to Mitigate Effects of the Crisis

In a situation where the economies of developed countries have been beleaguered by the global economic and financial calamity and are facing a recession, a third world Nigerian economy could not help being on the brink for a bumpy time ahead. Public Services International (PSI) specifically urges national governments to increase public investments, both as a means to avert a recession, to create and improve jobs, and to (re)build their public services and infrastructures (PSA, 2009). As the economic crisis threatens the jobs and futures of people everywhere, PSI joined the International Trade Union Confederation (ITUC) and other global union federations in calling on governments to place decent work at the centre of government actions to bring back economic growth and build a new global economy that puts people first. PSI has previously called on its affiliates to mobilize around the World Day for Decent Work. PSI has also called on governments to live up to their responsibilities to deliver quality public services to all citizens, whether it is in water and sanitation, health, energy, education or public transport. The international association warned against further tax cuts for the wealthy and budget cuts in public services (Waldorff 2009).

Exploiting the Fallouts of the Crises

It is imperative that government must work with the private sector and public enterprises in formulating a strategic roadmap for building a new geo-economic space for Nigeria. The global meltdown has created potential
areas that Nigeria must exploit. There is the need to make Nigeria a manufacturing hub of small, medium and skill-intensive enterprises with a focus on locating these hubs in the rural and semi-urban centres. This will result in the intensification of the creation of jobs in urban and rural areas, and providing vocational training and skill development programmes for the unemployed rural and urban youth. Successes in these directions would spur the country toward developing competitively priced high quality goods and services for the export markets. The goods and services should move up the value chain and the transition encouraged by friendly government policy. This is because the new burgeoning economic order, consequent upon the post-crisis global markets, would also offer new opportunities. So, we must be ready to exploit these. We must increase international competitiveness of Nigerian goods and services. Nigeria should also use the global slump to develop and consolidate her trade and economic interactions with her neighbours and in other regions. The beginning point is to use this economic downturn period to revitalize the industrial sector, which has been bogged down essentially by the non-performance of the energy sector. Subsequently, there must be increased efforts to diversify our revenue sources to include measures that will improve on revenue generation and ensure that the public functionaries at all levels embrace accountability, transparency and good governance. These are in addition to introducing palliative measures to cushion the effects of the meltdown, prioritization and re-prioritization of projects and programmes, managing resources prudently and evolving cost reduction measures. These steps are indispensable to Nigeria to facilitate positioning herself as the preferred partner in the West African sub-region. Consequently, there will be need for formalization and implementation of free trade agreements and joint investment programmes.

**Policy Measures for Private Public Partnership (PPP)**

Nigerian government’s adoption of supply side policy measures for substantially increasing private and public investments would also be required to survive the onslaught of the crises or reverse it. Consequently, there is urgent need to increase capital expenditure through public enterprises for fear that the private sector investments may fall well. This recommendation is necessary because enhancing public outlays for infrastructure projects is predicated on the principle that when private investment remains passive, public investment leads to demand escalation and income generation, besides creating employment.

**Infrastructure**

Infrastructure cannot primarily be developed by the private sector, considering that most other countries have no more than about 10 percent infrastructure development through the Public Private Partnership (PPP) route; Haley (2009). Effective and speedy utilization of funds for public projects also remains a serious handicap. Most public sector projects face endemic time and cost overruns. Better governance and programme implementation strategies must be at the forefront of this government’s survival strategy. A strategy in a world now reliant on Darwin's theory of evolution (survival of the fittest) to ultimately determine which programmes will fail and which ones will be able to adapt and thrive in this new and perilous economic milieu. Considering that the level of investments may not be as high as in some other infrastructure projects, private sector investments must also be encouraged in supply chain infrastructure as well as in agriculture and rural sectors through tax reductions and other incentives. Consumer demand also needs an impetus. We cannot ignore the rural markets and the peril-urban
demand. Government must become more ‘business like’ and ‘customer friendly’ so that private investments and personal consumption can be encouraged, to the benefit of the people. Deployment of modern ICT facilities at all levels of governance would also be essential. Ndukwe (2009) advocated that deployment and mastering of modern information technology by public and private sector executives should eliminate the need to panic over the effects of global economic meltdown. Since, according to him, proper harnessing of ICT tools such as Blackberry, iPhone, USB Modem Stick, Mobile ERP, e-Business Tools, e-Audit, and e-Banking, among others, would enhance efficiency and consequently lead to better corporate performance.

**Investments in Agriculture**

Furthermore, the country is endowed with abundant, arable land and rich agricultural products which, if effectively harnessed, can translate into immense economic gains for all Nigerians. Once the federal government can solve the issue of hunger and food insecurity through a pragmatic agricultural programme, then the government would have steered her way towards emancipation from consequences of the economic meltdown on the public services.

The current federal government policy on large-sale commercial farming appears to be asymmetrical because it apparently excludes small-scale commercial farming. This is in spite of the major objective of investing in agriculture being to feed people, reduce hunger and alleviate poverty. Nwanze (2009) referring to the historic US$20 billion pledge in L’Aquila and Mrs. Clinton’s subsequent comments (IFAD 2009) affirmed that “Investing in agriculture - and in particular smallholder agriculture - is indeed the most cost-effective way of reducing poverty, saving and improving lives.”). This is why the current G8 initiative reflects a shift in emphasis – from dependence on food aid to greater investment in agriculture as a key to eradicating poverty particularly in the developing countries. This is because farming today, including smallholder farming, has become a modern commercial enterprise. Concrete actions that translate into improvements in the lives of poor people in Nigeria through implementing credible agricultural programmes will provide an opportunity to input a significant increase in the flow of external resources to our agriculture. This is because such a programme will facilitate Nigeria significantly tapping into the L’Aquila Food Security Initiative of the G8, which is based on the premise that enhanced investment in agricultural development from the developed countries will trigger a corresponding response from developing countries by their putting in place the right policy framework to support farmers (IFAD 2009). Such policies should explore the provision of direct subsidy to the farmers rather than subsidies production. Subsidizing production has been found to lead to unmanageable raw material pricing distortion, misuse, inefficient operations and sometimes, unrealistic capacity creation.

**Summary and Conclusion**

We have defined economic meltdown as a global economic crisis when the economies of most nations are in bad shape, inflation and unemployment high, in addition to property values dropping, and companies going under, with a consequent slump or depression.

This paper has highlighted the origin and consequences of the global economic meltdown in general and on the Nigerian public service in particular. It suggests survival strategies to mitigate effects of the crisis
on the public services. Some of the measures include exploiting the fallouts of the crisis through the
government working with the private sector and public enterprises in formulating a strategic roadmap for
building a new geo-economic space for Nigeria. The latter will make Nigeria a manufacturing hub of
small, medium and skill-intensive enterprises, with a focus on locating these hubs in the rural and peril-
urban centres. This will result in intensification of creation of jobs in urban and rural areas, and providing
vocational training and skill development programmes for the unemployed rural and urban youth.

The paper concludes by suggesting that since farming today, including smallholder farming, has
become a modern commercial enterprise, government should implement concrete actions that translate
into improvements in the lives of poor people in Nigeria through implementing credible agricultural
programmes.

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