

DEREGULATION OF THE NIGERIAN ECONOMY :THE THEORETICAL MILIEU

Dappa Tamuno-Omi Godwin¹ and Daminabo Dagogo²

¹ Dept. of Political Science, Rivers State University of Education, Port Harcourt, Nigeria.

²Department of Educational Foundation and Management, Rivers State University of Education P.M.B 5047,
Rumuoumueni, Port Harcourt , Nigeria
Email: dr.dapppa@yahoo.com

Abstract

The deregulation of Nigerian economy was the main thrust of the Structural Adjustment Programme (SAP) introduced in the country in 1986 under the leadership of General Ibrahim Babandiga (1958-1993). Prior to that period the Nigerian economy was almost a command one with wide range of government control. Indeed, the introduction of SAP was said to be a final solution to the economic crisis faced by the Country. Unfortunately, SAP was introduced yet, the economy became more crunched. During the General Abach's regime (1993-1998), SAP was suspended out rightly. When General Abdulsalami Abubakar (1998-1999) took over, he continued pursuing the privatization programme which is a synonym of deregulation of the economy with the promulgation of another privatization decree. The civilian government led by President Obasanjo which took over from 1999 made deregulation the core with vigour. It is basked on this development that this paper intends to unravel the theoretical paradigm under which the deregulation of Nigerian economy could be explained. This includes capitalism, imperialism, colonialism particularly the incorporation of Nigerian into international capitalist system.

OVERVIEW OF THE NIGERIAN ECONOMY

The Nigerian economy has been undergoing fundamental structural changes over the years. There is evidence, however that the structural shifts in the economy have not resulted in any appreciable and sustain economic growth and development. The economy which was largely at a rudimentary stage of development has been experiencing some structural transformation immediately after the country's independence since 1960. Unequivocally up to the early 70s, agriculture was the core of the economic activities in Nigeria. During that period, manufacturing and mining activities were at a very low level of development. The country's participation in the external trade was based on the level of economic activities in agriculture. Thus, agricultural commodities dominated the country's export trade while manufactured items dominated imports (CBN, 1993).

However, the oil boom of 1973/74 brought a new dimension into the economic activities of the country. The sharp increases in oil revenue from N735 million in 1972 (Ibid.) had a pervasive effect on the Nigerian economy. This was because the increase in revenue led to large increases in public spending designed to expand infrastructure, non-oil productive capacity, human capital and to heal the wounds of the civil war that ravaged the country between 1967 and 1970. In other words, the performance of Nigerian economic growth during 1975-1985 period has its antecedent in the quadrupling of crude oil prices in 1973-1974. The resulting large windfall gain enabled the country not only to expand the public investment almost three folds over the subsequent years but also to build up its foreign reserves. But many of those investments were carried out without sufficient attention to their economic viability (Oyejude, 1991)

These rising wages and an appreciating domestic currency squeezed the profitability exports of non-oil exports, while cheap imports competed with domestic food production. As a result, the country's resources shifted from the production of non-oil traded goods mostly agricultural to that of non-traded goods mostly public services. Thus, the emergence of the oil boom,

relegated agriculture to the background and within a short period, Nigeria became a major food importer which cost the country N116.40 billion (1998), N119.87 billion (1999), N134.81 billion (2000) and N174.76 billion (2001). In addition, production of export crops declined substantially, making the country dependent on a volatile international oil market for almost all her export earnings and most of the Federal, State and Local government revenues (Shariff, 2004).

Consequently, with the sharp fall in the international oil price in the early 1980s, early 1985 and late 1986, Nigeria's economy was almost at the verge of collapse. This led to the country's built up of large fiscal and external deficits and other macroeconomic imbalances which ensued. To address this problem, government introduced several policy measures which started with the Stabilization Act or 1982, budget-tightening measure of 1984 and finally the 'Structural Adjustment Programme (SAP) of late 1986. SAP was aimed at laying the foundation for a self-reliant and dynamic economy. The corner stone of the SAP is the deregulation of the economy in other words called privatization of the economy.

Indeed, SAP was aimed through the combination of exchange rate and trade policy reforms, at revitalizing the non-oil sector of the economy with stabilization policies in order to restore the Balance of Payment equilibrium and price stability. SAP emphasized the downsizing of public sector and improving the efficiency of public asset management. Import license and agricultural marketing board were eliminated, price controls were lifted and liberalization of the financial system was almost important instrument of stabilization (CBN, 1993). However, the problems of internal and external imbalances and the undue depend fenced on oil which brought about the adjustment problems still persist. This implies that there is as relative insensitivity of the economy to the corrective policies.

It should be noted that, the genesis of deregulation of the Nigerian economy could be hinged substantially on the economic crisis faced by the country. This economic crisis could be traced to the lopsided character of the post-colonial developmental path followed by the country. The foundation of this lopsidedness was laid from 1945 when the country was under colonialism. During the period, the country in alliance with foreign capital promoted import-substitution industrialization. This was carried out through the use of peasant surpluses to fiancé the importation of the inputs necessary for the growth and expansion of manufacturing activities (Olukoshi, 1993).

In explaining the causes of this economic crisis sin Nigeria many reasons have been adduced. Some of these reasons emanated from the neo-capitalist Economist the nationalists and the neo-Marxist. The neo-capitalists, toeing the Nigerian official line, submitted that it was the international oil market glut and the rescission in the world market rather than domestic reason that the economic crisis. And that the solution is for the world market to return to the path of economic expansion before Nigerian economy could improve. The Nationalist, it was the prevalent of fraud and mismanagement of Nigeria resources that caused the economic crisis. And that as far as such attitude continues definitely the economy would never be back on track. To the neo-Marxist, the economic crisis could be anchored on specific role of contractors, consultants and middlemen and their various ruinous activities. That, the way in which the patron client network operates contributed to the country's economic decline. It suffices to say here that; the Nigerian economy is characterized by lack of organic linkages between agriculture and industry, production and consumption an autochthonous capital base, development of indigenou manufacturing sector, balance of payment problem, heavy debt burden, low gross domestic product (GDP), labour inflexibility, high unemployment rate, inadequate provision of social services and poor maintenance of infrastructural facilities, the near collapse of the manufacturing sector etc. (Ibid:57).

CONCEPTUALIZATION

Deregulation of a Country's economy could be conceptualized as privatization, divestiture, and marketization of the economy. In essence no government but private participation in the Country's economic activities. This is in order to ensure competitive economic system devoid of monopoly and allow price mechanism of demand and supply's principle of economy to prevail. According to Ahmed (1993:iii). Deregulation of an economy entails according greater weight to the private sector as the prime mover of the economy's opposed to the emphasis on the dominance of public sector. To achieve this objective, greater role are assigned to market factors as against the use of pervasive administrative controls. This is aimed at stabilizing and fundamentally restructuring the economy and places it on a durable and suitable growth path.

As a major solution to the economic crisis experienced in Nigeria, in 1986y Structural Adjustment Programme (SAP) was introduced with the central aim of deregulating the economy. To Ayodele (1994), Privatization in other words deregulation is one essential aspect of price and market reforms which entails both unshackling private sector development through removal of government restrictions on private economic activity and divestiture of the state assets particularly State Owned Enterprises (SOEs) into private hands.

The main objectives of deregulation include: introducing a market economy; increasing economic efficiency; establishing democracy and guaranteeing political freedom and increasing government revenue (Dhaji and Milanovic, 1991). It is also assumed that economics based on private prosperity a re better institutions for preserving individual freedoms than economies where the productive apparatus is socially owned (Ijhaiya, 1999). Moreover, for government to be effective, it has to restrict itself surely to the areas of governance and within that duty provide guidelines for the operation of economic activities which can be performed better by private individuals. This is needed the situation under which deregulation of the economy is introduced in Nigeria.

THE THEORETICAL MILIEU

The theoretical foundation of deregulation draws largely from the general equilibrium theory which among other things indicates the relevance of efficient pricing in ensuring optimal allocation of society's limited resources for efficient production of the various needs of society and efficient distribution of the commodities and services among various consumers. Thus, the concept of perfect competition and free market imply that the general equilibrium analysis will tend to yield an optimal allocation of resources since competitive equilibrium prices ensures that supply and demand are equal and in the long-run, all firms which can produce profitably will enter the industry to ensure long-run stable and sustainable growth (CBN, 1993)

It is obvious that such optimality results cannot be achieved under centralized planning or command economies which depend on elaborate control. This is because such system is hardly able to arrive at a set of efficient prices which will ensure that all firms maximize their profits by covering their costs and earning reasonable margins, while consumers maximize their utility. And even in recent times, there has been some ferment in economics about the role of the state in economic life (Killick, 1989).

Traditionally, the state's economic role has been defined in terms of a responsibility to correct or eliminate various market failures which place serious limitations on the allocative efficiency of the free market and justify the need for government intervention. Foremost among these are failures of competition, existence of externalities, incomplete markets, information failures, public/merit goods, macro economic instability, creative failures and poverty/inequality. Although development economists no longer assume that the existence of market failures constitutes adequate cause for state interventions. This is because, experience, especially in the peculiar circumstances of developing countries, has taught that government has a duty to rectify these failures through the use

of taxation and subsidies to moderate if not remove the observed distortions arising from the market failures. Even among the Socialist Economist (Social Democrat), the case of market globalization is widely accepted (Ibid).

Importantly, there is indeed a symbiosis among capitalism, colonialism and imperialism as theoretical milieu underlying deregulation. Colonialism which implies the policy and practiced of a strong power extending its control territorially over a weaker nation or people has a long history but commonly regarded as an attribute of the late 19th century imperialists who conquered large tracts of the globe to find themselves ruling area. Indeed, colonialism of that latter period had been usually used pejoratively to denote an unwarranted sense of racial superiority and the set of at tributes, beliefs and practices that sprang from it (Walter Rodney, 1985).

That is, the contradiction in capitalism in terms of the transplanting reduced the rate of profit and arrests the capitalization of surplus blue in the western world in the 19th century. In addition to this development was the sole aim of profit maximization by capitalism both of which culminated in the need for a new environment in which the process of accumulation could continue. Therefore, the capitalists turned to foreign lands, attacked and subjugated them and integrated their economies to those of Western Europe through colonizing imperialism. To date that experience of western imperialism, particularly colonialism cum capitalism remain the most decisive phenomena in the history of Nigeria like any other colonized countries of the world (Ibid.).

Unequivocally, colonialism severally decapitalised the third World Countries, distorted and dislocated their economic and social systems. Their economics were disarticulated and specialized unconsciously in the production of raw materials to the metropolis in an international market with unequal exchange. Thus, the colonized periphery countries were made to depend on the metropolis (the developed countries) for almost everything. Base on this promise, it could be concluded that the deregulation of Nigerian economy is an idea packaged and sold by the metropolis thorough their agencies such as World Bank and International Monetary Fund (IMF) (Thonvbere, 1989).

Moreover, the classical political economy which is capitalist was more concerned with the best way to engage in the production distribution, exchange and consumption of goods and services with no role for government but the market in such growth and development. The aim was to remove encumbrances placed by ambitious governments and bureaucrats on the free operation of a market economy and therefore in favcour of the market economy with its vaunted claim to efficiency (Mishan, 1983). In the bid of classical political economy to preach and promote capitalism and liberalism, it argued essentially, that a nation's true economic wealth is derived from the industry and the economic right of the people to choice. That the state should therefore only engage in the provision of internal and external security. It further argued against the various restrictions in international trade. Based on this premise, the current deregulation of the Nigerian economy could be said to have its root in the contest of the classical political economy and should be situated therein (Momoh and Hundeyin, 1999).

Furthermore, the world economic system that is essentially capitalist promotes an international division of labour in which the industrialized Capitalist Countries (IOCs) produced the manufactured goods while the third World Countries were forcefully made to produce raw materials needs of the IOCs whose price are determined by the latter. This unjust and unbalanced international division of lab our began through the process and logic of colonialism driven by imperialism and currently propelled through the political legislation of the Bretton Woods system as represented by the World Bank and IMF which hegemonized the Euro-dollar as an international currency of convertibility and a god reserve (Onimode, 1988).

In order to sustain this world economic system an international capitalist financial system was established made up of multilateral institutions comprising General Agreement on Tariffs

and trade (GATT), the International Monetary Fund (IMF), the World Bank Group; International Reconstruction and Development (IBRD), International Development Agency (IDA) and the International Financial Corporation (IFC). The World Bank and IMF were established to help give aid to European countries to enable them come out from ruins of the First and Second World Wars in order to reconstruct their economies. Unfortunately, their orientation and policy objectives changed with time. AS ARGUED BY Onimode (1988:278);

Since 1979, IMF has been offering more assistance to third world countries under its stands-by arrangements of Extended and Facility, with preconditions. Similarly, the IMF gives "letter of intent" (clean bill of health) to member states that are in need of World Bank loans with harsh conditionalities among which is the deregulation of the economy among others. And even a look at those conditionalities reveals their pernicious effect on the countries such as Nigeria which are caught in a "debt trap" have to take the bitter pills. Unequivocally, the adoption of the policy measures and initiatives couched in economic liberalism or deregulation of the economy has further pauperized the third World Countries and made their economic crisis assume a tragic proportion. In a nutshell, the activities of the World Bank and the IMF have in recent times further contributed to the underdevelopment of the Third World Countries such as Nigeria and have made them to be more dependent on and subservient to the West (Momoh and Hundeyin, 1999). Unequivocally, the basis of the World Bank and IMF conditionality is the deregulation of the economy which has also been added to the democratization of the polity.

Thus, this IMF conditionalities such as trade liberalization, monetary anti-inflationary measures, fiscal anti-inflationary programmes, anti-inflation control, wage increase, anti-inflationary dismantling of price controls and minimum wages door policy on foreign investment and Multinational Corporation: reduction of spending on social services and privatization of public enterprises are part of the deregulation of economic process.

CONCLUSION

The deregulation of the Nigerian economy as discussed in this paper is no doubt has a capitalist undertone with the notion that capitalism produced colonialism and imperialism. Unfortunately, right from the time the Nigerian economy began to be deregularized as part of SAP in 1986 it had only succeeded in pauperizing a larger population of the country. And even with the emphasis on the deregulation of the economy of the present civilian government in the country the material condition of the citizens is yet to improve.

RECOMMENDATIONS

Based on the development, that deregulation of the Nigerian Economy implies privatizations and privatization is based on maximization of profit. Consequently, majority of Nigerians 70% of whom are below poverty line might not be able to afford those deregulated goods and services. Therefore, the current government in Nigeria should review its deregulation policy. This is because an economic system that could not improve the material condition of the majority of the citizens of a country is not a good economic system. Though, the deregulation of economy policy might have been successful in developed countries, it has been a failure in developing countries due mainly to differences in socio-political environment. Therefore, the deregulation programme should either be discarded or refined in Nigeria.

REFERENCES

Ahamed, A. (1993). "Forward" to Central Bank of Nigeria: Perspectives of Economic Policy Reforms in Nigeria, Ikeja: Page Publishers Services Ltd.

Ayodele, A. S. (1994). “Elements of the Structural Adjustment Programme: Privatization and Commercialization” in *The Nigerian Journal Economics and Social Studies*, Vol. 36, No. 1.

Central Bank of Nigeria (1993). *Perspectives of Economic Policy Reforms in Nigeria*. A study Report, Ikeja: Page Publishers Ltd.

Dhanji, F. and B. Milanovic (1991). “Privatization in Eastern and Central Europe: Objectives, Constraints and Models of Divestiture”, A World Bank Research Working Paper, No. 770

Ijaiyi, G.T. (1999). “Privatization and Commercialization of Public Enterprises in Nigeria” in

Killick, T. (1989). “Economic Development and the Adoptive Economy”. Overseas Development Institute Working Paper, No. 31.

Misham, E. J. (1982). *Introduction to Political Economy*, London: Hutchinson.