The Developmental State Debate: Where Is Nigeria?

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Abstract

There is a renewed interest in the idea of the developmental state in Africa. This is partly a reaction to the failure of the pro-market reforms under the Washington Consensus to deliver socio-economic progress. Nonetheless, the Nigerian economy, after fifty years of political independence and economic governance and management, has suffered from fundamental structural defects and has remained in persistent stagnation. Many features in Nigeria's economy combined with other non-economic factors have produced a weak private sector that is largely oriented towards distributive activities. The productive and technological base is weak, outdated, narrow, inflexible and externally dependent. Furthermore, infrastructure is poor, inadequate and lacks maintenance. Thus, the effectiveness of incentives has been generally low, giving rise to inadequate utilization of the factors of production. The paper blames the country's overdependence on single product export-crude oil-without profound efforts to diversify the economy as a key weakness. Questions that the paper tries to address are; is Nigeria at present, making enough efforts to move towards the identified features of a developmental state? Does it require a sound re-thinking into the development agenda with regards to the various key issues relevant to developing countries? How can we break out of this vicious cycle? Correcting this scenario forms the crux of this paper. The paper suggests different solution scenarios to many of the problems on the platform of the developmental state paradigm. As such, the country should develop a class of entrepreneurs that possess the tacit knowledge required for rapid industrialization and development of the manufacturing sector. This proactive stance with capable institutions would move Nigerian economy to the desired direction.

Keywords: Market, Developmental state, Industrial policy

1. Introduction

The financialisation of the Nigerian economy resulted in distorted concentration of investment on short term liquid assets to the detriment of investment in the real economy, is a major challenge to the country. As a result, the country does not have a class of entrepreneurs that possess the tacit knowledge required for rapid industrialization. In this regard, the current inflation targeting framework is not enough and further unguided liberalization could stifle the efforts to develop the real economy (Note 1). Due to the policy errors of the past, the Nigerian economy, after fifty years of political independence and economic governance and management, has suffered from fundamental structural defects and remained in a persistent state of stagnation. The huge earnings from the enormous crude oil deposits are monetized giving rise to unequal distribution of income. Corruption is endemic and has eaten deep into every facet of national life. The productive and technological base is weak, outdated, narrow, inflexible and externally dependent. The infrastructure is poor, inadequate and lacks maintenance. The effectiveness of incentives has been generally low, giving rise to inadequate utilization of the factors of production. Furthermore, policy instability and summersaults is discouraging foreign investment despite the huge domestic market and the strategic location of the nation. The obvious effects have produced a weak private sector largely oriented towards distributive activities. How can we break out of this vicious cycle? It requires a sound re-thinking of the development agenda with regards to the various key issues relevant to

developing countries. African countries including Nigeria have passed through series of policy regimes - import substitution strategy, export-oriented policies, structural adjustment programmes, privatization and commercialization, and most recently, liberalization policy among others. These policies have not augured so well. The reason for this is largely because any intervention has to be all embracing for it to make impact (Note 2). There is an opportunity for a new start in Nigeria, with the foundation for good electoral processes during the 2011 general elections as opposed to the distorted democracy of the recent past. Solutions to Nigeria's economic woes must be a mix of different options, anchored in the idea of the Developmental State explored in this paper. Most East Asian countries attained industrial status through the Developmental State Paradigm (DSP) - Japan, South Korea, China, Malaysia etc. The case of China is recent and presents an interesting scenario, having surprised even the most industrialized countries of the world. This paper is, intended to among other things provide an answer to a fundamental question: does Nigeria have the features of a developmental state? What are the options?

1.1 Developmental State in the Context of a Policy Framework

The Developmental State Paradigm (DSP) can be traced as far back as the US protectionism of the 18th century, the German protectionism of the 19th century and the Japanese and Latin American import substituting industrialization programs of the late 20th Century. The DSP has been most prominent for East Asian Newly Industrialized Countries. They have vehemently and intellectually successfully opposed the neo–liberal Washington Consensus and its antipathy to the state that emerged so strongly and rapidly in the 1980s (Fine, 2011) (Note 3). The consensus stressed trade liberalization, financial market liberalization, foreign capital liberalization (eliminating barriers to FDI), privatization of production, deregulation of legal framework, secure property rights, unified and competitive exchange rate, diminished public spending (fiscal discipline), tax reforms (broadening the tax base, cutting marginal tax rates, less progressive tax), a social safety net (narrowly targeted selective transfer for the needy) and flexible labour markets as the only sustainable path to economic growth. The neo-liberal distaste for state intervention often caused them to overlook a great deal of evidence of mutually supportive relations between states and the market. In several cases, for example, Japan, South Korea, Taiwan and the Scandinavian countries, the state has commonly played an important role as protector and enabler of private sector development (Chang, H-J, 2003). The Post-Washington consensus therefore hinges the solution to development problems on "getting the institutions right" (Fine, 2011).

However, the DSP believes that the state must have the ability and capacity to identify and correct market failures. States should have the ability to solve specific problems. This informed the "Good Governance Consensus" - stable property rights, effective rule of law, zero or low corruption, democratic accountability of government, effective service delivery capacities, absence of political violence and free market without privileges (rent) for any sector. These features are ideal situations which do not exist in a complete form in the real world. The cost of organizing economic activities should not be high. Therefore, strong institutions are necessary to enforce compliance. This lends credence to Mushtaq Khan's (2011) claims that "if property rights are not clear and contract enforcement is not effective, transaction costs will be high. The farther you can reduce transaction costs, the more you can correct market failure". Drawing primarily on the idea that markets do not work perfectly the state is required to accrue, for example, the economies of scale and scope, to coordinate investments within and across sectors, to harness positive and eliminate negative externalities etc. (Fine, 2011).

Institutions are the formal and informal "rules of the game" that shape but don't determine human behaviour in economic, social and political life. The formal rules are the laws, rules and regulations that govern conduct while the informal includes norms, customary practices, conventions and traditions of the people. In general, state authority and capacity are eclipsed by the intervention of the non-state actors. These patterns become entrenched and are hard to shift, but a firm grip of the activities of the actors is emphasized in the developmental state paradigm. Social, economic and political institutions overlap and affect developmental outcomes. Thus, developmental success is predicated on negotiating institutional arrangements.

There should be intervention to solve these problems but empirical and theoretical evidence shows that developing countries find it difficult to effectively undertake this task. The question boils down on how to reduce transaction costs through the establishment of good property rights, effective rule of law, democratic accountability of government etc. DSP is concerned with building government capability for specific solution to developmental issues. Developmental States are countries which have the ability to prioritize property rights to transform or protect with the greatest developmental impact. Developmental state is not the same as the welfare state given that in the welfare state, dependency is profound (Fine, 2011). The argument is that a developmental state has what it takes for industrial take-off and should therefore develop enough capacity to engineer growth and development. The state should be able to mobilize its resources for rapid industrialization. It should be able

to coordinate expectations for specific targets. David Kotz (2005) put the role of the state in more simple language, "an active state role in the economy does not itself guarantee economic success, in development or in transition (Note 4). A state can become an institution that is parasitic on society and obstructs economic progress. However, when the state stands aside, waiting for individual action and non-state forces such as entrepreneurship, comparative advantage, and cross-border capital flows to bring development or transition, the result is bound to failure (Chang, H-J, 2003) (Note 5). "For transition, the consequences of fully adhering to the neo-liberal strategy can be rapid movement backward, with economic and social collapse in the worst case".

The Developmental State Paradigm (DSP) can be used to explain the processes of development and structures. Most African countries do not have the social basis for the return of capital for higher investment. But the success of the developmental state is based on the ability of the state to bring about rapid industrialization via efficient sectoral growth plan. Government capabilities should be able to trigger growth. Stable property right requires the transfer of assets from sector to sector and group to group. A lot of development efforts by the state do not yield returns because the state does not have the capability to do these things. Rules are not enforced to direct the productive resources in the right course.

The best way to push infrastructural development is to make rent-seeking profitable to the economy. In industrialized countries, legalized rent-seeking exists for the benefit of some sectors. There is no country in the world where rent-seeking does not exist to some extent. To push industrialization successfully, states should be able to redirect rent-seeking in such a way as to transfer resources from the less productive to more productive sectors. Productive transformation is a government issue which requires active evaluation and monitoring of economic activities. The organization of beneficiaries varies widely among countries. A developmental state is a country which makes these transfers in order to increase development (Note 6). The starting point should be to have a proper analysis of how the conscious organization of political power in particular countries has allowed some types of value-enhancing economic transformation but in others has prevented this.

The second aspect of the responsibility of the state in pushing development is financing the acquisition of "tacit knowledge". Industrialization is impossible without the acquisition of this knowledge by the productive cadre of the economy. Knowledge which can be put down in writing is called "codified knowledge". A good example is knowledge acquired through formal education. But the real anchor of industrialization is found in "tacit knowledge" which cannot be codified. This is why a great number of people with acquired formal education fail to perform in their jobs. They lack the "tacit knowledge" required to do those jobs. Lack of this "tacit knowledge" breeds inefficiency. There is a knowledge gap for a sustainable industrialization to take off. Attracting foreign investment without having the capacity to transform these investments into tangible commodities is frustrating. Capacity here means building a class of entrepreneurs who have acquired the required "tacit knowledge" and readily available to take the necessary risks. Ensuring transfer of rent-seeking benefits (example subsidy) to this productive class will be profitable. Compare this to a politician who uses his office to attract money through rent-seeking only to transfer it to a foreign bank. The difference is that the rent-seeking becomes unproductive and in this case only represents illegal capital flight. Liberalizing an economy without having produced a class of entrepreneurs (capitalist) which is willing to take advantage of the accruing opportunities to invest by creating new small companies will not lead to growth. The basic knowledge of developing industries is what the developing countries lack. Critical capabilities must be in place for an economy to make reasonable impact in industrialization. A country needs to convert those with formal education into workers that are competitive. The core argument here is that the development state must have ability to promote formal knowledge and education to facilitate the development of a productive economy. A tested method of acquiring the "tacit knowledge" is 'learning-by-doing'. The Chinese textile industry and Indian auto and pharmaceutical industries present good examples. But it is possible to be 'doing' without 'learning'. The determination to learn is a pre-condition. The state must be prepared to mount the pressure on the productive population to learn because learning-by-doing takes a country up the value chain.

Howbeit, financing is a key factor to start the development state process. This financing has to be up-front and targeted. A country needs to build up a broad consensus of what her priorities are. The people receiving this finance must be made to realize that they have to put in very high levels of effort. The state must have the muscle to discipline recipients. Financing learning-by-doing only works if there is compulsion on the part of the working populace ensuring high levels of commitment. Market competition does not "catch up" because it does not finance learning-by-doing. The funding of this learning-by-doing can take different forms. Those people identified as being the movers of small and medium-scale enterprises could be subsidized, given tax rebates or even extended free training facilities for their staff. New entrants into the market (real economy) could also be encouraged using the same method. There should be rent transfers but inefficiency must not be tolerated. This

requires the existence of strong and efficient institutions. For developing countries, it is recommended that rent (example subsidy) be withdrawn from any productive sector and re- channeled if the sector fails to perform, Effective rent management with credible exit strategies is an important funding requirement. This can also be achieved by partnering with the parent manufacturers of the foreign machineries used for productive purposes in the real sector. In the 1950s and 60s, a protected car industry in India was only able to produce 50,000 cars annually but of lower quality. Nevertheless, Indian producers learnt to make an entire car from engine to assembly during this period. Today, India is a major car producer. There was considerable capability build-up in the industry (Fine, 2011).

Developmental States should have the capabilities of protecting property rights in critical sectors and transferring/altering rights in the unproductive sectors. The ability to transfer rent from the unproductive to the productive sectors of the economy is one of the major strengths of the big industrial countries. Government institutions must create the learning opportunities. A company could be allowed to make super-profits for strategic reasons. A good example is the promise of future profit by way of patent rights. India adopted this process in funding the learning-by-doing process in her pharmaceutical industry. A Developmental State must have the bureaucratic capacity to push development. A more direct policy measure can also be applied. Big multinational companies could be given targets on the employment and training of the country's nationals. States could also enforce gradual withdrawal of foreigners holding sensitive positions in such multinationals. Such states should ensure strict implementation of their laws to reduce transaction costs. Fiscal discipline is as well emphasized. Funding of research efforts is also encouraged for the breaking of new grounds. Technology transfer is, therefore, a result of a country's conscious efforts to finance, monitor and ensure the learning-by-doing process and create compulsion for the acquisition of 'tacit knowledge' by the productive population.

2. Brief Review of Literature

The DSP literature is primarily divided into two schools, the economic and the political schools. The economic school focuses on those economic policies that are necessary for an economy to achieve development. The idea is that markets do not work perfectly and so states are required to propel the economies of scale and scope, to coordinate investments within and across sectors and to harness and eliminate negative externalities (Fine, 2011). It is a matter of identifying the appropriate policies with the presumption that they will be implemented by the apparatus of a State that has consciously developed the capacity of its workforce to succeed. Trade liberalization left on its own cannot build this capacity which is critical for product growth. Active state participation is necessary to direct resources as against the neo-liberal stand that the state should play a very limited role in the economy. On the other hand, the political school has its own disciplinary origins predominantly from within political science. The major aim is not consideration of the economy itself and the nature of the policies required to bring about development but rather, the political school is concerned with the nature of the state itself and whether it has the potential in general, and the independence in particular, to adopt the necessary policies more or less irrespective of what these might be (Fine, 2011). Here emphasis is placed on the necessity for the developmental state to be free of capture by particular interests, and so to be able to adopt developmental policies.

The neo-liberal view is that if the state largely recedes from economic life, the result will be an optimum efficiency, income distribution and technological progress. The state as an economic actor is seen as inevitably a source of corruption, inefficient allocation of resources, arbitrary redistribution of wealth, and obstruction of economic progress (Kotz, 2005). The neo-liberal institutions (IMF, World Bank etc) advocate that transition and development can only take place if the state is allowed to play a passive role. It was based on this argument that the neo-liberals attacked the post-World War II interventionist model of import substitution industrialization (ISI) from two angles. In the words of Chang (2003), the first was the so-called 'get the prices right' argument. This says that state intervention creates allocative inefficiencies, which in the neo-liberal view also leads to slower growth. The second was the 'political economy' argument which "rejects the assumption of the state as a benevolent and omnipotent social guardian but rather argues that economic policy will be determined by the sectional interests of politicians, bureaucrats and powerful interest groups, almost always at the cost of inefficiency and slow growth". However, this argument has been attacked from different perspectives especially by those economists that advocate the efficacy of the developmental state paradigm. Chang (2003) argues that there is no theoretical reason for an economy to achieve higher allocative efficiency unless price liberalisation is total. Moreover, there is no theoretical reason why an economy with greater allocative efficiencies should grow faster, as even one of the leading proponents of 'getting the prices right' admits (Krueger, 1980). Allice Amsden (1989) discussed in (Helleiner, 1990) further pointed out that empirical evidences indicate that countries such as

Japan, Korea and Taiwan, which 'got the prices wrong' did very well while the alleged econometric evidence linking the degree of price distortion with economic growth proved to be very fragile.

The neo-liberal economists also argue that market failures in reality exist only in a few limited areas such as defense, law and order, and provision of large-scale physical infrastructure, and therefore, only minimal state intervention is necessary (World Bank, 2003). In the neo-liberal framework, free markets produce the best outcome under just about all circumstances. Market failure refers to a situation where the market does not work in the way expected of the perfect market model. The ideal market here is equated with the perfectly competitive market of the Neoclassical School. But some economists (Hirschman, 1982; Chang, 2003) have argued that the neoclassical theory of the market is only one of the many legitimate theories of the market and not a particularly good one. These economists insist that there are many rival views of market society, and therefore, the same market could be seen as failing by some people while others regard it as normally functioning, depending on their respective theories of the ideal market. Chang gave a classical example when he posited that "many people think that one of the biggest 'failures' of the market is its tendency to generate an unacceptable level of income inequality (whatever the criteria for acceptability may be). However, in Neoclassical economics, this is not considered a market failure, because the ideal Neoclassical market (or at least in the Paretian version of it) is not supposed to generate equitable income distribution in the first place" (Chang, H-J, 2003b).

The neo-liberal economists have also advanced the "market primacy argument". This argument according to Williamson (1975) insists that in the beginning, there were the markets. These markets are natural institutions while state or other institutions are man-made substitutes. But some other economists (Polanyi, 1957; Chang & Nolan, 1995; Stiglitz, 2001) have tried to counter this argument by insisting that in the real world, emergence of markets often needed heavy state involvement. Polanyi emphasised the case of Britain, where the free market is believed by many to have emerged, insisting that these markets were opened and kept open by "an enormous increase in continuous, centrally organised and controlled interventionism" (Polanyi, 1957). Chang and Nolan, on the other hand, insist that the state is constantly involved in creating new markets by citing example with the creation and the restructuring of markets by the state in mobile telecommunication, computer software, electricity, and internet service provision even in the most advanced capitalist economies of today, which already have well-developed market system. Stiglitz reflected on the severe economic crisis that many former communist countries that have opted for reform experienced during the last several years as one striking example showing how the establishment of a well-functioning market economy is impossible without a well-functioning government institutions. Likewise, "the developmental crises that many developing countries have gone through during the last two decades or so also show how dangerous it is to assume the primacy of the market and believe that it will naturally develop as far as the state does not interfere with its evolution"(Chang, 2003b).

The neo-liberal thesis has its greatest failure on the basis of empirical evidence provided mainly by the East Asian industrial revolution. In the late 1980s, there was a full frontal attack by a group of heterodox economists and other social scientists on the then orthodoxy of 'free market, free trade East Asia' (Amsden, 1985, 1989; Wade, 1990; Chang, 1993). The heterodox economists maintain that the industrial success of East Asia except Hong Kong was patterned after the Japanese-style strategic industrial policy. According to Chang (2003), the argument is that these countries promoted industries with high growth potential and widespread externalities through an array of means, which included: infant industry protection; export subsidies, including tariff rebates on imported inputs used for exports; coordination of complementary investments; regulation of firm entry, exit, investments, and pricing intended to 'manage competition'; subsidies and restriction of competition intended to help technology upgrading. These countries could successfully import and assimilate foreign technologies because they could: skillfully integrate their education and training policies with industrial policy; effectively initiate and subsidize private-sector R&D while also providing public-sector R&D in key areas; and deliberately regulate technology licensing and foreign direct investments in a way that maximizes technology spill-over.

Chang (2003) maintains that the proponents of the developmental state thesis argue that what distinguish the East Asian states from other states most clearly are not the policy tools that they used but their greater degree of autonomy from interest groups that enabled them to discipline the recipients of their supports when performance lagged. This underscores the importance of compulsion and discipline in the process of acquiring tacit knowledge needed for rapid industrial growth and development. The government, according to the heterodox school, should not only provide this impetus through adequate state policies but should also have strong institutions which would implement them. This argument was further advanced by Evans (2009) who developed the notion of 'embedded autonomy'. He argues that the "state autonomy possessed by the East Asian states was particularly beneficial because it was embedded in a dense policy network that linked them with the private

sector, which provided a vital channel for information collection and interactive learning in the policy process" (Chang, 2003).

As a result of this frontal attack waged by the heterodox school since the late 1980s, the World Bank which is the leading proponent of the orthodox interpretation of the East Asian experience emphasizing the role of market forces, was prompted to come up with the famous *East Asian Miracle* (EAM) Report in the early 1990s (World Bank, 1993). The report acknowledged that there had been extensive state interventions in the East Asian economies and that some of these have been beneficial. However, it argued that industrial policy in these economies had been largely unsuccessful, with the partial exception of Japan. It also put great emphasis on the fact that the second-tier NICs of Southeast Asia grew rapidly without such policy, thus suggesting that East Asian-style industrial policy is not necessary for successful economic development. It then questioned whether the East Asian-style industrial policy could be practiced in other developing countries with under-developed bureaucracies and operating in an international environment much less tolerant of interventionist industrial and trade policies than it was in the 1960s or the 1970s (Chang, 2003b). But the EAM has been largely criticized as misleading by trying to include the Southeast Asian economies as an integral part of East Asia. Heterodox economists have argued that this 'dilution' tactic is deliberately foisted to blur the focus of the earlier debate that the EAM was supposed to be a part of the 'original five' or even the 'big three' (Japan, Korea and Taiwan). Also, they have also questioned the theoretical framework and the empirical methods underlying the study, especially those concerning the assessment of industrial policy (Lall, 1994; Rodrik, 1994; Chang, 1995). That notwithstanding, the EAM was able to emphasize the issue of policy implementation. It drew attention to the role of high-quality bureaucracies.

Heterodox economists have provided enough empirical evidences to counter the orthodox view that placed emphasis on the prudent macroeconomic management as the springboard for rapid industrial development of the East Asian countries. The orthodox school argue that policy-makers put emphasis on attaining macroeconomic stability (defined as low inflation), which provided the basis for high investment that drove the economies of East Asia. But Chang (2003b) insists that the orthodox view is a very misleading interpretation of East Asian macroeconomic policy because industrial upgrading and not macroeconomic stability was the overriding aim of economic policy. He further posits that until the 1970s the East Asian states, especially the Japanese and the Korean governments pursued what Chang (1993) calls 'pro-investment macroeconomic policy', which resulted in considerable inflation. Citing examples, he gives the average rates of inflation (measured by the average annual growth of consumer price index) in Korea as 17.4% in the 1960s and 19.8% in the 1970s, which were higher, or not much lower, than those found in many Latin American countries during the same periods (Singh, 1995). He asserts that in the 1960s, the Korean inflation rate was higher than those of Venezuela (1.3%), Bolivia (3.5%), Mexico (3.6%), Peru (10.4%), and Colombia (11.9%), and was not much lower than that of Argentina (21.7%). In the 1970s, it was higher than those found in Venezuela (12.1%), Ecuador (14.4%), and Mexico (19.3%), and was not much lower than those found in Colombia (22.0%) or Bolivia (22.3 %) (Chang, 2003) (Note 7). This was mainly achieved through direct control of banks. These banks which were owned and/or controlled by the state were instructed not to make consumer loans, and heavy taxes were imposed on luxury consumption goods. Chang emphasizes that the control was even stricter when it came to consumptions which involved foreign exchange expenditure. In the earlier stages of development, "luxury" goods imports were either banned or subject to high tariffs and inland taxes while in the case of Korea, foreign holidays were banned until the late 1980s (Chang, 2003).

Another area of disagreement between the heterodox and orthodox school is the extent of openness to the outside world. The heterodox school has shown that contrary to popular belief that the East Asian economies were wide open to the outside world on every front; their openness has been highly selective. Chang (2003) insists that they were more open in areas like trade, technology, and debt, but less open for foreign direct investment, and almost completely closed in relation to the capital market. Even within the relatively open areas like trade and technology, the degree of openness differed across the sectors, and changed according to the changes in industrial policy. Evans (1987) shows that there were various restrictions on the areas in which FDI was allowed, and even when foreign direct investment was allowed, foreign majority ownership was practically banned outside the Free Trade Zones (FTZs). As of mid-1980s, for example, only 6% of multinationals in Korea (including the ones in the FTZs) were wholly-owned subsidiaries, compared to 50% in Mexico and 60% in Brazil. The case of Taiwan which was much higher than that of Korea was occasioned by the absence of large private sector firms which resulted in the relative lack of credible joint-venture partners with TNCS. But at 30%, the ratio was still much lower than in Mexico or Brazil. Even technological licensing, which was preferred to foreign direct investment, was put under heavy restrictions. Restrictions on technology imports were imposed

not because the East Asian policy-makers were against importing foreign technology but because they regarded the accumulation of technological capabilities by domestic firms as a vital condition for effective industrial upgrading.

In other words, the argument that the East Asian model cannot be replicated elsewhere because of its unique institutions sees institutions as something fixed and under-estimates the possibility of institutional transfer, adaptation, and innovation (Chang, 2003). In fact, if there is one lesson from the East Asian economies that is transferable everywhere, it is that the development of a late-developing country depends critically on how successfully it can engage in the importation, adaptation, assimilation, and innovation of institutions, and not just of technologies.

The early Japanese experience is particularly instructive here. When the Japanese first embarked on the industrialization process, they had to import a lot of foreign institutions, picking what they though were the most suitable among the 'best practice' ones. So if we look at the early Meiji period, we find an institutional patch-work. The commercial law system was from France, their criminal law from Germany, the Central Bank from Belgium, the Navy from Britain, the Army from Germany, the education system first from America but later from Germany, and so on (Westney, 1987). These imported institutions were adapted to the local conditions, while new institutions (e.g., lifetime employment, just-in-time production system) were subsequently invented. If the Japanese gave up on institutional learning on the ground that their historical and cultural backgrounds are too different from the 'Western' ones, we would not have had the East Asian miracle in the first place.

I would agree with those who express skepticism about the replicability of the East Asian model, if all they mean is that countries with different conditions may have to find different solutions to similar problems. However, they often have a much exaggerated view about the superiority of the 'initial conditions' of the East Asian countries, and have an unduly pessimistic view about other countries changing their conditions. So they believe that initial institutional (and cultural) conditions are almost perfectly binding and therefore countries which do not start with the East Asian sort of initial conditions cannot emulate them.

One curious thing here is that most of these people do not seem to believe that the 'initial conditions' may be equally binding when countries aim to imitate the Anglo-Saxon model that they typically recommend.

3. Overview of the Nigerian Economy

Nigeria, the most populous nation in Africa, is one of the few countries blessed with substantial petroleum deposits. Production of petroleum started in 1958 and expanded briskly during the 1960s. By 1972 Nigeria was exporting nearly 2 million barrels a day of high-quality crude oil. Nigeria was therefore ideally situated to capitalize on the large oil price increase that the Organization of Petroleum Exporting Countries (OPEC) engineered in late 1973 and the subsequent, comparably large increase that followed the supply disruptions generated by the 1978 revolution in Iran. As a result of increases in the price of petroleum, the dollar value of Nigeria's exports increased six fold between 1972 and 1977 and doubled again by 1980. Adjusting for inflation, the value of Nigeria's exports more than tripled between1972 and 1977 and rose another 50 percent by 1980. Although oil prices fluctuated widely during the period, the decade after 1972 was one in which Nigeria's international purchasing power was increased beyond the wildest dreams of the most unreasonably optimistic planner (Gavin, 1993).

When the petroleum market entered its deep and protracted slump in 1981, however, Nigeria found that what commodity markets give they can also take away (Gavin, 1993). Since then, Nigeria has been grappling with an economic crisis of enormous proportions. The short but large price increase occasioned by the first Gulf War in 1991 did not help matters either. Nigeria experienced her first oil boom between 1972 and 1978 and the second between 1979 and 1983. From that period till 2009, there have been periods of booms and bursts occasioned by oil price variations resulting from major world events. Despite disturbances in the Niger Delta region, Nigeria has enjoyed a substantial oil boom from early 2010 until the present as a result of tremendous increases in the price of crude oil.

By 1986 oil prices had fallen considerably from the dizzying heights reached in the early 1980s, and Nigeria's terms of trade in 1987 were substantially less favorable than in the boom years (CBN, 2003). Still, as Table 1 indicates, the terms of trade remained better than they had been before the original petroleum price increase. (Gavin, 1993) maintains that the data presented in Table 1 also raise the suspicion that Nigeria captured astonishingly small long-term benefits from the initial twelve-year boom. By 1987, Nigeria's output had recovered dramatically from the crisis years 1984 and 1985. Nevertheless in 1987, and in an external environment that was not more hostile than that of 1973, Nigeria's GNP per capita was 22 percent lower than it had been in 1973, fourteen years earlier. This decline has since continued (CBN, 2003).

Declines in output between 1973 and 1987 were pervasive, with agricultural output falling 40 percent, industrial output falling 30 percent, and only the service sector, which includes government employment, registering a slight increase. Food production per capita actually fell over the period, and Nigeria, which had been a net exporter of food, became a large net importer during the late 1970s (CBN, 1995). Both private and government consumption were smaller in 1987 than they were in 1973, and per capita investment fell in real terms from over N1M in 1973 to about half in 1987. By 2004, Nigeria had not faired better either. Industrial output was still 4.6 percent less than its 1973 value. The seemingly increased values in agricultural and the services sector output become insignificant if the impact of the population increase is factored into the calculation. Actually, food production per capita fell by 7.3 percent over its 1973 value (CBN, 2003).

These development indices show that Nigeria and most countries in Africa have not performed well under the neo-liberal provisions of the past. However, climate and a multitude of other factors could partly explain this decline. Many on the continent have looked towards the East Asian experience, where governments have played a leading role in strengthening growth and spreading prosperity (Chang, 2008). Most critics have argued that the World Bank and IMF recommended policy thrusts for Nigeria have at best opened Nigeria to the dangers of a consumer economy with extreme overdependence on oil proceeds. However, government failure to promote diversification could be termed the real culprit. This has led to distorted rent seeking and unprecedented monetization of the oil proceeds. Governments have not made efforts to channel rent seeking activities to the productive sectors of the economy but rather allowed politicians to take the greater chunk of this money to foreign banks. Manufacturing is not given adequate attention and other productive natural resources are largely untapped. The foundation for a take off in the manufacturing sector should be to restructure the power sector. But this is exactly what Nigeria lacks (Note 8). The springboard for any industrial take off is steady supply of electricity to provide the needed energy supply for small-scale and medium-scale enterprises (CBN, 1995; 2003). The solution to this problem does not just lie on the amount of money pumped into that sector but on efficient institutional arrangement that makes the machineries of its operation most efficient - quality of a developmental state. Total overhaul of that sector is recommended. Figure 1 above compares electricity consumption per capita in Nigeria with three other countries - South Africa, Cameroon and Malaysia. Interestingly, enough, Cameroon, South Africa and Malaysia are far ahead of Nigeria. It is imperative that urgent and desperate measures are required to address the situation in Nigeria.

In Nigeria, development of the tacit knowledge required to push industrialization in the real sector is not encouraged. There is no value-addition to the tapped mineral resources and this is particularly conspicuous by its absence from the oil sector in which Nigeria holds a strong comparative advantage including the crude oil exports. Most of the oil refineries have broken down, with rent seeking becoming the order of the day. Investment has remained poor and mostly in the liquid sector where short-run securities are exploited for quick gains (Ezema, 2009). There is poor screening of projects and programs. Many new spending items end up being poorly conceived or wasteful and more than a few are based on the assumption that high revenues will continue indefinitely (Ezema, 2009). When revenue falls, many projects cannot be sustained. Thus, many projects must be abandoned while those that survive are either poorly executed or are well funded through borrowing. Transaction costs are high due to the high level of insecurity in the country and poor power supply to the industrial sector. Indiscipline and corruption rank extremely high and government has not been able to achieve much in reducing these vices (Note 9). Government institutions are incapable of controlling the situation; most of them are reeling in corruption. All these factors have combined to erode the GDP per capita in Nigeria. In Figure 2, the comparison of the GDP per capita in Nigeria with those of other countries indicates a dismal picture for Nigeria.

The developmental state paradigm (DSP) is at present far from being realized in Nigeria. The Nigerian system has broken down and the economy has failed. This has led to unprecedented distortion and inequality in income distribution with the attendant high level of poverty. Poverty rate is 70.8%. The World Bank defines a poor person as any person earning or spending less than $1 a day. Nigeria also ranks 160 out of 177 with respect to per capita income. Recently, 177 countries were ranked with regards to life expectancy (World Bank, 2010). Nigeria has an average of 46 years. But in terms of natural resource endowments, Nigeria is ranked 10. It is imperative to redirect economic activities to a positive structure, with the developmental state paradigm (DSP) being the focus.

3.1 Financialisation of the Nigerian Economy

A key feature of the liberalization policy which Nigeria adopted from the neo-liberal recommendations is financialisation. The Nigerian economy is largely monetized with great emphasis on intangibles (Ezema, 2009). He further argued that income earned from oil is largely monetized and spent on imported consumables that hardly add to the investment stock with the remaining probably ending up in foreign bank accounts of corrupt

politicians, thereby moving Nigeria away from being a developmental state whose preconditions depend upon the use of domestically generated resources for attaining development goals. Little effort is made to diversify the economy away from oil through the development of the industrial sector. However, beyond this obvious reality is the issue of financialisation in the Nigerian context which ensures that finance ends up not going into the sectors that produce tangible goods. Financialisation is accompanied with exaggerated reward for those working within finance, unprecedented levels of capital flight and conducive to credit-based levels of consumption. Fine (2011) summarized the basic features of financialisation to include: the phenomenal expansion of financial assets relative to real activity (by three times over the last thirty years); the proliferation of types of assets, from derivatives through to futures markets; the absolute and relative expansion of speculative as opposed to, and at the expense of real investment; a shift in the balance of productive to financial imperatives within the private sector whether financial or not; increasing inequality in income arising out of the weight of financial rewards; consumer-led booms based on credit; the penetration of finance into ever more areas of economic and social life such as pensions, education, health, and provision of economic and social infrastructure; the emergence of a neo-liberal culture of reliance upon markets and private capital and corresponding anti-statism. Financialisation is also associated with the continued role of the US dollar as world money despite, at least in the current crisis, its deficits in trade, capital account, the fiscal and consumer spending, and minimal rates of interest.

The consequences is that financialisation involves: reductions in overall levels and efficacy of real investment as financial instruments and activities expand at its expense even if excessive investment does take place in particular sectors at particular times; prioritizing shareholder value, or financial worth, over other economic and social values; pushing of policies towards conservatism and commercialization in all respects; extending influence of finance more broadly, both directly and indirectly, over economic and social policy; placing more aspects of economic and social life at the risk of volatility from financial instability and, conversely, places the economy and social life at risk of crisis from triggers within particular markets (as with the food and energy crises that preceded the financial crisis). An important phenomenon in the global economy and Nigeria is that the size and influence of the financial sector grew from the 1980s, when financial markets and cross-border capital flows were liberalized. The market-based banking system and banking deregulation in the 1980s supported the growth of the Nigerian financial sector.

It is important to explore the negative influence of financialisation of the Nigerian economy. This is necessitated by among other things, the excessive monetization of the oil proceeds which has made expansion of production in the real sector impossible. But first, what caused the excessive monetization of the economy? One of the major reasons advanced for this is the very concentrated nature of Nigeria's exports relative to well diversified imports; on the contrary, exports remain undiversified (Ezema, 2009). Oil contributes over 80 percent of Nigeria's total export earnings. This trend portends danger for Nigeria and many other African countries because of the enormous negative terms of trade shocks associated with dependence on single-product exports. Researchers have tried in the past to advance reasons for the poor development performance of resource-dependent economies. Such reasons include that:

(1) countries with large natural resource endowments have higher levels of government consumption than resource-poor countries;

(2) commodity price increases that generate substantial but short-lived increases in government revenues are problematic because windfall profits lead African countries to embark on substantial investment programmes which they later abandon when commodity prices fall;

(3) natural resources, particularly mineral wealth, lend themselves to monopoly production and state rent-seeking but rent-seeking activities often go hand in hand with corruption;

(4) primary commodity exporters suffer declining terms of trade over the long run;

(5) commodity-dependent economies are prone to boom and burst cycles which discourage private investment;

(6) there are minimal linkages between the booming sector and the rest of the economy leading to the widespread Dutch disease problem where governance institutions are inadequate.

Thus, the enormous proceeds from oil in Nigeria failed to impact on the real sector as a result of excessive terms of trade shocks, among other factors. A characteristic common to most commodity exporting developing countries in Africa, including Nigeria, is that movement in their terms of trade is a key determinant of macroeconomic performance and has an important impact on real national income. This movement results in terms of trade shocks which is a major source of distortion and stunted growth in the economies. Such terms of

trade induced shocks to real incomes in developing countries often necessitate domestic policy responses which differ across countries. Evidence from previous research works corroborates that terms of trade shocks in Nigeria are real. For example, the price of crude oil slumped in the world market during the first half of the 1980s. Thus, Nigeria's crude oil, which sold at slightly above 41 dollars a barrel in early 1981 fell precipitously to less than 9 dollars by August, 1986 (CBN, 2003). This triggered a series of negative knock on effects in the economy. One example is the country's fiscal crisis, as reflected in the persistent and substantial budget deficit which accumulated to approximately 17.4 billion naira in the five years between 1980 and 1984 representing 6.5% of the entire GDP for the period (Ezema, 2009). Monetary policy became highly expansionary as a large part of the deficits incurred during this period were financed through the creation of credit. Indeed, the total domestic credit to the economy recorded an average annual growth rate of 29.9 percent in 1980-84 and most of the increase was attributable to net claims by the government (Ogujiuba K. & Obiechina E., 2010). Simultaneously, two-digit inflation at a mean yearly rate of 20.2 percent was registered. The inflation in 1984, which stood at almost 40 percent, is often explained in terms of acute shortage of imported goods and services imposed by inadequate foreign exchange earnings, a derivative of the steep fall in crude oil prices. The relationship between terms of trade shocks and economic development in Nigeria is an important issue because of its implications for the resources accruing from commodity exports. It also has great impact on the economic stability and growth of the country. More importantly, responses to such terms of trade shocks in Nigeria have been weak (Ezema, 2009). These low responses have negative impacts on national income, domestic price level, expenditure, investment, exchange rate, external debt, inflation, trade balance and other macroeconomic variables. Poor handling of the shocks therefore means a reduction in the economic wellbeing of the citizens because of its adverse implications on macroeconomic performance.

Another major reason for neo liberalization is the so called "globalization effects" which the neo-classical economists prescribed as the engine of rapid growth and development. Nigeria engaged in many policy reforms to reflect the recommendations of the World Bank/IMF including foreign exchange liberalization, far-reaching banking reforms, liberalization of capital markets, gradual removal of the oil subsidy, privatization and commercialization etc. But these reforms could not engineer the required investment in the real sector. Nigeria was not the only victim of the Washington consensus as it ended in disappointment the world over. Sequino (2007) rightly captured the failure of the Washington Consensus thus 'emphasis on market-friendly macroeconomic and development strategies in recent years has resulted in deleterious effects on growth and well-being. East Asian states, which recognized their position as "late industrializers," relied on a managed-market approach with the state employing a wide variety of policy instruments to promote industrialization'.

Aglietta and Breton (2001) argue that the greater influence of financial markets on non-financial corporations and their demands for higher returns influenced executives of non-financial corporations to increase their dividend payments and to use share buybacks to raise share prices. They were left with less capital for investment. On the other hand, Crotty (2002) emphasized the issue of speculation as rubbing off on real investment. He maintained that non-financial corporations have increased the size of their financial subsidiaries and have become involved in more financial speculation. Dumenil and Levy (2004) show that interest and dividend payments from non-financial corporation to financial markets increased: non-financial corporation, therefore, had less capital to invest in their own activities. Stockhammer (2004) used regression analysis to show that financialisation is associated with lower levels of capital accumulation. Using case studies of global corporations to show how the sensitivity to financial markets has created dysfunctional behaviour in large corporations, Froud et al. (2000) were able to show the extent to which executives of non-financial corporations became focused on the concerns of the financial markets for short-term high returns. He further argued that the narrative provided by CEOs of large corporations to financial markets was not supported by the examination of the financial statements of those companies. Orhangazi (2007) used the level of data in the US to show a negative relationship between real investment and financialisation. He argued that financialisation of the non-financial corporations may have caused a change in the incentives of management that caused them to direct capital towards financial investment. These literatures show that financialisation have negative effects in the real sector the world over. However, many studies have shown that the financialisation of non-financial corporations was associated with lower levels of investment by non-financial corporations in the US and most developed countries of the world. Liberalization seeks to encourage foreign direct investment but at the same time encourages capital flight and investment in liquid assets to the detriment of industrial growth. A large financial sector that does not give adequate support to the development of the critical tacit knowledge required for rapid industrial take-off is created.

4. Recommendations and Conclusion

The Nigerian economy can encourage sustained growth only if there is serious rethinking about all macroeconomic and industrial policies to ensure the achievement of our growth and development targets. Emphasis should shift to investment in the real sector to reduce the continuous scramble for investment on intangibles with the attendant quick profit syndrome associated with investment in short term liquid securities. In this regard, the current inflation targeting framework is not enough and state complacency in the name of liberalization could stifle the efforts to develop the manufacturing sector. A proactive state with institutions capable of moving the economy to the desired direction is what Nigeria lacks. Correcting this scenario, would form the bedrock of a new nation. Nigeria should take advantage of the enormous endowment in crude oil and many other rich raw materials. What it has is enough to take it to unimaginable heights. It is time to restructure our vital institutions to make them relevant and active. The state will play an active role in allocating capital to the productive sectors of the economy. The goal is to build incentives, disciplining mechanisms and institutions to ensure that capital is channeled towards the productive sectors. Massive investment in infrastructure and the energy sector is recommended to create the required environment for speedy industrialization (Ogujiuba et al., 2011).

A new industrial policy that would grow as a process of experience is what Nigeria and most African countries require at the moment. This is no assumption. For instance, macroeconomic policy has theory and involves deductive analysis which an industrial policy does not have. The new policy thrust should secure home markets' in order to spend globally. A new industrial policy focused on increasing the local content of industries and professionalizing state bureaucracy should be vigorously pursued. The policy should tap into "the knowledge" of another country and transferring same domestically. Nonetheless, using local content in the oil industry could start a process. There should always be a role model to follow. For instance, China has many changes in property rights. Industrial policy also stresses improvement in the quality of tertiary education. In Brazil, cash entitlements are given to the poor with the condition that they send their children to school. The poor must be guaranteed a second share of the GDP.

Another area to deal with is beneficiation in the oil sector. Through a process of political negotiation, the government should consider nationalizing the oil industries (60/40 shares) identified as critical to the economy or the government could increase in a substantial form the taxes and royalties. Greater investment in the oil refineries should be undertaken to ensure that all local consumption of refined petroleum products is refined within the country. Unfortunately, greater quantity of refined petroleum products in Nigeria is imported because most of the refineries have broken down. Therefore, Nigeria exports crude oil which is beneficiated in other countries and then imported back into the country. There is no initiative for local content addition. This point was vividly captured by the CBN governor in a recent publication. He identified what he called the "broken value chain" as the main problem facing the country's economy. The paper further posited that" this is an economy that produces crude oil and imports refined petroleum products; it is the number one producer of cassava, yet we do not produce starch; we have hides and skin, we import our shoes and bags from abroad" (Sanusi, 2011).

The foundation for a virile economy is anchored on good governance, and the horizon is positive as the country's democracy is being stabilized. Nigeria needs to develop a state that has the capacity to dictate the direction of the nation's development and an activist state that gives focus on redistribution of assets, addressing inequality and developing the productive sectors of the economy. Undisturbed liberalization for Nigeria at the moment would not be the answer.

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Notes

Note 1. A proactive state with institutions capable of moving the economy to the desired direction is what Nigeria lacks.

Note 2. Such policies should transcend not only economic but political, social and cultural divide.

Note 3. The Washington Consensus believes that the solution to developmental problems is all about "getting prices right".

Note 4. The wrong active state policies can fail to achieve either goal.

Note 5. For development, the failure tends to produce stagnation, with the country locked into its unfavourable position in the world economy.

Note 6. If rent-seeking distorts a potentially useful intervention to the point that it is damaging, there is a big problem.

Note 7. There was also a serious policy effort to repress consumption demand so as to divert more resources to investment.

Note 8. Electricity supply is not only epileptic but the sector breeds corruption and inefficiency.

Note 9. It is widely believed that you can do anything in Nigeria and get away with it.

Table 1. Nigeria before and after the oil booms, 1973, 1987 and 2004

Indicators	1973 (before oil Boom)	1987 (after oil boom)	2004 (after oil boom)1
Terms of trade (1980 = 100)	22.3	49.1	
Real GNP per capita (1980 naira)	577	450	78.2
Private consumption	356	334	78.2
Government consumption	48	47	18.6
Investment	100	49	..
Sources of per capita real GNP			
Agriculture (1980 naira)	208	124	535
Industry	218	153	208
Services and others (1980 naira)	165	167	373
Food production per capita (index)	109.7	103.1	101.7
External debt per capita (1987 dollars)	39	269	284
Dept-export ratio (percent)	32	369	..
Consumer price inflation (percent)	9.7	18.8	18.9
Life expectancy (years)	44.9	51.1	54
Infant mortality (per 1,000 births)	143.2	102.8	75.1
Primary school enrollment (percentage of age group)	51	92	81

Inflation rates are averages for the five-year periods ending in 1973, 1988 and 2004.

Sources: Gavin (1993); 1 is author's calculation.

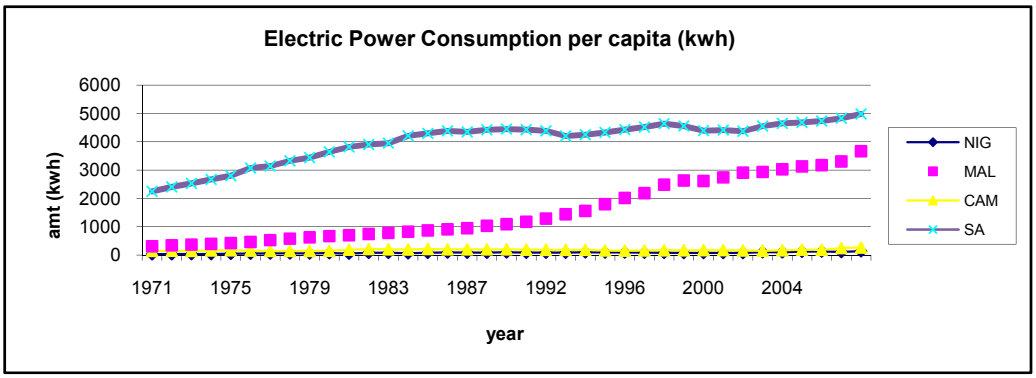

Figure 1. Electric power consumption per capita (kwh)

Source: Authors' contribution: data from World Development indicator and Global Development Finance, the World Bank (2010).

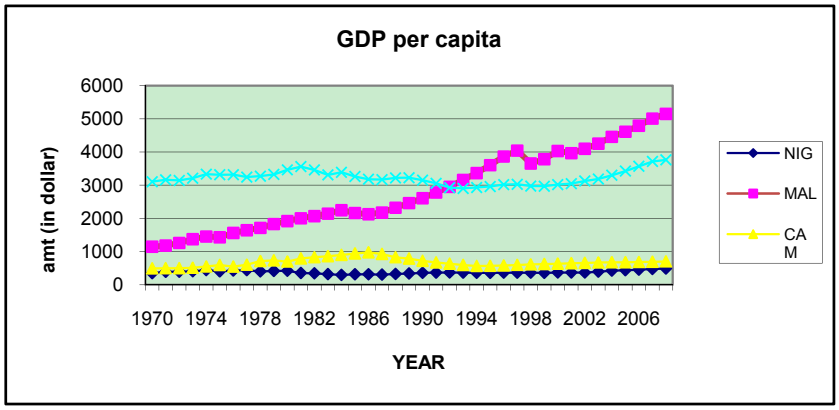

Figure 2. GDP per capita.

Source: Authors' contribution: data from World Development Indicator and Global Development Finance, the World Bank (2010).