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THEORIES OF POLITICAL ECONOMY AND ECONOMIC GROWTH AND DEVELOPMENT IN CONTEMPORARY NIGERIA: AN APPLICATION OF ECONOMIC LIBERALISM

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ABSTRACT

It is generally understood that poor economic growth in Nigeria requires solutions from various thrusts such as reform or policies that are more market-oriented, policies on the applications of appropriate technology, population and employment policies, as well as macroeconomic policies. Numerous economic strategic plans and reforms have been initiated in Nigeria for diversifying the source of revenue of the economy; most of which have lasted without anything much to show with regard to the country's economic development. Thus, this study examines the linkages between the application of economic liberalism (an international political economy theory) and economic growth and subsequent economic development in Nigeria. Using data from the existing documents on the topic in question, the study finds that one of the very simplest and viable means of improving Nigerian economic growth is embracing the policy of economic liberalism that necessitates trade liberalism for free exchange of goods, services and ideas across the globe. Thus, the study recommends alongside other recommendations that The Federal Government should revisit its policy of border closure through which various commodities that are necessary for the development of the country are barred from coming into the country.

Keywords: Political Economy, Economic growth, Economic development, Economic Liberalism, and Trade Liberalism

Introduction

Economic growth and economic development have been the focus of major economic policy of most countries across the globe (Okore, 2013). According to Pettinger (2021), economic growth is an increase in real national income or national output; while economic development is an improvement in the quality of life and living standards such as measure of healthcare, life-expectancy, and literacy. Therefore, economic development is economic growth along with certain desirable changes that include manufacturing, industrialization, agriculture, as well as mining and solid liquid minerals and the like.

Thus, a country, as outlined by Okeke (2015), is said to achieve economic growth and subsequent economic development if it is characterized by having sufficient infrastructures such as good network of roads, constant electricity, well equipped and functional hospitals and schools and sound communication network; industrialization, high level of savings and investments; strong economy that create wealth and jobs to the people; self sufficiency in food production, high standard of living for the majority of the people; sufficient human capital and technological know-how; low level of poverty; and low level of unemployment.

Right from the time when the convertibility of the dollar into gold was suspended in August 1971 as well as the succeeding collapse of the Bretton Woods system, the globe had increasingly been moving to what was then referred to as an international monetary non-system. A fierce debate continues on whether the non-system needs to be reformed by establishing a new system to take the place of Bretton Woods or not. This debate had gained substantial topical interest with the desire of the underdeveloped countries to seek a new international economic order that would help in boosting their economy (Lal, 1980). The new economic order that is considered by many scholars of economic development is free trade (Gulaliyev, Ok, Musayeva, Efendiyev, Musayeva, & Agayeva, 2016). According to them, liberalization is regarded by a large number of researchers as being essential to the economic growth and development in any society – both developed and less developed alike. Similarly, it contributes, to some degree, to the effective and efficient functioning of the national economy as well as increasing its security. For many years, economists have sought ways of explaining how countries across the globe can gain from opening up their economies to allow external specialization and competition which gave birth to the development of a number of theories including economic liberalism. This theory, attributed to Adam Smith, discusses the benefits a country stands to get by actively taking part in the international division of labour (Edeme & Karimo, 2014). It advocates that any country that trades internationally ought to get specialized in the production of only those goods in which it has absolute advantage over other countries.

Free trade, as emphasized by economic liberalism theory, is important in the economy and is thought to be an economic growth and development driver. That is why most of the less developed countries as well as those countries that were seen as undeveloped embarked upon free trade in the early 1980s and particularly in 1990s with the belief that it would lead to industrial revolution which would consequently bring about positive results in the growth and development of their economies (Nzeribe & Uzonwanne, 2018). Trade takes place not only in terms of commodities but also in terms of idea movements, technology, and knowledge spillover (Adenekan, 2022). According to him, the openness of trade has been understood to have the ability of increasing economic growth over the long term by making provision for access to services and commodities, boosting total factor productivity via the spread of knowledge and technical advancement, and enhancing resource allocation effectiveness. Despite the fact that the relationship between the application of the theory of economic liberalism and economic growth has still been a subject of wide debate among policymakers, academics and researchers in the field of national development and international trade, various economists believe that the correlation is positive. According to Duru, Bartholomew, Okafor, Adikwu and Njoku (2020), trade liberalization can be the best propelling force of economic growth and development in the less developed countries if properly executed. Thus, liberalization of external trade inspires long-run economic growth. This, according to them, contributed immensely towards enhancing the economy of various countries in the world, particularly the less developed ones such as China, Malaysia, and India.

According to Nzeribe and Uzonwanne (2018), the policy reforms regarding trade that have been adopted by the Nigerian Government over the years include granting of special tax incentives and tax holidays to make it possible for local industries to build up adequate funds for expansion as well as to encourage firms to invest in economically disadvantaged areas; the partial elimination of import licensing scheme; and introduction of tax-free dividends for foreign people and reduction of corporate income tax rates and to encourage local research and development. Other reforms include, but are not limited to, establishment of export credit guarantee and insurance scheme to help local companies to compete effectively in the international market; promulgation of the export incentive decree where numerous incentives to promote export enhancement were stipulated; government grant of 140% tax relief to firms regarding research and development of raw materials; the opening of domiciliary accounts to keep firms' export earnings in foreign currencies; export stimulation loans scheme to provide for foreign producers that require imported inputs necessary to the production of products for export; government institutional aid that came through establishment of the Industrial Development Coordinating Committee (IDCC), Raw Material Research and Development Council (RMRDC), a data bank, Federal Institute of Industrial Research (FIIR), the Project Development Agency (PRODA), Export Processing Zones (EPZs), the Nigerian Investment Promotion Council; deregulation of the foreign exchange markets and naira devaluation; and simplification of industrial licencing (Nzeribe & Uzonwanne, 2018). However, most of these trade reforms did not record much success as the country is still counted among the countries with problems of economic growth and subsequent economic development. It is based on this that this paper seeks to examine the impact of applying the economic liberalism theory on the economic growth in Nigeria.

Economic Growth and Economic Development: Conceptual Clarifications

Economic growth and economic development are two concepts in the field of economics that are usually used interchangeably by students and sometimes even scholars alike. Despite this unclear boundaries between the two concepts, economists differentiate between the two. Economic growth, according Etale, Suwari and Adaka (2021), is the increased in productive capacities of an economy. That is when per capita income and Gross Domestic Product (GDP) increases in less developed countries, economic growth is said to occur. It is also described by Kuznet (1973) cited in Etale, Suwari and Adaka (2021) as being a long term increase in the capacity to supply increasingly diverse economies to its population. To Haller (2012), economic growth is a process of increasing the sizes of the macro-economic indication, particularly the per capita and Gross Domestic Product)GDP), in an ascendant though not necessarily linear direction; and national economies with positive impact on the socio-economic sector. According to him, economic growth can be zero, negative or positive. Zero economic growth is when the annual average rhythms of growth of the macro-economic indicators, especially Gross Domestic Product, are equal to those of the population growth. Negative economic growth is when the rhythms of population growth appear to be higher than those of the macro-economic indicators. While positive economic growth is when the annual average rhythms of the macro-economic indicators appears to be higher than the average population growth. Ivic (2015) describes the concept of economic growth as something that has to do with changes in material production and during a relatively short period of time, normally one year. This implies an annual increase in the production of materials as expressed in value, the rate of growth of national income or Gross Domestic Product.

Economic development, on the other hand, involves not only an increase in the production of material but also the entirety of the other socio-economic processes and changes caused by the influence of economic and beyond economic factors (Ivic, 2015). Thus, economic development has to do with a series of structural changes which can only be achieved through greater participation of the processing capability of industrial production – secondary sector – and at higher levels is progressively dominated by the service sector – tertiary sector. Okeke (2015) describes economic development as involving an increase in the wealth of a nation by expanding production of goods and services. This entails the rise in manufacturing; agricultural production; construction due to the introduction of better techniques, skills, and technology; increase in exports; rise in Gross Domestic Product; high per capita income; wealth and job creation; and high standard of living. Harbinson and Myers (1959) cited in Etale, Suwari and Adaka (2021) identified four stages of economic development that represent the inevitable and universal process by which numerous human societies progress in a linear direction.

Suffice to state here that economic growth is different from economic development though, some western scholars would want us to believe that the two are the same. Economic growth entails increase in GDP, but that increase may not translate to development. The GDP and the economy may sometimes grow as a result of improvement in just a few areas of the economy such as crude oil production and, or the price of oil in the International Oil Market. It may also be induced by increase in the production of goods and services by a few Multinational Corporations (MNCs) whose subsidiaries are domiciled in the country, or due to bountiful agricultural harvests which may increase export of cash crops. This will in turn increase external revenues for the government (economic growth). But such revenues may not be utilized to improve the well-being of the majority of the people which economic development demands. In this case, there is economic growth without corresponding economic development. This shows that increase in GDP may only bring about increase in revenues or incomes of both the government and the privileged few in the society (Okeke, 2015)

An Overview of Economic Liberalism

Liberalism is not one simple, undifferentiated doctrine. As with other doctrines or ideologies, there are varieties of liberalism. All liberals agree on the primacy of the freedom of the individual and, elatedly, individual choice that distinguishes liberalism from, for instance, socialism and nationalism. But according to Gulaliyev, Ok, Musayeva, Efendiyev, Musayeva and Agayeva (2016), some liberals argue in favor of these core values by means of highly abstract reasoning. One line of thinkers holds that the freedom of individuals is God-given or corresponds to an original principle, a law of human nature, from which the theorist can derive concrete action by purely logical reasoning. Natural law doctrine is central to the composition of John Locke, Thomas Hobbes and the philosophies of the French Enlightenment. Another set of writers, as indicated by Appel (2000), contends that liberalism is the wave of the present and the future, conforming to the inexorable laws of history and progress. This is one strand of John Stuart Mill’s thinking. Then there are those who argue that liberal principles of government and society are founded on an original social contract, which is integral to the thought of Locke and, more recently, John Rawls. Finally, a certain breed of liberals cleaves to the doctrine of utility, undertaking a cost benefit calculation of individual utilities geared to maximizing social welfare. This way of thinking, inspired by Jeremy Bentham, is at the heart of neoclassical welfare economics and the work of Robert Nozick (Harpham, 2016).

Often times, classical liberalism is associated with the belief that the state ought to be minimal, which means that practically everything except armed forces, law enforcement and other non-excludable goods should be left to the free dealings of its citizens, and the organizations they freely choose to establish and take part in (Ivic, 2015). This kind of state is sometimes described as a night-watchman state, as the sole purpose of the minimal state is to uphold the most fundamental aspects of public order. Some of these authors, especially John Locke, even consider the state to be a freely established association between individuals, where its members have a justified cause for rebellion if the state seizes more power than what has been originally ceded to it by its citizens. Classical liberalism is often the case that classical liberals are, with their tendency to favor laissez-faire economic policies, portrayed as leading proponents of neoliberalism. Modern liberalism is, on the other hand, characterized by a greater willingness to let the state become an active participant in the economy (Butler, 2015). This has often resulted in a pronounced tendency to regulate the marketplace, and to have the state supply essential goods and services to everyone. Modern liberalism is therefore, for all intents and purposes, a profound revision of liberalism, especially of the economic policies traditionally associated with it.

To classical economists such as Adam Smith, the self-adjust of the market provides economic stability, thus the role of state is only to ensure the free market operation as well as to balance budget (Hudea (CARAMAN), 2015).Classical economists are of the opinion that the economy can only reach its peak when free trade is ensured. This, according to them, will result in the increase of production of goods and services internally, creating employment opportunities at stable or growing real wages. Thus, Free trade has become compulsory as it will make it possible for the goods produced abroad to be imported into the exporting countries (Lefeber, 2000). This means that the state should open up its borders to allow free flow of goods and services. Thus, to classical economists, the role of the state in the economy is only to protect the private properties by providing an enabling environment for trade to flourish.

As classical or economic liberals favour laissez-faire economic policies because it is thought that they lead to more freedom and real democracy, modern liberals tend to claim that this analysis is inadequate and misleading, and that the state must play a significant role in the economy, if the most basic liberal goals and purposes are to be made into reality. Such modern views could be associated with nineteenth-century theorists such as Benjamin Constant and John Stuart Mill (Pal, 2019). More recently, John Dewey, William Beveridge, and John Rawls have articulated similar ideas. Modern liberalism could generally be thought of as being situated politically to the left of classical liberalism, because of its willingness to employ the state as an instrument to redistribute wealth and power – in order to create a society deemed to be more decent or equitable *Cloud, 2021). Another dimension within liberal thought Ryan describes is the more recent conflict between liberalism (or liberal egalitarianism) on one hand, and libertarianism on the other hand. This dimension overlaps to a degree with the division between classical and modern liberalism, but not entirely so.

In the contemporary economic globalization process economic liberalization has gathered a new momentum. The World Trade Organization that was adopted to be the driver of the economic globalization process, did not hesitate to demonstrate in its doctrinal principle that made and not aid is the panacea for economic growth and development in the current globalizing world. The phenomenon of liberalization of national economies entails the breading down of all domestic barriers to economic activities that often times mar their free flow, especially, in the areas of external trade and foreign direct investment across international boundaries; such development paves the way for greater openness, free access to global market and integration of countries into the world economic system (Okeke, 2015). In most countries, national impediments are being removed in the areas of foreign direct investment, trade, finance and financial markets.

Benefits of Trade Liberalization in Developing Countries

According to Adelowokan and Maku (2013), countries trade with each other because trading typically makes a country better off. In international trade, competition occurs at the firm level while citizens of every country can benefit from free trade. Citizens enjoy a greater variety of goods and services generally at a lower cost. Imagine a country that decides to isolate itself economically from the rest of the world. In order to survive the citizens of this country would need to grow their own food, make their own clothes and build their own houses. However if this country opens its border to trade, its citizens would specialize in the activities they do best. Specialization leads to higher productivity, higher income and better living standards. According to Nwakoh (2017), the fundamental principle of economic comparative advantage holds that when a country produces more of one product, it will create less of some other product. This trade-off occurs because resources are scarce and societies want to get the maximum benefit from them. The central question in international trade is not how much it costs in either money or resources to produce goods such as pairs of trousers, computers in one country compared to another. The question is how many pairs of trousers it costs to produce a computer when resources are shifted from producing one product to another. The country that can produce more computers by saying forgoing production of 1,000 pairs of trousers can benefit from trading with the country that gets fewer computers in return for not producing 1,000 pairs of trousers. In other words, countries benefit from free trade because of their comparative advantages, which means that there is not a single country in the world that can produce everything more cheaply than others (Bakare, 2014).

The benefits of comparative advantage are particularly important to developing nations such as Nigeria. In Thomas Sowell's Basic Economics, an unattributed statement was quoted which reads "Comparative advantage means there is a place under the free trade sun for every nation no matter how poor because people of every nation can produce some products relatively more efficiently than they produce other products" (Nwakoh, 2017). The relationship between trade openness and economic growth has been thoroughly analyzed and the findings in most studies support the notion that greater openness to trade generates positive growth effects (Joshi, 2014). In a seminar paper Dr. Sebastian Edwards of UCLA found out countries that liberalize their international trade and become more open in the sense of lower tariff and nontariff barriers to trade will tend to grow faster especially in the developing world. In a country-specific study for Turkey, Shaffaedin (2014) finds that a positive correlation between trade liberalization and economic growth is plausible. Moreover, his most important finding is that a reduction in trade distortions is linked to growth thereby highlighting the importance of trade policy on the economic performance of that country. Most recently Antinie (2013) analyzed the relationship between economic growth and trade openness with annual time-series data for Bolivia during the 1940-2010 periods. The result shows that there is indeed a long-run equilibrium relationship between economic growth and trade openness .Also causality runs from trade liberalization to economic growth.

Economic Liberalism and the Development of Economic Growth in Nigeria

Trade liberalization started in 1947 after the 2nd World war with the inception of the General Agreement on Tariffs and Trade (GATT). The GATT was negotiated in 1947 by 23 countries of which 12 are industrialized countries and 11 developing countries. The main focal point of GATT was to lower trade barriers. GATT was later replaced by the WTO (World Trade Organization) in 1994. According to Echekoba, Okonkwo and Adigwe (2015) the main purpose of trade liberalization is to allow countries to export those goods and services that they can produce efficiently while they import the goods and services that they produce inefficiently. The developing countries continued to experience underdevelopment despite the economic growth of the early and late sixties. According to Mesike et, Al. (2014) the sustained crisis evidenced in low productivity, high rates of inflation, high rates of unemployment, deterioration in standard of living, huge external debts, social and political chaos etc. prompted the countries to implement one trade policy or the other. Nigeria with the aim of liberalizing the economy and achieving greater openness plus greater integration with the world economy has put various policies in place to ensure a higher degree of openness of her economy (Haller, 2012). Such policies as Maintenance of stable and consistent macroeconomic plans, eliminating the commercial function of public sector through deregulation, privatization and further trade exchange liberalization, various export incentives, bilateral/regional and trade preference agreements with different countries and so on.

From 1986, there was a significant shift in trade policy direction towards greater liberalization. The shift in policy was directly attributed to the Structural Adjustment Programme. It provided for a seven-year (1988 – 1994) tariff regime with the objective of achieving transparency and predictability of tariff rates. According to Adeyemi (2012), the regime of Gen. Sanni Abacha (1993 – 1998) abandoned some aspects of the economic reform and pursued what it called guided deregulation. Gen. Abdusalam Abubakar laid the legal framework for the second phase of the privatization exercise. It continued under President Obasanjo (1999 – 2007) regime. Nigeria thus faced daunting challenges in its efforts to revive economic growth and improve the living conditions of the people. The trade policy regime from 1999 has been geared to enhance competitiveness of domestic industries with a view of encouraging local value-added and promoting as well as diversifying exports. The strategy is to encourage private sector-led economic growth. The policy focus among others includes accelerated privatization, liberalization and private sector development. At the end of the 34th meeting held by international monetary fund (IMF, 2016) in Washington D.C, The chair of the committee/Governor of the Bank of Mexico Mr. Agustín Carstens also noted that excessive volatility and disorderly movements in exchange rates could have adverse implications for economic and financial stability. According to him, the international monetary fund committee (IMFC) would use all policy tools: structural reforms, fiscal and monetary policies both individually and collectively to tackle the wave of soft economic growth across the globe.

For the Liberal School, openness to international trade is a process of greater integration and interdependence of nations for mutual benefits and global development. Francis Fukuyama in his book titled "the End of History and the Last Man Standing" opines that trade liberalization represents the victory of political and economic liberalism that is evidenced in the triumph of the western ideas and values and the exhaustion of viable systemic alternatives to western liberalism (Okeke, 2015). For the advocates of economic liberalism, nation states should open up their economies through deregulation and removal of all national barriers to international trade and investments so as to fully enjoy the inter-dependency, mutual exchange of goods and services as well as development opportunities which globalization offers. They further argue that the government has no business in business, and therefore should not intervene in the economy, but play minimalist roles (Okore, 2013). This is a clear indication that for Nigeria to achieve a rapid economic growth and development, it has to adopt, fully, the theory of economic liberalism as it is the only means through which trade would improved nationally and gain a chance of importing new technologies from the advanced nations of the world which is a prerequisite for economic growth and subsequent economic development.

It is doubtless that economic liberalism which brings about globalization offers some positive opportunities or gains to the entire world and less developed nations in particular in which Nigeria is a member. For instance, it makes states of the world to be more interconnected and interdependent through trade and investments. According to Joshi (2014), international trade is essential to developing countries such as Nigeria because having been integrated into the global capitalist order, international trade has become the major source of external revenue with which they could pursue development. Thus, it is only if the Nigerian borders are opened up and free flow of goods and services are allowed that foreign investment would be boosted through the multinational corporations that contribute immensely to the development of less developed countries. For instance, Okeke (2015) stated that multinational corporations in Nigeria such as Shell Petroleum, Chevron, UAC, Toyota, Kia, LG, SAMSUNG, Thermocool, Nokia, MTN, Standard Chartered IBTC and numerous pay royalties and taxes to the government. Therefore, they are a potential source of revenues to the government. Also, they do provide employment to the indigenous people of their host communities. Some of the indigenes or citizens of the country where MNCs are sited are usually employed to work in these companies. This helps in solving the unemployment problem. Moreover, MNCs in fulfillment of their corporate social responsibility do provide social infrastructure in their host communities. In other words, they sometimes help the government to provide basic amenities such as roads, hospitals, potable drinking water, schools and electricity for the well-being of the citizenry. In some instances, they give scholarships to the indigenous people of their host communities.

In addition, applying economic liberalism theory in Nigeria will enhance economic growth in the country as it will improve Information and Communications Technology (ICT) like computers, mobile phones, internet and so on Kankesu (2012). Thus, information and communication technology gadgets that are considered the foundation of all the development attained by the advanced nations of the world would find their way into Nigeria through trade liberalization, which subsequently bring about the similar positive change it instigates to the advanced nations of Western Europe and Northern America to Nigeria. This would help, in no small measure, in boosting the economy of the country by generating employment opportunities to the citizens as well as reducing the level of poverty.

Conclusion and Recommendations

It is obvious that Nigeria has been involved in immense economic reforms for the past few decades in order to remove or substantially reduce market distortions created mainly by government intervention in the productive sector since independence. Their ability to succeed depends on the political will to allow private firms to play their role as the engine of growth in their economies but only when the proper attention and encouragement has been given to the private sector to ensure growth, sustainability and the ability to export. Reform programmes come in sharp contrast to existing economic policies that were pursued after independence. This is because in a competitive environment prices get lower and the products become diversified through which consumer surplus emerges. Gains from specialization and efficiency are also further advantages of economic openness. Hence it is quite reasonable that economies generally desire to be economically open. It is based on this that this study recommends the following;

i. The Federal Government should revisit its policy of border closure through which various commodities that are necessary for the development of the country are barred from coming into the country.

ii. The Federal Government of Nigeria should also embrace the globalization policy that by liberalizing trade between the country and the other countries across the globe for it would make it possible for new ideas to flow freely into the country which will subsequently improve the economy of the country.

iii. Exchange rate liberalization is also critical in facilitating trade in any economy, it is therefore recommended that the policy makers in Nigeria should ensure that exchange rates are determined by the forces of demand and supply.

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