Chapter 24

THE GLOBAL ECONOMIC CRISIS: IMPLICATIONS FOR SUSTAINABLE DEVELOPMENT IN NIGERIA

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Abstract

The global financial crisis, brewing for a while, really started to show its effects in the middle of 2007 and into 2008. Around the world, stock markets have fallen, large financial institutions have collapsed or been bought-over and government in even the wealthiest nations (such as The United States of America, Britain, China, and Japan) have had to come up with rescue packages to bail out their financial systems. On the one hand, many people are concerned that those responsible for the financial problems are the ones being bailed out, while, on the other hand, a global financial meltdown will affect the livelihood of almost everyone in an increasingly inter-connected world because of globalization and information and communication technology. The problem could have been avoided, if ideologues supporting the current economics models were not so vocal, influential and inconsiderate of others' viewpoints and concerns. Our concern, therefore, is that all these events will considerably affect development, especially in the third world nations. No doubt, the implications of all this for the political, socio-economic, democratic and sustainable development in Nigeria are monumentally obvious considering the nature of state formation in Africa, unemployment, insecurity, low political culture, socialization and corruption. This study provides an overview of the crisis with links for further or more detailed coverage, and at the end, makes some recommendations while adopting the structural-functional approach.

Keywords: Global economic crisis, sustainable development.
1. Introduction

Following a period of economic boom, a financial bubble (global in scope) has now burst. A collapse of the United States of America sub-prime mortgage market and the reversal of the housing boom in other industrialized economies have had a ripple effect around the world. Furthermore, other weaknesses in the global financial system have surfaced. Some financial products and instruments have become so complex and twisted that, as things start to unravel, trust in the whole system started to fail. While there are many technical explanations for how the sub-prime mortgage crisis came about, the mainstream British Broadcasting Corporation (BBC) describe the mindset of the investment banking community in this satirical interview, explaining it in a way that derivatives (securities derived from other securities) are also explained: The betting of practically anything helped create enormous sums of money out of almost nothing. However, as former US Presidential speech writer, Mark Lange, notes, “because [derivatives are] entirely unregulated and trade on no public exchanges, their originators can deliberately hide their vulnerabilities” (Lange, 200:7). The sub-prime crisis came about in large part because of financial instruments such as securitization where banks would pool their various loans into sellable assets, thus off-loading risky loans onto others. (For banks, millions can be made in money-earning loans, but they are tied up for decades. So they were turned into securities. The security buyer gets regular payments from all those mortgages; the banker off-loads the risk. Securitization was seen as perhaps the greatest financial innovation in the 20th century).

As BBC’s former economic editor and presenter, Evan Davies noted in a documentary called The City Uncovered with Evan Davies: Banks and How to Break Them (January 14, 2008), rating agencies were paid to rate these products (risking a conflict of interest) and invariably got good ratings, encouraging people to take them up. Starting on Wall Street, others followed quickly. With soaring profits, all wanted in, even if it went beyond their area of expertise. For example:

- Banks borrowed even more money to lend out so they could create more securitization. Some banks didn’t need to rely on
savers as much then, as long as they could borrow from other banks and sell those loans on as securities; bad loans would be the problem of whoever bought the securities.

- Some investment banks like Lehman Brothers got into mortgages, buying them in order to securitize them and then sell them on.
- Some banks loaned even more to have an excuse to securitize those loans.
- Running out of whom to loan to, banks turned to the poor; the sub-prime, the riskier loans. Rising house prices led lenders to think it wasn’t too risky; bad loans meant repossessing high-valued property. Sub-prime and “self-certified” loans (sometimes dubbed “liar’s loans”) became popular, especially in the US.
- Some banks even started to buy securities from others.
- Collateralized Debt Obligations or CDOs (even more complex forms of securitization) spread the risk but were very complicated and often hid the bad loans. While things were good, no-one wanted bad news (Davis, 2008:3).
- High street banks got into a form of investment-banking, buying, selling and trading risk. Investment banks, not content with buying, selling and trading risk, got into home loans, mortgages, etc. without the right controls and management. Many banks were taking on huge risks, increasing their exposure to problems. Perhaps it was ironic, as Katsuhito (2008) observed that a financial instrument to reduce risk and help lend more securities would back-fire so much (Katsuhito, 2008:9).

When people did eventually start to see problems, confidence fell quickly. Lending slowed, in some cases ceased for a while and even now, there is a crisis of confidence. Some investment banks were sitting on the riskiest loans that other investors did not want. Assets were plummeting in value so lenders wanted to take their money back. But some investment banks had little in deposits; no secure retail funding, so some collapsed quickly and dramatically. The problem was so large that banks even with large capital reserves ran out, so they had to turn to governments for a bailout (Dembele, 2009:4). New capital was injected into banks to, in effect; allow them to lose more money without going
bust. That still wasn’t enough and confidence was not restored. (Some think it may take years for confidence to return). Shrinking banks suck money out of the economy as they try to build their capital and are nervous about loaning. Meanwhile, businesses and individuals that relied on credit found it harder to get and, therefore, a spiral of problems resulted. As Mohan (2009) described it, banks had somehow taken what seemed to be a magic bullet of securitization and fired it on themselves (Mohan, 2009:5).

2. Theoretical Framework

Structural functionalism has been found particularly useful in the comparison of political systems. According to Gabriel Almond, one of the chief proponents of the approach in political science, every political system performs certain functions. Taking David Easton’s systems analysis as a starting point, Almond looks for the functions which could be included among the input and output functions of all political systems. Firstly, on the input side are the functions of (1) interest articulation and (2) interest aggregation. Secondly, on the output side are the functions of (3) rule-making, (4) rule-application and (5) rule-adjudication. The function of (6) political communication is undertaken to inform all within the political system and outside of these diverse activities. Additionally, every system performs (7) systems-maintenance and adaptation functions through the political socialization and recruitment of people. The significance of political culture, socialization-participation and agents of socialization (which include the family, peer-group, school and media) are very imperative here. These are the very templates on which political ideology is strongly built.

According to Almond, the functioning of any political system may also be viewed in terms of its capabilities defined as ‘the way it performs as a unit in its environment.’ The concepts of regulative, extractive, distributive and responsive capability are employed as criteria to assess how a system is performing within its environment, how it is shaping its environment and how it is being shaped by it. Here again, the feedback that the government receives, either negative or positive, deeply reinforces the development of the policies at stake.
Almond’s formulations have been faulted on three grounds. First, it has been noted that it is not easy to distinguish between the ‘deliberate aims of the participants and what takes place because the system seemed to achieve certain aims.’ Secondly, the identification of functions is alleged to rest on the interpretation the analyst places on observed developments. Thus, there cannot be complete objectivity. In effect, the number of the identified functions can be more or less than the seven listed by Almond. Thirdly, the approach has been seen as culture-bound since the functions attributed to the political system are too closely modeled on Western political systems. However, Almond’s structural-functional approach has been recognized as the major tool existing for a genuine comparative analysis of political systems and it has been described as a ‘fairly realistic interpretation of the nature of political life.’

The import of this model to the study is very simple. It brings out clearly and distinctively, the imperative of the interdependence and interrelatedness of the Nigerian economy. Whatever affects the economic sector also affects the other sectors. This is due to the fact the superstructure (the Polity which consists of both the political and social aspects of the society) rests solely and heavily on the sub-economy. Nigerians have witnessed the unprecedented nature in the rise of crime in the last few years; this phenomenon is occasioned by the global economic meltdown which started from the United States of America, Europe and the Asian countries. The spate of ethno-religious conflicts, politically-motivated kidnapping, robbery, killing, violence, assassinations, and the recent post-election violence could all be linked to the prevailing harsh economic conditions. There is, therefore, a direct synergy between sustainable development, on the one hand, and a robust economic, virile political climate and a strategically-structured social environment.

3. The Reality of the Global Economic Crisis in Nigeria

The current global financial crisis, which was triggered by the credit crunch within the United States of America sub-prime mortgage market, is continuing to spread and deepen in several countries. Countries around the world have approached this whirlwind pragmatically, prompting emergency funding support (bail-out) for relevant sectors, thereby mitigating the impact of the crisis on economics as well as
avoiding the collapse of the entire international financial system. In spite of such support, some countries have been officially declared as being in recession, doom or stagnation, owing to a monumental decline in their wealth, manifesting itself in falling productive capacity, growth, welfare, employment, consumption, exchange, distribution of goods and services (Glaeser, 2009:8).

To further buttress our point passionately, Nigeria ranks poorly in the 2009 Global Competitiveness Rankings of the Institute for Strategy and competitiveness of the Harvard University, United States (Vanguard, Monday, August 3, 2009:36). The 2009 Global Competitiveness report was put together after a survey of 134 countries across the world, measuring competitive disadvantages against a number of indices. On some of the indices, Nigeria’s ranking is disheartening, even though it was not surprising. For instance, on the index, patents per million people, Nigeria ranks last on the list of 134 countries surveyed. On the index, quality of electricity supply, the country ranks 133rd. The paper notes that all these facts would not come as a surprise to most Nigerians, many of whom would expect Nigeria to rank last on almost all indices, considering the appalling situation of the country’s power sector.

On the index of burden of custom procedures, Nigeria ranks 122nd; Ease of access to loan: 124th; inflation: 98th; insecurity: 97th, politically-motivated killings and ethno-religious conflicts: 99th; quality of railroads: 121st; quality of infrastructure: 115th; personal computers per 100 people: 117th; overall, Nigeria ranks 106th (Vanguard, Monday, August 3, 2009:36). No doubt, this sordid development is somehow connected to the global economic crisis. There is probably a strong interplay between globalization, the information and communications technology and low political culture and socialization.

The integration of financial markets has increased the contagion effects of the financial crisis. In developing countries, tracking the transmission of the effects has been hampered by the fact that these countries: i) are at different stages of development; and ii) have different structures to their productive capacities and different socioeconomic problems and abilities to respond promptly to global shocks. The Nigerian economy, prior to the crisis in 2007, performed below projection, with an estimated GDP growth of 6.2%. This figure, below the
set target of 10%, was still higher than the 6.0% recorded in 2006. This growth was driven primarily by the non-oil sector, which grew by 9.6% (CBN, 2008a), largely attributable to the agricultural sector, which grew by 7.4%, led by crop-production, livestock and fishing (Adedipe, 2009:6).

Other drivers of growth in non-oil GDP included wholesale and retail trade, building and construction and services, which recorded growth rates of 15.3%, 13.0% and 9.8%, respectively. Industrial output fell by 3.5%, attributable mainly to the 5.9% drop in crude oil production occasioned by the Niger Delta crisis. By year-end 2007, the crude oil production stood at 0.9 million barrels a day. Official confirmation from the Nigerian National Petroleum Company (NNPC) showed that the country lost N16.9 billion to petroleum pipeline vandalism. The downstream sector of the petroleum industry remained comatose and the country relied on imported refined petroleum products for domestic and industrial operations. Official confirmation indicated that Nigeria consumed about 14.13 billion litres of refined petroleum products or 38.7 million litres per day during 2007, with premium motor spirit accounting for 9.81 billion litres. By the end of September 2007, the Manufacturers Association of Nigeria (MAN) reported a drop in manufacturing capacity utilization from 44.06% in 2006 to 43.5% owing to the difficult operating environment. The industrial section made a negative contribution of 0.78 percentage points. The agriculture sector, on the other hand, contributed almost half of the GDP growth rate of 6.2% (Akingbola, 2009:12).

Table 1: SECTORAL CONTRIBUTION TO GROWTH RATES OF GDP IN NIGERIA, 2006-2010 (%)

<table>
<thead>
<tr>
<th>Years</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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<tbody>
<tr>
<td>Agriculture</td>
<td>2.58</td>
<td>2.65</td>
<td>2.85</td>
<td>2.93</td>
<td>2.65</td>
</tr>
<tr>
<td>Crop production</td>
<td>2.42</td>
<td>2.36</td>
<td>2.56</td>
<td>2.64</td>
<td>2.67</td>
</tr>
<tr>
<td>Industry</td>
<td>6.12</td>
<td>1.22</td>
<td>0.47-</td>
<td>0.62-</td>
<td>0.78</td>
</tr>
<tr>
<td>Crude petroleum</td>
<td>6.02</td>
<td>0.84</td>
<td>0.12-</td>
<td>0.93-</td>
<td>1.08</td>
</tr>
<tr>
<td>Building and construction</td>
<td>0.12</td>
<td>0.14</td>
<td>0.18</td>
<td>0.2</td>
<td>0.21</td>
</tr>
<tr>
<td>Wholesale and retail</td>
<td>0.69</td>
<td>1.24</td>
<td>182</td>
<td>2.16</td>
<td>2.34</td>
</tr>
<tr>
<td>Services</td>
<td>0.06</td>
<td>1.32</td>
<td>1.19</td>
<td>1.36</td>
<td>1.49</td>
</tr>
<tr>
<td>Communications</td>
<td>0.36</td>
<td>0.36</td>
<td>0.43</td>
<td>0.59</td>
<td>0.74</td>
</tr>
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</table>
The effects of the global financial crisis on growth and development are quite obvious. Regarding impacts on growth, the results of the experiments show that a negative oil price shock has negative impacts both in the short and medium term on growth items, with emphasis on the effects on GDP, savings/investment, exchange rate and investment-consumption volume (the percentage deviations from the base run parameters and their marginal changes over the period of investigation) for the Nigerian economy (Aluko-Olokun, 2010:15).

An examination of Annex 3 indicates that the simulated average level of the parameter results for GDP differs significantly from the average base run level. With the shock-simulation scenarios under 12.2%, 51.2%, 63.4% and 69.5%, GDP deteriorated cumulatively by 0.96%, 4.3%, 5.43% and 6.02%, respectively, on average for the period August-December 2008, January-June 2009, July-December 2009 and 2010, respectively. Specifically, the 51.2% negative oil shock between January 2009 and June 2009 will lead to an average fall of 4.3% in GDP (Onyekpe, 2010:9). However, the negative impact on the GDP will decline under the marginal reduction scenario, so that we now have - 3.34%, -1.13% and -0.59% from January-June 2009, July-December 2009 and 2010, respectively (UNDP, 2011:7). This is primarily due to importation – Nigeria is a net consumer nation rather than a producer-nation. This fact is equally true as our farming is not mechanized but crudely performed. The consequences of the global financial crisis on growth and development in Nigeria are enormous and widespread (Obadan, 2003:9).

The first point of impact is through the drop in the price of oil. This is followed by the fall in the share price of the stock market. The combined effect of these two led to the depreciation of the naira exchange rate. Further worsening the situation is the withdrawal of foreign portfolio investment (hedge funds) from the Nigerian market. As at January 2009, foreign portfolio investors had withdrawn some US$15 billion from the country’s capital markets. Such massive withdrawals compound the crisis of confidence, which has further complicated the capital market
recovery process. The transmission of these impacts to the real and financial sector will surely hamper the growth and development of the Nigerian economy. Since the trend is just emerging, it may be difficult to gauge the magnitude of what the impact of the crisis is at this time (Osagie, 2010:4).

The oil sector, which serves as the mainstay of the Nigerian economy, has experienced a plunge in the international price of crude oil. This has meant a huge decline in foreign exchange earnings. Some experts are predicting that oil prices may still come down to as low as US$30 per barrel over the coming years. Rather than increasing, the reserve has been diminishing since the crisis (Othieno, 2009:8). This has led to reduction and scarcity in the foreign exchange offered for sale in the Wholesale Dutch Auction System. The reduction has intensified the speculative tendency at the WDAS. This has introduced instability into the market and triggered further depreciation of the naira foreign exchange rate. Demand in February 2009 was $3 billion compared with $7.3 billion in the month of March 2008. In the face of dwindling foreign exchange earnings, the CBN has to evolve management tactics that indirectly support the naira. The overall impact is less budgetary allocation at all tiers of government to growth and development-enhancing programmes and high cost of importation for critical infrastructure development, as in the power and health sectors. This will not only deepen the infrastructure finance gap, but also cloud the prospects for achieving the set targets in the new development plan, the Vision 2020 project (Aluko-Olokun, 2009:13).

Current budget plans will be affected in a major way. The 2009 federal budget proposals have an in-built deficit of N1.09 trillion, a figure that many critics consider unsustainable. The government is optimistic that it will be able to finance this through taxation and accruals from signature bonuses from the sale of certain privatized companies, divestment from some private sector activities and issuance of federal government bonds, as well as plugging back some budget allocations that were unspent in previous years (Roger, 2008:5).
4. Implications of the Global Economic Crisis for the Developing Countries

For the developing world, the rises in food prices as well as the knock-on effects from the financial instability and uncertainty in industrialized nations are having a compounding effect. High fuel costs, soaring commodity prices together with fears of global recession are worrying many developing country analysts. Summarizing a United Nations Conference on Trade and Development report, the Third World Network notes the impacts the crisis could have around the world, especially on developing countries that are dependent on commodities for import or export: Uncertainty and instability in international financial, currency and commodity markets, coupled with doubts about the direction of monetary policy in some major developed countries, are contributing to a gloomy outlook for the world economy and could present considerable risks for the developing world (the UN Conference on Trade and Development, UNCTAD, 2010:45). Commodity-dependent economies are exposed to considerable external shocks stemming from price booms and busts in international commodity markets (Davis, 2009:9).

Market liberalization and privatization in the commodity sector have not resulted in greater stability of international commodity prices. There is widespread dissatisfaction with the outcomes of unregulated financial and commodity markets, which fail to transmit reliable price signals for commodity producers. In recent years, the global economic policy environment seems to have become more favourable to fresh thinking about the need for multilateral actions against the negative impacts of large commodity price fluctuations on development and macroeconomic stability in the world economy. The paper notes that this development is deeply rooted in the nature of the states formation in Africa in general and Nigeria in particular with reference to colonialism.

The African socio-economic formation is different from that of the advanced industrial capitalist societies of Europe and America. The African socio-economic formation is characterized by the uneven and combined development of the different modes of production. There is the capitalist sector, which exists in combination with the pre-capitalist sector at various stages of disintegration (Nnoli, 2003:43). Ake (1989:16) argues
that, while the capitalist enclaves (Urban Areas) are engaged in the production of exchange values, the pre-capitalist formations are engaged in the production of raw materials. The relations among producers are mechanistic, while specialization in production is rudimentary. Consequently, exchange production and exchange relations are limited and the market is not fully developed (Offiong, 1980:13).

The State in Africa, like in every other society, is the organized instrument of the ruling class. However, the specific characteristics of the State in Africa are the result of the specific historical condition of emergence and development. The specific historical condition is colonialism (Offiong, 1980:17). Colonialism shaped the nature of the State and society in Africa as well as the dynamics of the ruling class. The historical specificity of colonial States of Africa ruled out certain similarities between it and the State in the advanced capitalist societies of Europe, Asia and America.

In the advanced capitalist societies of Europe, the State was the classic State in the sense that it was the instrument of the ruling capitalist class, which emerged with it from the feudal mode of production to maintain its domination over the other classes in the capitalist society. On the other hand, the task of the colonial State was two-fold and different. The task of the colonial State was to:

- Conquer and subdue the people of our African colonies in such a way as to make it easy and cheap to exploit their raw materials and human resources.
- Establish capitalist relations and human resources in African colonies in such a way as to guarantee super profits to the capitalists in Europe and America (Ake, 1989:8,15; Nnoli, 2003:44; Offiong, 1980).

Udombana (2003) argues that, while the State in Europe maintained domination over the non-capitalist classes of Europe, the State in Africa exercised domination over the African people as a whole. Similarly, while the European State regulated the operation of the bourgeois class, the State in Africa had first to create the capitalist mode of production, make it dominant in the society and make it yield profits for Europeans,
change the character of the State and participate directly, actively and more extensively in the economic, social, cultural and political life of the people than was the situation or case in Europe. Furthermore, civil society, which assisted with the institutions of state power and which supports and reinforces them, had either not emerged or were still poorly-developed. Thus, civil society in Africa is not attentive, assertive or focused. In Europe and America, Ake argues that civil society and the capital mode of production emerged before the capitalist State (Ake, 1989:18).

Akpotor (2005:57) argues that the State in Africa lacks legitimacy autonomy because its power base is not in the society. Thus, the State is not in a position to mediate class struggle, since it is itself involved in the struggle on the side of the dominating faction of the ruling class. Here, ‘class’ in this context is explained to mean “a large group of people differing from each other by the place they occupy in a historically-determined system of social production, by their relations to the means of production, by their role in the social organization of labour, and consequently, by the dimensions of the share of social wealth ...” (Lenin, 1939:45). In such a situation (as explained before defining class), the realization of the law of value is hampered and the development of productive forces is slowed and primitive accumulation reigns with the massive intervention of force in the labour process.

At the political level, the struggle for the control of State power becomes warfare. Power is overvalued and security lies only in getting more political and economic power. Might is in co-existence with right. The implication of all this for democratic governance and sustainable development is obvious. The struggle of the ruling class in Nigeria from 1999 to 2011 to contain the crisis of legitimacy and revolutionary pressures took rather predictable forms. These forms are politically motivated killings, arson, assassination and destruction of lives and properties. This new form of ideological containment is itself pregnant with contradictions. However, class contradictions during these periods do not promote a new sense of common purpose; rather, political violence becomes the central ideology.
5. Implications for Sustainable Development in Nigeria

Perhaps ironically, Africa’s generally weak integration with the rest of the global economy may mean that many African countries will not be affected by the crisis, at least not initially, as suggested by Reuters in September 2008. The wealthier ones, which do have some exposure to the rest of the world, however, may face some problems. In recent years, there has been more interest in Africa from Asian countries such as China. As the financial crisis is hitting the Western nations the hardest, Africa may yet enjoy increased trade for a while. These earlier hopes for Africa may, unfortunately, be short-lived. In May 2009, the International Monetary Fund (IMF) warned that Africa’s economic growth will plummet because of the world economic downturn, predicting that growth in sub-Saharan Africa will slow to 1.5% in 2009, below the rate of population growth (revising downward a March 2009 prediction of 3.25% growth due to the slump in commodity prices and the credit squeeze) (ICT, 2011:88).

South Africa, Africa’s largest economy, has entered into recession for the first time since 1992, due to a sharp decline in the key manufacturing and mining sectors. The IMF has promised more aid to the region, importantly with looser conditions, which in the past have been very detrimental to Africa. Given this past, many will likely remain skeptical of IMF loans, a concern already expressed by Stiglitz and others. In the long run, it can be expected that foreign investment in Africa will reduce as the credit squeeze takes hold. Furthermore, foreign aid, which is important for a number of African countries, is likely to diminish. (Effectiveness of aid is a separate issue which the previous link details). African Countries could, however, face increasing pressure for debt-repayment. As the crisis gets deeper and the International Institutions and Western Banks that have lent money to Africa need to shore up their reserves more, one way could be to demand debt-repayment. This could cause further cuts in social services such as health and education, which have already been reduced due to crises and policies from previous eras. Much of the debts owed by African nations are odious or unjust debts, as detailed further below, which would make any more aggressive demands of repayment all the more worrisome (Davis, 2008:6).
Some African Countries have already started to cut their health HIV budgets due to the economic crisis. Their health budgets and resources have been constrained for many years already, so this crisis makes a bad situation worse. As the WHO 2010 reports, already, large percentages of households in Sub-Saharan Africa are poor, and the large number of people on treatment means ever-increasing treatment program costs (WHO, 2010:94). Yet, Sub-Saharan Africa accounts for only one percent of global health expenditure and two percent of the global health workforce. Currently, only one third of HIV-positive Africans in need of antiretroviral (ARV) treatment can access it. Dr Bactrin Killingo, Chairperson of the Nairobi-based Collaborative Fund for HIV Treatment preparedness, says: “if current cost constraints faced by HIV treatment programmes are not addressed, while the demand for expensive second-line treatment increases, we will soon find ourselves in a situation similar to the 1990s, where millions of lives were lost unnecessarily because people could not afford the treatment they needed to stay alive” (Palitza, 2011:9). And it is not just poor nations’ health funds that are at risk. The WHO reports 2010 adds that even International Donor Organizations have started to feel the financial crunch. The Global Fund to Fight AIDS, Tuberculosis and Malaria recently announced it is at least $4 billion short of the money it will need to continue funding essential HIV, TB and malaria services in 2010. The coalition believes there is a $10.7 billion funding gap for the regional implementation of the Global Plan to stop TB alone (Palitza, 2011:8).

There are some grand strategies to try and address global poverty, such as the UN Millennium development Goals, but these are not only lofty ideals and threatened by the effects of the financial crisis (which would reduce funds available for the goals), but they aim only to halve poverty and other problems. While this is, of course, better than nothing, it signifies that many leading nations have not had the political will to go further and aim for more ambitious targets, but are willing to find far more to save their own banks, for example.

A global food crisis affecting the poorest the most

While the media’s attention is on the global financial crisis (which predominantly affects the wealthy and middle classes), the effects of the
global food crisis (which predominantly affects the poorer and working classes) seem to have fallen off the radar. The two are in fact inter-related issues; both have their causes rooted in the fundamental problems associated with a neo-liberal, one-size-fits-all, economic agenda imposed on virtually the entire world.

*Human rights conditions made worse by the crisis*

Human rights have long been a concern. Recent years have seen increasing acknowledgement that human rights and economic issues such as development go hand in hand. The Amnesty International report 2009 highlights the impact of the economic crisis on human rights across the world, calling for a new deal on human rights to go hand-in-hand with any proposed financial solutions.

Long before the global financial crisis took hold, human rights concerns were high the world over, as annual reports from Amnesty International and other human rights organizations had repeatedly warned. The global financial crisis has led to an economic crisis which in turn has led to a human rights crisis, says Amnesty in its 2009 report. It finds that, as millions more slide into poverty as a result of the current crisis, social unrest increases, resulting in more protests. These protests are sometimes met with a lot of suppression. At other times, people are further exploited. The World Bank agrees. According to the BBC, the World Bank has warned of “Human Catastrophe” in the world’s poorest countries, unless more is done to tackle the global economic crisis; and fears massive social upheaval, if more is not done to address the crisis (Amnesty International Report, 2011:5).

When the G20 held a summit in the UK in April 2009, much was made by local media of the apparent use of excessive force by police against protesters, even leading to the death of a passerby mistaken for a protester (a few protesters were also violent). George Monbiot (2011) also raises concerns about how campaigners and protesters are being rebranded as “domestic extremists” (Monbiot, 2011:34). But, as a news article accompanying the report from Amnesty International summarizes, many nations have seen protests against economic decline and social conditions which have been met by violence, arrests and detentions without charge. Across Africa, people demonstrated against
desperate social and economic situations and sharp rises in living costs. Some demonstrations turned violent; the authorities often repressed protests with excessive force. Social tensions and economic disparities led to thousands of protests throughout China. In the Americas, social protests over economic conditions increased in Peru; in Chile, there were demonstrations throughout 2008 on Indigenous People’s rights and rising living costs. What are the lessons to be learnt by Government and policymakers?

Poor nations will get less financing for development.
The poorer countries do get foreign aid from richer nations, but it cannot be expected that current levels of aid (low as they actually are) can be maintained as donor nations themselves go through a financial crisis. As such, the Millennium Development Goals to address many concerns such as halving poverty and hunger around the world will be affected. Almost an aside, the issue of tax havens is important for many poor countries. Tax havens result in capital moving out of poor countries. An important source of revenue, domestic tax revenues account for just 13% of low income countries’ earnings, whereas it is 36% for the rich countries.

A UN-sponsored conference slated for November 2008 to address this issue is unlikely to get much attention or be successful due to the recession fears and the financial crisis. But this capital flight is estimated to cost poor countries from $350 billion to $500 billion lost revenue, outweighing foreign aid by almost a factor of 5. This lost tax revenue is significant for poor countries. It could reduce, or eliminate the need for foreign aid (which many, in rich countries are not likely to, anyway); it could help poor countries pay off (legitimate) debts, and, consequently, they could themselves become more independent from the influence of wealthy creditor nations.

Politically, it may be this latter point that prevents many rich countries from doing more to help the poor, when monetarily it would be so easy to do so. But public pressure has had an effect. The governments of the US, the UK and others are slowly increasing pressure on tax havens, though with mixed results, and some tax havens are on the defensive, trying to justify themselves. Some havens, such as Jersey, have been pressured into signing agreements that will increase their
transparency. Whether it will work, or if it is just a token gesture is, however, hard to say at this time.

Crippling third world debt has been hampering the development of the developing countries for decades. These debts are small in comparison to the bailout the US alone was prepared to give its banks, but enormous for the poor countries that bear those burdens, which have affected many millions of lives for many years. Many of these debts were incurred not just by irresponsible government borrowers (such as corrupt third world dictators, many of whom had come to power with Western backing and support), but by irresponsible lenders such as the IMF and the World Bank. “Drop the Debt 2009” (July 2009) Video compares financial crisis bailouts with third world debt.

Despite enormous protests and public pressure for odious debt-relief or write-off, hardly any has occurred, and when it does, grand promises of debt-relief for poor countries often turn out to be exaggerated. One debt-relief recently described as a “historic breakthrough” was announced as a $40 billion debt write-off but turned out to be closer to $17 billion in real terms. To achieve even this amount required much campaigning and pressuring of the mainstream media to cover these issues. By contrast, the $700 billion US bailout as well as bailouts by other rich country governments were very quickly put in place. The money then seemed easy to find. Massive military spending, or now, financial sector bailout, however, can be done extremely quickly.

A common view in many countries seems to be that financial sector leaders “get away” with it. For example, a hungry person stealing bread is likely to get thrown into jail. A financial sector leader, or an ideologue pushing for policies that are going to lead to corruption or weaknesses like this, faces almost no such consequence for a while. Some of regulatory measures have been easy to get around for various reasons. Some reasons for the weak regulation that entrepreneur Mark Shuttleworth describes include that regulators

- Are poorly paid or are not the best talent
- Often lack true independence (or are corrupted by industries lobbying for favours)
• May lack teeth or courage in the face of hostile industries and a climate politically hostile to regulation.

Given its crucial role, Shuttleworth also points out that it is extremely important to invest too in regulation. However, this crisis wasted almost a generation of talent. It was all done in the name of innovation, and any regulatory initiative was resisted with claims that it would suppress that innovation. They were innovating, all right, but not in ways that made the economy stronger. Some of America’s best and brightest were devoting their talents to getting around standards and regulations designed to ensure the efficiency of the economy and the safety of the banking system. Unfortunately, they were far too successful, and we are all—homeowners, workers, investors, taxpayers—paying the price. How much has our nation’s future been damaged by the magnetic pull of quick personal wealth, which for years has drawn many of our best and brightest young people into investment banking, at the expense of science, public service and just about everything else? The wasted capital, labour and resources all add up. British economist John Maynard Keynes is considered as one of the most influential economists of the 20th century and one of the fathers of modern macroeconomics. He advocated an interventionist form of government policy, believing markets left to their own measure (i.e. completely “freed”) could be destructive, leading to cycles of recessions, depressions and booms. To mitigate against the worst effects of these cycles, he supported the idea that governments could use various fiscal and monetary measures.

His ideas helped rebuild after World War II, until the 1970s when his ideas were abandoned for freer market systems. The paper argues that free markets undermined democracy and led to this crisis in the first place: What creates a crisis of the kind that now engulfs us is not economics but politics. The triumph of the global “free” market, which has dominated the world over the last three decades, has been a political triumph. It has reflected the dominance of those who believe that governments (for which read ‘the views and interests of ordinary people’) should be kept away from the levers of power, and that the tiny minority who control and benefit most from the economic process are the only people competent to direct it. This band of greedy oligarchs have
used their economic power to persuade themselves and most others that we will all be better off if they are in no way restrained. In any case, if they cannot persuade, they have used that same economic power to override any opposition. The economic arguments in favour of free markets are no more than a fig leaf for this self-serving doctrine of self-aggrandizement.

Furthermore, Keynes argues that the democratic process has been abused and manipulated to allow a concentration of power that is actually against the idea of free markets and real capitalism. The uncomfortable truth is that democracy and free markets are incompatible. The whole point of democratic government is that it uses the legitimacy of the democratic mandate to diffuse power throughout society rather than allow it to accumulate as any player of Monopoly understands in just a few hands. It deliberately uses the political power of the majority to offset what would otherwise be the overwhelming economic power of the dominant market players.

If governments accept, as they have done, that the "free' market cannot be challenged, they abandon, in effect, their whole raison d'être. Democracy is then merely a sham. No amount of cosmetic tinkering at the margins will conceal the fact that power has passed to that handful of people who control the global economy.

Despite Keynesian economics getting a bad press from free market advocates for many years, many are now turning to his policies and ideas to help weather the economic crisis. We are all Keynesians now. Even the right in the United States has joined the Keynesian camp with unbridled enthusiasm and on a scale that at one time would have been truly unimaginable, after having been left in the wilderness, almost shunned, for more than three decades. What is happening now is a triumph of reason and evidence over ideology and interests.

Economic theory has long explained why unfettered markets were not self-correcting, why regulation was needed, why there was an important role for the government to play in the economy. But many, especially people working in the financial markets, pushed a type of "market fundamentalism'. The misguided policies that resulted pushed by, among others, some members of President-elect Barack Obama's economic team, had earlier inflicted enormous costs on developing
countries. The moment of enlightenment came only when those policies also began inflicting costs on the US and other advanced industrial countries.

The neo-liberal push for deregulation served some interests well. Financial markets did well through capital market liberalization. Enabling America to sell its risky financial products and engage in speculation all over the world may have served its firms well, even if they imposed large costs on others. Today, the risk is that the new Keynesian doctrines will be used and abused to serve some of the same interests.

Some of the world’s top financiers and officials are reluctantly accepting that the version of capitalism that has long favoured them may not be good for everyone. Stiglitz observed this remarkable resignation at the annual Davos forum, usually a meeting place of rich world leaders and the corporate elite, who together normally reassert ways to go full steam ahead with a form of corporate globalization that has benefited those at the top. This time, however, Stiglitz noted that there was a striking loss of faith in markets. In a widely attended brainstorming session at which participants were asked what single failure accounted for the crisis, there was a resounding answer: the belief that markets were self-correcting.

The so-called “efficient markets” model, which holds that prices fully and efficiently reflect all available information, also came in for a thrashing. So did inflation targeting: the excessive focus on inflation had diverted attention from the more fundamental question of financial stability. Central bankers’ belief that controlling inflation was necessary and almost sufficient for growth and prosperity had never been based on a sound economic theory. No one from either the Bush or Obama administrations attempted to defend American-style free-wheeling capitalism. Most American financial leaders seemed too embarrassed to make an appearance. Perhaps their absence made it easier for those who did attend to vent their anger. Labour leaders working for the business community were particularly angry at the financial community’s lack of remorse. A call for the repayment of past bonuses was received with applause.
Some at the top, however, have tried to play the role of victim. Indeed, some American financiers were especially harshly criticized for seeming to take the position that they, too, were victims and it seemed particularly galling that they were continuing to hold a gun to the heads of governments, demanding massive bailouts and threatening economic collapse otherwise. Money was flowing to those who had caused the problem, rather than to the victims. Worse still, much of the money flowing into the banks to recapitalize them so that they could resume lending has been flowing out in the form of bonus payments and dividends.

And as much as this crisis affects wealthier nations, the poorest will suffer most in the long run. This crisis raises fundamental questions about globalization, which was supposed to help diffuse risk. Instead, it has enabled America’s failures to spread around the world, like a contagious disease. Still, the worry at Davos was that there would be a retreat from even our flawed globalization, and that poor countries would suffer the most. But the playing field has always been uneven. If developing countries can’t compete with America’s subsidies and guarantees, how could any developing country defend before its citizens the idea of opening itself even more to America’s highly subsidized banks? At least for the moment, financial market liberalization seems to be dead.

6. Summary, Conclusion and Recommendations

Most economic regions are now facing a recession, or are in it. This includes the US, the Eurozone, and many others including Nigeria. At such times governments attempt to stimulate the economy. Standard macroeconomic policy includes policies to

- Increase borrowing,
- Reduce interest rates,
- Reduce taxes, and
- Spend on public works such as infrastructure.

The paper therefore recommends that, for the Nigerian State to effectively and constructively move out of the present global economic
crisis, which has a multiplier effect in the form of structural violence, democratic governance should be strengthened and promoted. There can never be development, economic prosperity or social transformation without democratic governance and leadership.

There is a fundamental crisis of governance at all levels in Nigeria. The most graphic illustration of this is the tendency for the ruling elites at all levels to rule without some notion of governance as a social contract which is implicit in the mandate freely given during elections (Egwu, 2006:1). The primary explanation for this is that democratic governance and sustainable development in Nigeria have been treated with levity without due regard for an effective grass-root political communication and mobilization of the electorate. Consequently, the fundamental objectives and direct principles of state policies between 2003 and 2007 were a crude record, not of history, but of human fantasy arising from emotional need and desire for primitive accumulation of wealth and the electoral, economic, political and social reforms had not been of historical achievement and ethics (Akpotor, 2004:4, Enjojo, 2010:6).

There is, therefore, during elections, a direct connection between democratic governance, sustainable development and effective grass-root political communication and mobilization strategies among participants. At the core of the crisis of democratic governance in Nigeria’s Fourth Republic is the legacy of party system without ideologies, weak state, dysfunctional elites, externally designed political, economic and social reforms and of course, poverty, injustice, unemployment, inflation and ethnic conflicts. Conservatively, all these factors promote underdevelopment and encourage anthropological parity among ethnic groups and nationalities. However, the cultures that compose the entities have ancient roots. Those roots are colonialism and imperialism. The country’s ethnic, regional and religious divides have been in sharp focus.

Egwu (2006:8) argues “In one sense, then, there are ‘many’ Nigerians. That is, there are distinct political cultures with pre-colonial origins, and there are varied colonial experiences of North, East and West”. The preoccupation of the bank with issues of good governance and a more accountable framework of democratic governance, which translates into a concern with sustainable development, is a positive response to the episodic history of development and democracy in post-independence
Africa. The post-independence political leadership jettisoned democracy and resorted to the abuse of the public space. They observed the constitution only in breach and replaced a culture of kleptocracy with a culture of prudence and frugality. In the process, they perverted and subverted the process of development, and resorted to the abuse of laid-down procedures for personal gains. Thus, the bank itself, once a supporter of "strong" governments and dictatorial regimes on the continent, made a volte-face in the 1990s when it realized that the absence of democracy and a leadership that is accountable, had robbed Africa of the opportunity to overcome the basic crisis of development (Egwu, 2006:6, Akpotor, 2005:9, Nnoli 2003:46).

Sustainable development cannot be achieved without democratic governance, accountable and transparent leadership. This is, perhaps, predicated upon the assumption that the conscious management of regime-structures enhances the legitimacy of the public realm, and generates trust for the citizenry. Structurally speaking, in its formulation on governance, the bank tends to put more emphasis on the management of the country's economic and social resources for development, and by so doing, divests the concept of its political overtones in favour of economic policy and management. The importance and strength of "good government" approach lie in the fact that it "promotes certain political factors, especially democracy, the rule of law, and human rights on the grounds that markets and government will only remain efficient if they are held to account by voters and consumers – the public.

What this then suggests is that, regardless of the reservation which we have about the notion of governance, there are positive values in the governance discourse to be cultivated and engaged with in a creative manner. Thus, embedded in the notion of governance are the values of accountability, transparency, respect for the rule of law, and the removal of the culture of arbitrariness and crude impunity. The key elements of democratic governance are: accountability, transparency, openness, 'answerability', enforcement and responsiveness. It is within this meaning that democratic governance promotes the core values of democracy, which among others, include the following:
• Separation of powers between the three branches of government, which is most pronounced in the presidential system, but not based strictly on watertight compartments;

• The rule of law, which ensures that everyone is bound within the confines of the law, irrespective of social standing, places limits on the exercise of power by those in authority, and provides guarantees against all forms of arbitrariness;

• Accountability which requires that power-holders and power-users must account for their actions, and seeks to replace the culture of impunity in the public sphere;

• Independent and impartial judiciary, which gives the judicial arm the power of judicial review that could become the basis of the enactment of new laws. But this requires that all citizens must have access and can find genuine avenues of seeking redress as a means of avoiding recourse to justice;

• The protection of the fundamental human rights of citizens such as the right to dignity of the human person, personal liberty, civil liberty and fair hearing;

• Political parties to advance the rights of citizens to make choices from existing alternatives and as the infrastructure for competitive elections;

• Free mass media that disseminates information to the public based on some sense of social responsibility, supported by a legal environment that guarantees access to information;

• Constitutionalism; the requirement that all persons in a given state, especially, holders of public office, should adhere strictly to the spirit and letter of the law; (for instance, see Akpotor, 2004:7, Nnoli, 2003:45, and Appadorai, 1972:9).

Critically examined, the aforementioned are linked to the idea of the social contract theory as expounded by the early philosophers of the modern society and the state. Thomas Hobbes, John Locke and Jean-Jacques Rousseau probably provide clear ideas of social contract as the moral basis of rule by which leaders and followers are mutually involved in a system of reciprocity of obligations and duties. The development of the theory of representative democracy, the centrality of elections as the
basis of conferring the mandate to rule, disrespect the social contract, the people have the moral obligation to question and change them.

In the Nigerian context, the people can exercise this right at periodic elections and can recall representatives that fail the people. The question to ask therefore is why, apart from a few legislators at the federal and state levels that could not make both at the 2011 primary and general elections, many politicians with questionable credentials, in terms of performance and service delivery, were still elected? The paper notes that this could be as a direct result or consequence of poverty created or promoted by the global economic crisis.

The conclusion, therefore, is that Nigerians should be ideologically rooted in political culture and socialization to be able to participate effectively in democratic governance and leadership. If this step is taken, we can then begin to talk about overcoming the global economic crisis which has affected all the sectors of the economy, thereby making employment generation, distribution and service difficult for the less-privileged. Until then, our democratic participation and representation would not be robust or issue-based, and voters would not vote objectively, constructively, democratically, and politicians at all levels would not stop desecrating politics, ethnicity and religion. Equity, justice and development would thrive.

References


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