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THEORETICAL BASIS FOR PLANNING IN NIGERIA: Evidence from a Petroleum-Export Economy

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ABSTRACT

In this paper, I argue that the theoretical basis for economic planning goes beyond the market failure postulation. Economic planning is useful to fast track growth and development, and must be driven by a developmental state. Economic planning is not at variance with the utilization of the market. I provide evidence justifying why Nigeria must embrace economic planning if development is to be accelerated and sustained.

JEL classification: P.11, P.21

1. Introduction

NIGERIA was integrated into the global capitalist system as a colony in the early 1950s. After political independence in 1960, Nigerian leaders deepened the integration process by articulating and implementing policies and programmes which cemented the commodity-export-dependent nature of the economy. No matter the rationalization, Nigeria is essentially an exporter of raw materials (crude petroleum) and an importer of finished goods, including toothpicks. Within this scenario, the policy makers have tested several economic strategies and programmes in order to accelerate economic growth and development and, thereby, improve the standard of living of the citizens. All these have happened in the last fifty years during which the economy has experienced agricultural export boom, financial boom and windfall from petroleum export; yet the country remains fundamentally backward and underdeveloped.

In Nigeria's economic history, there have been episodes of impressive growth rates propelled by increased revenue from commodity exports and robust growth of relevant economic fundamentals, yet the structure of the economy remains unchanged: peasant agriculture still contributes more than 65 per cent to GDP while manufacturing contributes about 4 per cent. The recent growth in GDP of almost 7 per cent has been characterized as jobless growth with official rate of unemployment peaking at 20 per cent. The various pronouncements and policy directions of government re-echoes the conviction that the country can become a modern capitalist market-type economy based on its abundant human and material resources. Hence, the philosophy of the state is to build a market-type capitalist economy where the private sector is the engine of growth. The underlying economic theory is the competitive model where markets clear; the market being better placed to allocate resources efficiently and effectively. However, markets are not invisible or faceless Walrasian auctioneers; therefore, these theoretical constructs are benchmarks for understanding reality.

Notwithstanding the philosophy of the Nigerian State, comprehensive economic planning was introduced immediately after independence to guide development. The introduction and implementation of the 1962-1968, 1970-1974, 1975-1980, 1981-1985 development plans did no harm to the aspiration to build a capitalist market economy. Even when government took over the commanding heights of the economy in the 1970s, the desire was not to abandon capitalism but, rather, to accelerate growth and development. In other words, planning was perceived to be consistent with the building of a market-type capitalist economy. But economic planning implies the directing of economic activity outside the mechanisms of the market. Hence, there appears to be some contradiction between comprehensive economic planning and the market.

It is fashionable to view economic planning as consistent with socialist-type economies where the state controls the means of production. Socialist economies, particularly of the old Soviet Union type, introduced comprehensive economic planning to meet the demands of production, investment and distribution. There have been various types of planning within the socialist framework (Lange 1966; Gregory and Stuart 2003). Evidence shows that both the Soviet-type economic planning as well as heavy reliance on the market (even within indicative planning) poses challenges. Emerging economies, particularly those in Asia, have shown that planning is essential to fast track development. It is, therefore, not surprising that countries like Singapore, India, China, Malaysia, etc., rely on economic planning without negating the benefits of the market mechanism.

Nigeria abandoned comprehensive economic planning in the 1990s based on the advice of the Bretton-Woods Institutions. However, to minimize chaos in the economic system, particularly regarding revenue and expenditure, the medium-term expenditure framework (MTEF) was introduced. MTEF, which is a three-

year plan, concerns itself with how revenue and expenditure projections feed into the budgetary process. It is not an economic plan. A properly articulated economic plan would capture the essence of MTEF because the former is for the entire economy. Nigeria returned to economic planning only in 2007/8 during the administration of the late President Musa Yar'Adua. It also has in place a Vision 20:2020 economic blueprint which, in essence, is a perspective economic plan. The Vision 20:2020 blueprint is to be implemented alongside four development plans. The first four-year implementation plan has been completed (National Planning Commission 2010).

The objectives of this paper are twofold: (i) to examine the theoretical basis for economic planning; and (ii) to show that the justification for economic planning goes beyond the traditional market failure argument.

In other words, the development process must be managed. Section 2 of the paper provides some theoretical discourse on this while, in section 3, I discuss issues relating both to state and markets. In section 4, I draw some evidence from Nigeria and conclude the paper in section 5. It is anticipated that the analysis in the paper would generate further discussion on the subject matter.

2. Theoretical Discourse

It is theoretically argued with sweeping assumptions that the market mechanism allocated resources efficiently whether in terms of consumption and/or production. If the forces of demand and supply in any market are allowed, the tendency would be towards equilibrium clearing process. This contention is based on perfect information, large numbers of both sellers and buyers and some notion of rationality. The typical scenario used to demonstrate the superiority of the market is the competitive market model; any deviation from this model becomes Pareto inefficient. Most of the arguments hinge on the operational phrase *ceteris paribus* – all things being equal; however, in the real world, all things are never equal. It can also be demonstrated that even at non-equilibrium prices, there would be both suppliers and demanders of any product, for example, the price discrimination model. One could argue then whether the principle of non-satiation makes sense in consumer theory. In the market mechanism, there is no perfect information but information asymmetry. Consequently, the competitive model is only a guide for understanding and/or making enquiry about an economy. There exists other market structures where markets would clear with inefficient allocation of resources – monopolies and oligopolies are good examples. Within these markets, one would still derive equilibrium/clearing prices that are not based on competition. Consequently, there are a number of market failures:

- Monopoly and oligopoly power
- External economies – where environmental factors exert influence
- External diseconomies
- Markets, which may not accommodate the changes needed for the economic structure to develop, for example, the infant industry argument
- Underdeveloped institutions
- Macroeconomic imbalances
- National goals, which may undermine the objectives of the market.

Consequently, it could be argued that there is more to rational direction of the economy than efficient allocation of resources. In a typical market economy, outcomes can be 'irrational' in at least two ways: (a) market prices depend on the distribution of income from wealth which has no rational basis; and (b) the market does not allow for distribution according to need; instead, a rational plan would determine rationally what needs are to be met and which would be left to individual decisions through markets.

Notwithstanding market failure (whether it is corrected or not), the economic planning process could use the markets, where feasible, to direct the allocation of resources; in this case, the market serves as an instrument. This does not differ much from Walrasian general equilibrium theory which implies the following: (i) only 'equilibrium prices' impute values efficiently, implying that supply equals demand in every market; and (ii) an auction process determines 'general equilibrium' prices even though no such auctioneer exist in the real world. Furthermore, firms operating in an economy that is planned would desire or be directed to maximize profits, operate on marginal cost pricing, etc. Economic planning involves the combination of public ownership with decentralized management and a market mechanism.

The arguments against planning, while making provisions for correcting market failures, mirror experiences (accumulated facts) from industrialized countries. However, for developing countries, such as Nigeria, evidence which would in turn influence theory supports the urgent need for economic planning in order to 'guide economic development'. The differences between developing and industrialized countries can be described as follows:

- Most developing countries are more open to trade and services than are the major industrial economies. For example, 80 per cent of Nigeria's exports go to OECD countries and 85 per cent of its imports come from same source. In addition, Nigeria has no control over the price and output of crude petroleum as well as the prices of imports. They are determined exogenously. Indeed, most developing economies face exogenous terms of trade. The extent of external trade in assets is more limited in developing than in industrialized countries. Most developing countries are capital importers and have challenges in servicing their external debts.
- Most developing countries have neither adopted fully flexible exchange rates nor joined monetary unions; so they have challenges with exchange rate management.
- Domestic financial markets are mostly rudimentary, most sub-Saharan African economies do not have functioning stock exchanges and their economies are characterized by financial expression.
- Developing economies depend on commodity exports for revenue even though it often leads to budgetary constraints and high debt overhang; most of the budgets indicate fiscal dominance with little input from the bond markets.
- The labour market has large public investment which is quite different from the typical labour supply specification in the competitive model; imported intermediate goods play a significant role in the aggregate supply specification in developing countries. An active informal sector plays an important role in the determination of wages and unemployment.
- Most developing countries are characterized by policy inconsistency and reversals – policy regimes are quite unstable.
- General macroeconomic volatility remains endemic, leading to uncertain macroeconomic environment as well as instability of macroeconomic outcomes.
- Dependence on commodity exports means translates to being stuck with inherent volatility in prices and revenues.
- Most people in the developing countries lack the basic necessities of life; millions live below the bread line of US$2 a day. About 66 per cent of Nigerians live below the poverty line.
- Failure of government, especially through weak governance, lack of transparency and accountability in the conduct of government business, also has its toll on the economy.
- The governance and the political process remains crucial for effective policy formulation and implementation. The role of parliaments in decision-making cannot be ignored because without their buy-in, major economic decisions are dead on arrival.

All these factors provide both theoretical and empirical evidence for the planning of the SSA economies if economic development must be accelerated in the sub-region. Any economic planning model should capture most of the features examined above. The analysis so far implicitly addresses the role of the state within the context of the market mechanism.

3. The State and the Market

It is clear that neo-liberal perception of the role of the state cannot transform the Nigerian economy from its dependence on commodity export to a modern industrial economy. High growth rates have not translated into high levels of employment and poverty reduction. In addition, those who control state power, with their neo-liberal tendencies and total reliance on the market, have failed to transform the economy. It is not a question of the state versus the market, but how best the state can use the market to fundamentally transform the economy and improve the living standards of Nigerians. To address this issue, it is crucial to understand the nature of the state. There are various notions of the state, but the one that concerns us here is the developmental state, defined as one that sets economic development as the top priority of government policy and designs effective instruments to promote that goal.

According to UNECA (2011) 'The emerging consensus is that a developmental state is central to the process of accelerated economic growth and social transformation of any country'

A developmental state may be perceived as one that authoritatively, credibly and legitimately formulates and implements its policies and programmes in a manner that is binding on all. This entails possessing a developmental ideology that privileges industrialization, economic growth and expansion of human capabilities. Such a state must also be able to construct and deploy the institutional architecture within the state and mobilize society towards the realization of its development project (Edigheji 2010: 4). Variants of a developmental state exist in Malaysia, Japan, Singapore, India, China, Brazil, and so on.

Building a developmental state[1] requires five major elements: (i) Purposeful leadership and a development-minded coalition; (ii) Transformative institutions; (iii) Focused industrial policy; (iv) Investment in research; and (v) Enhanced social policy. Details of the evolution, features and expectations of a developmental state are well treated in (Bagchi, 2000; Edigheji, 2010; Mkandawire, 2010, Mkandawire, 2004; Mkandawire, 2001). In essence, a developmental state centres on qualitative state involvement in the economy and society but not by a state dominated economic development model. It is about 'seeking the right mix between the state and the market, powering and controlling the market and market forces to prevent market failure, and supporting private agents and entrepreneurs to realize their full potential and to contribute to economic development' (UNECA 2011: 111). The problem with the developmental state is that its success depends on the character of those who control state power. There is no doubt that a properly planned economy driven by a developmental state would result in creating a large middle class – thus moving some citizens out of poverty. However, it is not clear whether such an economy would reduce the element of primitive capitalist accumulation, among other things.

1. There is the notion of a democratic developmental state which allows for elections to determine political leaders, Japan is often cited as an example.

A developmental state requires planning supported with a professional and strong bureaucracy to effectively promote, manage and guide development. Strong commitment to transformation in agriculture, industry, human capital, infrastructure, etc. helps to achieve this objective. The menu of a development state would include the ability to mobilize resources to finance development.

4. Selected Empirics from Nigeria

The structure of the Nigerian economy suggests the need for economic planning if the economy is to be transformed within a reasonable time frame. There were periods when the economy was planned within the framework of building a market-type capitalist economy under military rule. However, planning was abandoned from the 1990s up to 2007. A look at Table 1 indicates that the share of agriculture to GDP dominates even though it is mostly peasant agriculture. More often, increased agricultural output is due to either nature (abundant rainfall) or expanded acreage for cultivation or both. Increased output due to the use of technology or modern practices is marginal. From 1999-2008, the share of manufacturing to GDP remained at 4 per cent. The market mechanism could not fast-track the implementation of government policies meant to reverse the contribution of agriculture in favour of manufacturing. These policies, strategies and programmes are well examined in National Planning Commission (2011). It focuses on shifting the structure of production towards processing/manufacturing activities which add more values to GDP growth.

Import of raw materials and capital goods averaged about 59 per cents for the period 1960-2009. The data shows that Nigeria still imports consumer goods instead of producing them locally; proper implementation of the planning blueprint could reverse this trend.

Table 1. Nigeria: Contribution of Agricultural and Manufacturing Sectors to GDP, 1999-2008 (%)

Year	Share of Agriculture	Share of Manufacturing	Capacity Utilization
1999	36.7	4.3	34.6
2000	35.8	4.2	36.1
2001	34.3	4.1	42.7
2002	43.8	3.8	55.0
2003	42.5	3.6	57.0
2004	41.0	3.7	56.1
2005	41.2	3.8	55.0
2006	41.2	4.0	53.3
2007	42.0	4.0	53.4
2008	42.1	4.1	54.0
Average	40.1	4.0	49.7

Source: Derived from the data set of the National Bureau of Statistics, Abuja.

Economic planning would 'solve' the following challenges facing the economy:

- Growth related:
  a. Reversing the trend of growth without employment (the jobless growth paradox);
  b. Achieving significant reduction in the incidence of poverty (now 70 per cent);
  c. Reducing the pervasive high inequality in income;
  d. Improving the efficiency of small- and medium-scale enterprises;
  e. Reversing the trend of growth in the manufacturing sector with low capacity utilization and low value-added;
  f. Diversifying the economy as a mitigating factor to the vagaries of the global oil market;
  g. Improving the quality of output and competitiveness through massive expenditure on physical infrastructure such as power;
  h. Enhancing the produetion base through knowledge application and local content policy;
  i. Reversing the dualism and informality of the economy;
  j. Reducing the high dependence on food imports (>40 per cent) in the wake of lacklustre growth of agriculture.

Table 2: Nigeria: Import Structure, 1960-2008 (in %)

Year	(1) Consumer Goods	(2) Raw Materials	(3) Capital Goods	4=(1+3) Raw Materials + Capital Goods
1960	56.9	19.6	23.5	43.1
1970	29.5	28.3	42.2	70.5
1980	39.6	26.8	33.5	60.3
1985	29.3	35.3	35.2	70.5
1990	26.7	32.8	40.5	73.3
1995	33.1	45.3	21.5	66.8
1996	38.7	42.0	19.2	61.2
1997	37.5	41.8	20.4	62.2
1998	39.0	40.8	19.9	60.7
1999	40.0	36.8	23.0	59.8
2000	38.8	39.8	21.1	60.9
2001	38.8	39.8	21.1	60.9
2002	39.2	39.4	21.0	60.4
2003	37.5	34.2	24.0	58.2
2004	46.2	29.6	23.8	53.4
2005	45.5	30.1	23.2	53.3
2006	43.0	32.0	24.2	56.2
2007	43.0	30.0	26.0	56.0
2008	45.6	29.6	24.1	53.7
2009	40.5	36.0	22.7	58.7

Source: Derived from CBN Data Series.

- Low financial intermediation. The financial sector's role of mobilizing savings and deploying resources for investment and growth has been fraught with a number of challenges. For example, banks lend mainly to large corporations or people in financial employment; not much lending goes to the real sector as the sector can ill afford to borrow at the prevailing prohibitive interest rates. The trend of real interest rate remained negative for most of the period between 1960 and 2008, reflecting some inconsistency between savings and investment. This trend also creates a puzzle regarding the huge profits realized by the banking system (see Figures 1 and 2).

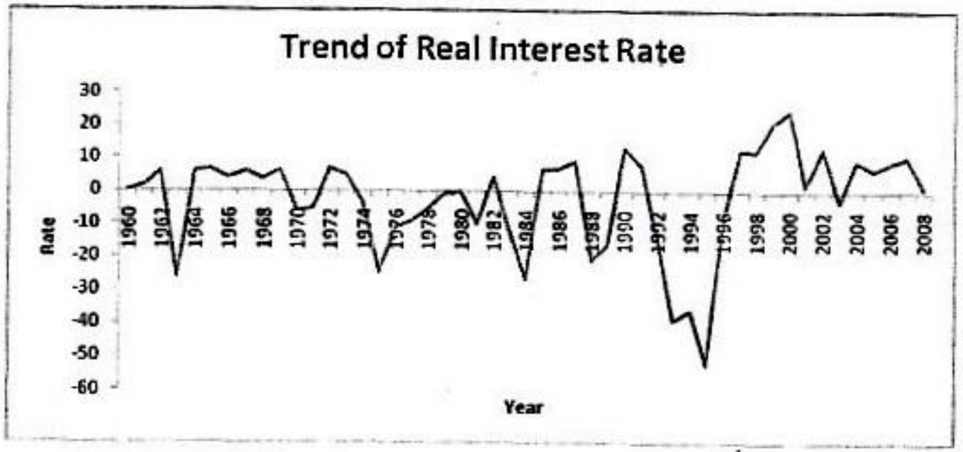

Figure 1. Trend of Real Interest Rate

Figure 2. Trend of Profit-Seeking Rate

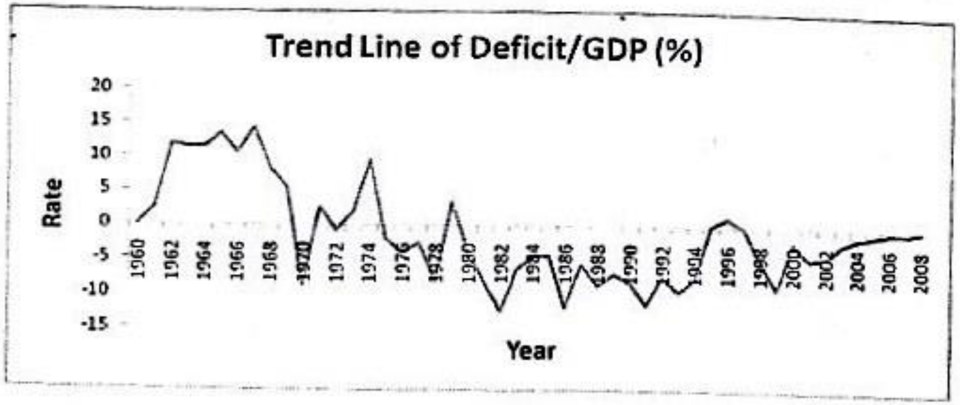

Figure 3. Trend of Line of Deficit/GDP (%)

- Social stability. This would be greatly enhanced if the country can resolve the Niger Delta crisis for peace and economic growth;
- A number of challenges, which are discernible from the implementation of fiscal policy. These include:
  a. Capital budget implementation, which averaged 50 per cent performance from 2001-2003, stagnating at that rate in 2008. Actual releases fell short of the budgeted figures;
  b. Recurrent expenditures, which exceeded capital expenditures for most of the period but the latter is crucial for growth (see Figure 4);
  c. Budget monitoring and evaluation (MSE), which is very limited, selective as well as irregular;
  d. Evidence of fiscal dominance with its implications on the conduct of monetary policy (see Figure 3).
  e. Dominance of oil revenue in the realized total revenue: non-oil revenue accounted for only 6.8 per cent in 2008, up from 5.5 per cent in the preceding year;
  f. Intergovernmental fiscal coordination, which is ineffective. It is not clear whether the centre considers the revenue profiles of sub-national governments when considering its budget constraint (Ekpo 2011).
- Good Governance
  a. Weak institutions and regulatory deficit;
  b. Policy reversals and lack of follow through;
  c. Combating corruption.

- Macroecónomic stability and unemployment. The growth rate of 7 per cent has not generated employment. The official unemployment rate is about 20 per cent and higher among youths (see Figure 5).

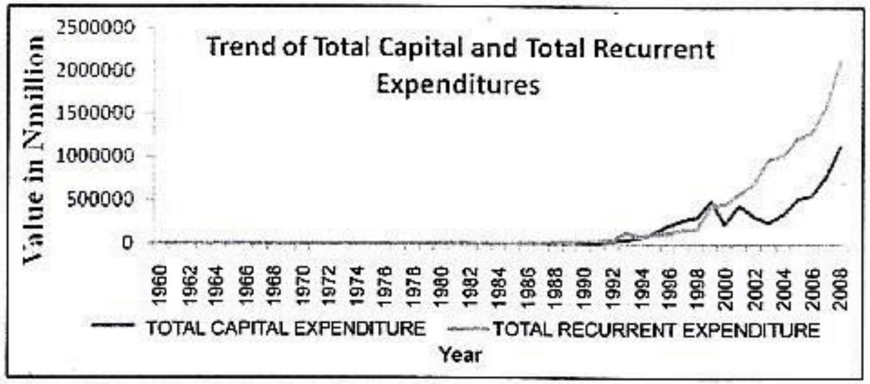

Figure 4. Trend of Total Capital and Total Recurrent Expenditures

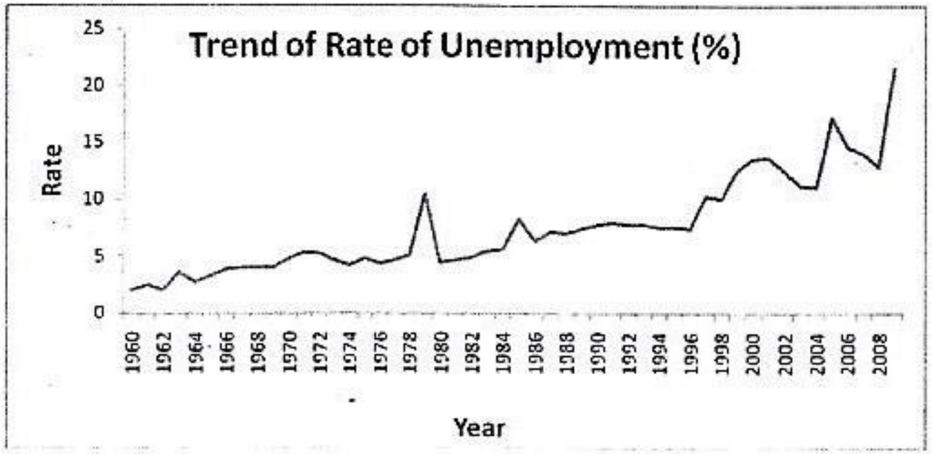

Figure 5. Trend of Rate of Unemployment (%)

We have shown elsewhere (Ekpo, 2011) that after 50 years of conceptualizing and implementing various ad hoc economic policies, government intervention in the economy remains relevant and valid:

$$P = 1.206 - 0.538u + 0.5564y + 0.354pe \qquad (1)$$

$$(0.732) \qquad (1.764)\ (1.368)\ (2.681)$$

R2 = 60; DW = 1.96; t statistics are in parenthesis

Where:

P = rate of inflation; u = rate of unemployment
Y = output; p^e = expected inflation

Equation (1)[2] confirms a long-run relationship between inflation and unemployment for the period 1960-2008 in the Nigerian economy. There exists also a positive relationship between output and price change. The long-run expectation between inflation and unemployment is negative and statistically significant. The result provides an indication that planning can be used to reduce unemployment. It should be emphasized nonetheless that though theory and practice support economic planning within a market framework, planning alone cannot solve all the problems in an economy.

5. Conclusion

The recent global economic crisis confirms the inherent permanent instability in a market-driven economy. It follows that developing countries must build strong economies based on facts accumulated over the years. Consequently, the desire to accelerate economic development requires the intervention of the state beyond the market failure thesis. In this paper, I have argued that the features in developing countries which make them different from industrialized economies must form part of the theoretical basis for economic planning. But to drive the planning process, a developmental state which perceives development as topmost priority is a necessary condition.

We also provided some evidence to show why the Nigerian economy must be planned if it must become modern and industrialized with poverty eradication as its objective. Any economic planning blueprint must incorporate the political process to achieve optimal results. Through economic planning, the state can invest massively in infrastructural development, agricultural research, human capital formation, and so on. Within the context of economic planning, although the market is not sacrosanct, it still plays a crucial role by ensuring that 'right' prices enter the planning framework.

[2] All variables were tested for their time series properties and exhibited 1(0).

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