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POSTULATIONS AND IMPLICATIONS OF NEO-CLASSICAL THEORY ON NIGERIA'S ECONOMIC DEVELOPMENT

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Abstract

Neo-classical theory of development came in reactions to the Keynesian theory propounded by John M. Keynes (1930s), otherwise, known as the theory of mixed economy. Drawing from the aftermaths of the second world war and its attendant negative consequences, is the great economic depression of 1930s. Most theories developed then were on how to get the world economies out of the depression. Keynes opined that the only surest way for government is to increase spending through the employment of long unemployed individuals that would be the trick to bringing the world economies out of recession". Contrary to Keynesian theorists, neo- classical believes that economic growth is directly related to free trade and countries should follow policies of deregulation, privatization and liberalization in order to achieve desired economic growth. Nigeria being a former colonist of Great Britain inherited a political and economic models, the parliamentary system of government which was later changed to American styles presidential system anchored on the doctrines of economic liberalism. The system ushered in foreign trade and investment without border, private ownership and means of production, privatization and commercialization, and Nigeria became a capitalist economy. But despite that, the country is engulfed with the challenges of economic development, ranges from low and decayed infrastructures, under- production, dependency on foreign goods and services and the dominating activities of multinationals. The research obtained data from the secondary sources. However, in the course of this research, findings revealed that privatization and liberalization policies in Nigeria have course devastating effects on the economy taking into cognizance the effects of Structural adjustment programmed (SAP), on the country's currency, the Naira devaluation, unequal exchange, trade and investment which has today resulting to capital flights, unemployment, poverty, high mortality rates and high cost of living face by millions of Nigerians today. Thus, the way out of this menace is total overhauling of the entire privatization processes in Nigeria, the strengthening of the Naira and strict protectionism.

Keywords: Development, Economy, Neo-classical theory and Nigeria

Introduction

Neo-classical theory, also known as neo-liberalism, was developed as an improvement on classical theory. The term was coined by Thorstein V in 1900 and it describes the synthesis of the subjective and objective theory of value in a diagram of supply and demand.

Developed by Alfred Marshall, the theory combined the classical understanding that the value of a commodity results from the cost of production with the new findings of marginalized, stating the value is determined by individual utility (Lara, 2016). Neo-classical theory argues that economic growth is related to free trade and that nations or countries should follow policies of deregulation, privatization and liberalization in order to achieve economic growth (Addison 2000).

The arguments from the proponents of market economy came after the publication of the *Wealth of Nations* by Adam Smith in 1776. During this period, many economists tried to understand why some countries are wealthy and others are poor (WHO, 1999). Then, a range of theories of economic development have tried to explain the process of development from Walter W. Rostow' s linear modernization theory to the neo-classical emphasis on free trade as the engine of growth. The theory has explored both endogenous and exogenous factors contributing to, as well as hindering growth. Thus, economic theories of growth pass in and out of fashion depending on the political and economic climate across the globe.

The neo-classical theory is anchored on the value that free market will create competitive environment in which producers will have incentives to engage in the global market (Shoept, 2000). According to Neo- classical perspective, the central economic problem is the organization and allocation of scarce resources in order to maximize individual utility and consequently the welfare of the country. Neo- classical development theory is an economic theory that argues for markets to be free. It means allowing individual actors and private firms to make plans for the economy and not just the government.

The neo-classical theory is of the belief that free market will create competitive environment in which producers will have incentives to engage in the global market (Schoept, 2000). This idea was implemented in Nigeria under Structural Adjustment Programme, or re- named poverty reduction strategies, from the World Bank or International Monetary Fund. Several characteristic appeared during the periods. One is the conditionality of loans; certain policies and procedures must be followed in order to ensure continued lending privileges. Moreover, governments must privatize industries and services previously under their control, from airlines to health care. The liberalization component requires that prices (interest rates, exchange rates, wages, and commodity costs) be determined by market forces without any government intervention or support. One final component deals with deregulating the country's economy by removing any barriers to global trade and investment. Neo-liberal economists argue that open global trade networks will allow developing countries to produce those goods with which they have comparative advantage. Curiously, in developing countries, these goods are typically labor intensive with little or no added value in production (Gershman, 2000).

Thus, this paper shall reveal if the neo-classical model of development is the best option for Nigeria. Since Nigeria as a country is plagued by numerous devastating health problems, malnutrition, infant mortality, poverty, low and decayed infrastructure, corruption, ethno- religious crisis, militancy, youth restiveness as a result of unemployment despite the adoption of the European models of development as orchestrated by International Monetary Fund and World Bank "Structural Adjustment Programme" (SAP). Next, the effects of the application of these policies to Nigeria will be discussed, followed by concluding remarks and recommendations.

Neo-classical Postulations, Liberalism and Economic Prescriptions

The theory of neo-classical development (or neo-liberalism) became popular in the 1980s with the emergence of conservative governments throughout Western Europe and the United States (Todaro, 2002). Furthermore, the failure of so many developing countries to achieve higher standards of living led economists to develop new theories about growth and underdevelopment. Neo-liberal economic theory has its roots in the 1950s as a reaction against Keynesian economic theory which was developed by British economist John Maynard Keynes in 1930s as an attempt to understand the great depression. Keynes advocate for increased in government expenditures and lower taxes to stimulate demand and pull the global economy out of the depression. The theory argued that an unregulated capitalist economy was susceptible to severe depressions and that government intervention was necessary (Shakow, 2000). The convergence of conservative government and the economic theories in the 1980s elevated neo-liberalism to state doctrine in the United States (Shakow, 2000). The United States and Britain have used their power and influence to secure votes at the major International Financial Institutions (IFIs), which are the most powerful institutions in the global political economy (Shakow, 2000).

The neo-classical theory offers a triple prescription for economic growth: privatization, liberalization, and deregulation (Shakow, 2000). Privatization involves the sale of state-owned enterprises, such as airlines, railroads, etc. to private individuals etc. It also requires the state to reduce social service expenditures in areas of health, education, and sanitation. The impetus for privatization is that states' involvement in the economy creates inefficiencies that the "invisible hand" of the market can correct. In the case of businesses, the idea is that competition will create the most efficient methods of allocation. In the case of health care, privatization leads to the imposition of user fees for services that were previously paid for by the state. Furthermore, the transfer of these services from a not for profit model to a for profit model leads to enhanced productivity, efficiency in running of economics activities and more revenue for government to improve on the security of life and properties. The postulation of Neo-liberalism or Neo-classical economist is that government has no hands in business, they are just a regulator.

According to the theory of neo-liberalism, the liberalization of the economy attracts more domestic and foreign investment, which increases the rate of capital accumulation (Todaro, 2002). Capital accumulation is analogous to raising domestic savings rates, which impacts capital-labor ratios and per capita incomes in positive ways (Todaro, 2002). Liberalization further requires reducing barriers, such as tariffs, quotas, and non-tariff barriers, to the flow of free trade and investment. The elimination or large reduction of government subsidies that keep the prices of certain goods down is another component of liberalization. By cutting subsidies and reducing the barriers to trade, the market is allowed to determine prices, and neo-liberals argue that the prices are "right" (Gershman, 2000). Prices will reflect the actual value of the goods without government inefficiencies. Capital will hence flow to the areas of the economy that are the most profitable and productive. Liberalizing the economy will integrate the national economy with the global economy, and, in theory, this will raise social welfare by providing the cheapest goods and services possible to consumers through imports while forcing producers to be as competitive as possible. Deregulation of the economy entails a reduction of state control over goods, services, capital, and domestic labor markets (Gershman, 2000).

These approaches are meant to ensure that state intervention in developing economies will be reduce by allowing the market to regulate the economy, privatizing state-owned enterprises and services, promoting export expansion, creating a welcome climate for foreign investment, and eliminating government controls on prices, neo-liberals argue that economic efficiency will be stimulated, leading to economic growth (Todaro, 2002). Inherent in this approach is the idea of "short term pain" for "long term gains" (Schoepf, 2000). There are always winners and losers in the economy, and neo-liberalism argued that the "trickle down" phenomenon would occur as countries followed their policy prescriptions.

Thus, Neo-liberals argue that Keynesian policies, such as Import Substitution Industrialization (ISI) render markets less effective than export focused development strategies. Import Substitution Industrialization (ISI) typically involves domestic protectionism for infant industries, as well as state investment in infrastructure (Shakow, 2000). Furthermore, neo-liberals cite the experience of the Asian tigers as proof of their export-driven theory of economic growth (Todaro, 2002). However, more careful analysis of the experience of the Asian tigers has shown that they did not follow laissez-faire prescriptions of neo-liberalism (Todaro, 2002).

Structural Adjustment Programme in Nigeria

In the 1980s and 1990s neo-liberal policies of growth provided the ideological basis for the International Monetary Fund's structural adjustment programs (SAP). SAP put the theories of neo-liberalism into practice with their strict conditionality requirements on loans from the International Financial Institutions, particularly IMF and World Bank. Due to decreasing world prices for primary exports, the oil crises in the 1970s, and continuing deteriorating terms of trade, many countries were forced to adopt the stabilization policies of the IMF. Privatization, liberalization, and deregulation were components of the loan packages, but devaluation of the exchange rate and domestic anti-inflation program (which included control of bank credit to raise interest rates, curbing government spending in the areas of social services, control of the wage markets, and dismantling price controls) is also components of SAPs. SAPs institutionalized neo-liberal theories and their effects on Nigerian economies are greatly contested.

The introduction of SAP in 27 August 1986, and the subsequent implementation of the IMF/World Bank conditionality attached to it, came with some negative consequences that affected many sectors of the economy such as agriculture and industry. In fact, SAP came at a time when Nigeria was beset by a charged political atmosphere fueled by the biting economic hardship that hit most families. Cognizant of the situation, the government in power still went ahead to implement the IMF conditionality that led to many unpleasant consequences such as workers losing their jobs through retrenchment, many people not being able to afford most of the necessities of life due to wage cuts and withdrawal of subsidies, skyrocketing inflationary situation occasioned by currency devaluation, high rates of unemployment, economic liberalization, privatization and deregulation (Addisson 2000). Structural adjustment programme was not a better solution to economic development, rather a set trap for African economic backwardness and over dependency. While the rural classes and the farmers rose from the ashes, the country's middle class and the civil servant's purchasing power declined. Though, in order to keep the fiscal policy in check, government reduced the expenditures on the social infrastructure. This meant that people's wages grew much slower, and their living standards worsened.

Application and Implications of Neo-liberalism in Nigeria

The core of neo-liberalist theory also known as neo-classical theory states that less government control and more reliance on the free market are the basic ingredients for development (Todaro, 2002). One of the problems of applying models of growth based on developed countries experiences to underdeveloped countries is that "many Less Developed economies including Nigeria are so different in structure and organization from their Western counterparts that the behavioral assumptions and policy precepts of traditional neo-classical theory are sometimes questionable and often incorrect" (Todaro, 2002, p.131). Although neo-liberalism calls for free markets, there are economic, social, political, and cultural structures in place in developed countries that facilitate the application of the theory, and these are not necessarily the same in Nigeria. More so, in Nigeria, there are many externalities of production and consumption that may or may not exist in developed economies to the same degree. The experience of SAPs throughout the world has shown that the "invisible hand" succeeded at misleading the majority of the population by enriching those who are already better off (Schoepf, 2000; Todaro, 2002). The tendency for capital to flow where it is already most abundant, has further impoverished the people.

However, the core of neo-liberalism is reliance on the market. But some markets do not operate on the same scale in low developing countries, nor do they exhibit the same characteristics. By assuming that market-led development in countries where markets are often imperfect, consumers lack information, and greater uncertainty faces producers and consumers. Economists and policy makers succeeded in ignoring other powerful ingredients to growth. Since many goods have a social value that is not included in their market value, such as education and health, they may be provided at a price below their cost. In a situation when governments are responsible for providing social services, the idea of health or education as public good allow for government expenditure into these sectors. However, when privatization occurs and the private sector is responsible for providing these services, there is no economic incentive to do so (Todaro, 2002). And this may lead a lot of people much worse off than they were before.

Another major limitation of the neo-liberal theory is the focus on economic growth, followed by human development. Nigeria before the introduction of structural adjustment programme (SAP) under the self-style former Military President Gen. Ibrahim Babaginda in August, 1986 has had her fair share of war, famine, poverty, lack of infrastructures, diseases, infant mortality rate and worst of it corruption as a result of the prolonged military rule that devastated the land. The military dictator under her economic improvement agenda saw the need to embrace Structural Adjustment Programs (SAP). This was as a pre-condition to access loans and other foreign aids from the advanced countries of Europe through their donor agencies, the International Monetary Fund (IMF) and the World Bank.

Impact of Neo-liberal Policies in Nigeria

Privatization and deregulation exercise in Nigeria was among the worst in world history judging from the way and manners government agencies were sold among the elite class. The elites, in this case are the past political elites, and their collaborators. The privatization policies became instrument of forceful maneuvering and cornering of government estate to their private use in a means not transparent and not in the public interest. Examples of such are the privatization of the Nigeria Telecommunications Limited (NITEL), NICON Hilton Hotels, Sheraton Hotels, the unbundling of the National Electric Power Authority (NEPA), and so on. The then former Vice President of Nigeria who was then, the Chairman, National Council of Privatization (2000- 2006) was reported to be instrumental to the source of the preferred bidders of the proposed privatizing agencies. The irony is those agencies were sold out as against the policies of privatization which state that in privatizing, it could be partial or full privatization (BPE 2000). Under partial privatization, 10% of the said agencies are to be retained by the workers of such agencies, 30% by the government and 60% by the private sector investors (Hamza Jayed. 2001).

Contrary to the claims of Neo-classical economists (neo- liberalism); privatization exercise in Nigeria have performed abysmally. The cases of these agencies privatized are characterized by low productivities instead of robust economic activities. For example; the downsizing of work- force and retrenchment as witnessed in NITEL, PHCN and the Nigerian Airway. This singular act has resulted to additional burden on government spending and the rate of unemployment in Nigeria. The effects have led to high rate of poverty, malnutrition, high mortality rates, high crime rate and the social unrest in the polity. And the more devastating is the total reduction in the nation's gross domestic products (GDP).

Fundamentally, however, most privatized agencies in Nigeria were previously carrying out manufacturing of goods and services at their own pace for domestic and foreign exchange earnings. But since the country's privatization programme, they have been reduced to mere services and retailing instead of large scale production. In some cases, some of the privatized agencies have closed down leading to job losses. Examples of such are the Nigerian Iron Ore Mining Company, Itakpe and Ajaokuta Steel Company Limited. Soon after they were forcefully sold out in 2005 to an Indian company: Global Infrastructures, the company and its employees met their waterloo as a result of emphasis for profit at the expense of the workers. Quite a number of the staff were retrenched and a lot of the equipment belonging to the Company was carted away all in the name of repairs and maintenance, while some were eventually sold off. Presently, findings revealed that the two companies could rarely get on their fit compared to when they were previously managed by Federal Government of Nigeria. The same worst scenario also goes to the Nigeria Delta Steel Company and Bachita Sugar Company. While neo-liberal policies were not the only factors contributing to the decline of economic growth in Nigeria, but certainly liberalization is one of the major contributory factors. The experiences in other low developing countries (LDC) shows that they exist some fundamental changes in their economy when they aligned to neo- liberal policies of development. The Kenya examples shows the existence of a climatic crises, corruption, and the coffee crisis. But when compared, the Nigeria experience with other countries who also attempted to follow the neo-liberal paths to development, it is evident that neo-liberalism may not be the best fit or good policy for countries lacking the structures necessary for neo-liberal development to occur. Like the existence of large scale production capabilities, technical known- how, sound economic base, advance industrialization and a diversifying economy.

Contrary to neo- liberalism, deregulating the economy has led to the infiltration of foreign goods in Nigeria as against domestic production. The flow of trade and people is at unequal level. The advance economies of Europe and America produced goods of less value to their domestic needs while shipping and exporting it to less developed economies of Africa and Asia thereby killing local production. Most African fabrics today are trace to the activities of manufacture or producers from China, and a host of other advanced countries. While Nigeria is producing goods at a rate of 20 degrees, they are producing at 360 degrees.

The main objectives of deregulation are to introduce a market economy; increase economic efficiency; establish democracy and guarantee political freedom and increase government revenue (Dhaji and Milanovic, 1991). The overall believes are that, an economy based on private properties is better for preserving individual freedom than economies where the productive apparatus is socially owned (Ijhaiya, 1999). Moreover, for government to be effective, it has to restrict itself to the areas of governance and within that duty provide guidelines for the operation of economic activities which can be performed better by private individuals. The above presented the needed situation and reasons by government under General Ibrahim Badamosi Babaginda to go through the back door despite the declining pressures from civil societies and concern individuals not comfortable with the IMF/World Bank bidding to embrace the policies of Structural Adjustment Programme in Nigeria (1986).

Conclusion and Recommendations

The introduction of structural adjustment programme in Nigeria by the IMF and the World Bank in the 80s was unable to address some of the economic imbalances faced by Nigerians. Nigeria's post-independent successes recorded in areas of economic development occurred in the first decades of independence (1963- 1977). But the growing popularity of the neo-liberal path to development, coupled with deteriorating terms of trade in the 1980s, led Nigeria to join the neo-liberal bandwagon, at the expenses of her economic and social well-being. Although neo- classical models of economic development are currently used in policy- making circles across the globe. Through the experience of developing countries, notably Nigeria, decreases the validity of this model in low developing countries (LDCs). In rating purposes, the neo-classical model is best at ensuring debt repayment, aid and opening up borders for free trade. But not proven to be effective at increasing incomes and improving social conditions for Citizens in low developing countries. Prior to independence, Nigeria invested in small-scale agriculture, and import substitution strategy. The majority of its population was employed. But when the country adopted the policies of neo-liberalism, the economy and society took a turn for the worse. Neo-liberalism relies on the market for growth, but when a large percentage of the population cannot participate in the economy because of illiteracy, diseases, poor income, corruption, and bad governance at all levels. How much growth can be achieved? And who will be the beneficiaries of this growth. Decreasing terms of trade, a stagnant and lower per capita income, and declines in man power building and financial capacity of the population has under value the ideas and policies of neo- liberalism in Nigeria.

However, despite the above, Nigeria require a more effective model of economic development. Contrary to the proponents of liberal postulations who posited that deregulating the Nigerian economy implies privatizations, and privatization is based on the maximization of profit, efficiency and improve productivities, but the reality is untold hardship face by the majority of Nigerians. Because findings review that about 70% of Nigeria's population are below poverty line, and might not be able to afford or purchase the deregulated goods and services due to high cost of purchasing as a result of property rights in the face of monopoly.

Accordingly, we recommend that the current government in Nigeria should review its policy of deregulation, because an economic system that could not improve the material condition of the majority of her citizens is not a good fit. Though, deregulating the economy might have been successful in developed countries, but it has been a failure in developing countries. This is largely due to differences in socio-political environment.

Secondly; government needs to introduce trade protectionism in order to raise tariffs and reduce imports to protect the domestic industries. *Protectionism* refers to government actions and policies that restrict or restrain international trade, often with the intention of protecting the local businesses and jobs from foreign competition.

Thirdly, the need for government to increase spending on capital expenditure, raise domestic borrowing for local industries to improve production, increase export and reduces importation. Fourthly, encourage the use of made in Nigeria goods across government and individual outfits through imposition of stringent measures like increase taxation for imported goods.

Finally, the nation's economic activities should not be left out fully in the hands of private individuals, government at all levels should be seen to take ownership fully or participate in the running of business in the public interest there by enhancing jobs, income security and social safety nets. Agencies like hospitals and clinics, schools and colleges, aviation should not be left alone at the mercy of private individuals.

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