THE CHALLENGE OF ECONOMIC GROWTH IN NIGERIA

5th Goddy Jidenma Foundation Public Lecture

Delivered by

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and
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Protocols

The distinguished members of the Board of Trustees of the Goddy Jidenma Foundation, chaired by my good friend and committed compatriot, Professor Pat Utomi, and the CEO of the Foundation, Dr. Ije Jidenma;

The Chairman of this august event, Mr. Mohammed Hayatudeen, a distinguished citizen well known for his work and leadership in the private sector;

Special Guests of Honor

Distinguished Ladies and Gentlemen,

I am honored to have been invited to the privilege of serving as the Guest Lecturer for the 5th Goddy Jidenma Foundation Distinguished Guest Lecture. I salute the memory of the late Arc. Goddy Jidenma whose inspiring and productive life has been captured and honored in the work of this non-profit organization.

I know that, as the Guest Lecturer for this event, I stand in the shoes of great compatriots. Fellow Africans and intellectuals who have delivered earlier editions of this lecture – such men as Nigeria's greatest constitutional lawyer, Professor Ben Nwabueze SAN, the globally renowned political scientist Professor Ali Mazrui, the highly influential scholar of political science Professor Isawa Elaigwu, and the brilliant political economist Professor Pat Utomi.

It's great to be back home after a short break spent in the global academia following the privilege of serving the fatherland as Deputy Governor of the Central Bank of Nigeria from 2009 to 2014, an era in which I am proud to say that my other colleagues and I in the Bank's leadership team recorded transformational achievements in the financial sector and in the specific aspects of the economy under the Bank's purview, which is to say monetary and exchange rate policy, as well as the payments system.

Introduction

I will be speaking today on the challenge of economic growth in Nigeria and how we can overcome it. This is a very broad topic, and we cannot possibly do justice to it fully in the short time and space available here. But I will nevertheless endeavor to do so. Let me open with a few statements.

First, it is time we as a country stop underestimating the sheer scale of our challenge of economic growth. We do not have a mere economic slowdown. We do not, even, have a mere recession. We have an existential economic crisis that could eclipse the future of our children, given our rapidly growing population in a competitive world economy, if we do not get serious about our economy.

Second, we must understand that economic growth is not the same thing as economic development, although the two concepts are related. We therefore miss the mark completely when we train our eyes mainly on GDP growth numbers. Growth is essential for development, but development requires much more than growth. It is time Nigeria's economic policy focused in a holistic manner on economic development and transformation.

Third, Nigeria has not achieved qualitative and sustained economic growth and development because we do not have a philosophical foundation or vision of economic development. If you have no compass, you have no direction. Activity alone is not a substitute for real vision. All countries that have achieved economic progress have had a clear vision.

Fourth, the monster of millions of young men and women with no jobs is a fundamental threat to Nigeria's future, but that monster can be defeated with the requisite political will, economic know-how, and strategy.

Fifth, it is time to act on the reality that Nigeria will not achieve economic development and transformation on the current trajectory of its politics. The present political leadership class simply does not have the skills and the background that are fit for purpose. Technocratically competent and visionary political leaders are what it will take to reposition the Nigerian economy for sustainable growth and transformation.

The lecture is structured as follows: Part 1 reviews the present state of the Nigerian economy with some statistics that provide important context. We will discuss the concepts of economic growth, development and transformation as a prerequisite for meeting our economic challenges more effectively.

We will discuss the requirement for a national vision and worldview of economic growth, development and transformation, with a focus on the respective roles of the state and the market. We will close Part 1 with a comparative review of the Asian experience in these matters. This will be the conceptual part of the lecture.

Part 2 will be the policy discussion. In it we will look at the questions of inclusive growth, jobs for Nigerians, innovation and human capital as paths to economic growth. We will briefly explore policy options for the effective management of some aspects of the economy such as fiscal and foreign exchange policy.

In Part 3, we will examine the political leadership dynamics of economic growth in Nigeria. Part 4 contains the policy reform recommendations that I will be making, while Part 5, the final part of the lecture, will have my conclusions.

PART 1: THE STATE OF PLAY AND CONCEPTUAL CLARITY

I. *The State of the Nigerian Economy.*

Nigeria's economy in Quarter 4 of 2017 is gradually exiting a major recession, the worst in 25years, on the back of weak growth. Economic growth of 0.55% was achieved in Q2, and the International Monetary Fund predicted that the Nigerian economy will grow by 0.8% in 2017, and 1.9 % in 2018. While growth in 2017 has been driven by recovering oil prices and agriculture, it is likely to be supported by formal activity in both oil and non-oil sectors in 2018 and 2019. Inflation is down to 16 % and will likely continue to drop in 2018.

While we keep our eyes on the GDP growth numbers, let us also consider another set of statistics. I believe that our challenge of economic growth is located far more in this second set of facts.

Nigeria's GDP per capita, i.e. the average income per person in 2016 was $2,177 according to IMF. The GDP per capita for South Africa in 2016 was $5,273, $3,570 for Indonesia, $9,502 for Malaysia, and $8,649 for Brazil. The average GDP per capita in Nigeria over it our 57years of independence is $1646. These statistics matter for two main reasons.

They matter because they situate our economic growth challenge in the context of our journey as a nation over the past 57 years. Second, they also indicate our growth challenge as a developing country relative to other developing countries that have formally become emerging markets. That challenge must also be viewed relative to our endowments as a country and the promise that has for decades been attached to those endowments such as population, land, human capital, or natural resources.

Other statistics that matter for how we meet the challenge of economic growth include our weak electricity generation of 4,000 megawatts of electricity in a population of 180million people versus South Africa's 40,000 megawatts with a population of 50million and Brazil's 120,000megawatts with a population of 210 million. Nigeria's unemployment rate in 14% with 29 million Nigerians without jobs as of Q4 2016. If we disaggregate the jobs situation down to youth unemployment, we find from the statistics of the National Bureau of Statistics that the unemployment rate for youth aged 15-24 is currently 25.2% and 15:4% for the 25-34year old age group.

Nigeria's poverty rate is 62%. Our national debt is increasing, and we now spend more than 60% of government revenues serving the national debt. Ten million children of school age are out of school in Nigeria, the highest such population in the world. Nigeria ranks 152nd out of 188 countries in the Human Development Index of the United Nations Development Program, and 187 out of 189 countries in the World Health Organization rankings of national health care systems. Nigeria's population growth rate of 2.7% is outstripping economic growth, and 70% - 90% of our budget is on recurrent expenditure.

To top it all off, the future of oil on which Nigeria depends for 80% of its total revenue and 90% of its forex, is bleak. According to David Yager, a noted analyst of the global oil and gas industry, "The current discussion about the future oil is how soon will it be before petroleum becomes a sunset industry. If it isn't already. Flat or falling demand. Carbon taxes electric cars. Renewable energy. Oil has no future …."[i] This sobering and imminent reality has important implications for Nigeria's political economy.

Five countries already have served notice of their target dates intention to end the sale of gasoline and diesel cars: Norway (2025), Germany and India (2030), France and the UK (2040), and the costs of renewable energy sources such as wind and solar are increasingly lower than oil, gas and coal[1].

The point of all these statistics and other information is to situate clearly, based on contemporary trends over time rather than snapshots of the present or rosy projections short-term projections of GDP growth, the real economic growth challenges that confront Nigeria.

II. *Economic Growth, Development and Transformation*

To address and overcome these challenges and create a radically different economic future from our past and present, we must understand, and apply this understanding to leadership, governance and public policy, the shades of meaning, differences and relationships between economic growth, economic development and economic transformation. These are three distinct but related concepts.

Economic growth means a rise in the quantum of goods and services produced in a country (Gross Domestic Product) and a rise in per capita income (GDP per capita). It doesn't matter why or how the national or average individual income rises. Once it does in a given period, the country has achieved economic growth. GDP per capita is calculated from dividing a country's GDP figure by its population, which produces the average income per head. Because the world's economies are broadly classified according to the GDP per capita, and because a great majority of countries recorded increased economic growth in the 20th century, the percentage of the world's population living in low-income countries has fallen quickly and markedly over the past three decades[2].

According to the World Bank's classification of World Economies in 2010, Low-income countries where are those with a Gross National Income (GNI) of $1,005. The GNI is basically the GDP per capita but including the goods and services and income produced by nationals both inside and outside the country, while GDP and GDP per capita measure goods, services and average incomes of nationals inside a

[1]Ion Yadigaroglu, "Here's Why Oil's Future Is Grim", www.cnbc.com , August 23, 2017
[2] Dwight Perkins, Steven Radelet, David Lindauer, and Steven Block, *Economics of Development* (W.W. Norton & Company, 2013), Chapter 1.

country of $1,005. There are 35 countries in this category and they include Ethiopia, Bangladesh, Cambodia, Haiti and Tajikistan.

Lower –middle-income countries are those with a GNI per capita of $1,006-3,975. There are 57 countries in this group they include Nigeria, Senegal, Sri Lanka, and Philippines. Upper-middle-income countries are those with GNI per capita of $3,976 – 12,275. There are 54 countries in this category, including Gabon, Malaysia, Brazil, Iran and Romania. High-income countries are those with a GNI per capita of $12,275 and above. There are 70 such countries and they include Australia, France, Japan, Norway, Saudi Arabia, Singapore, Taiwan. And United States.

Economic development, on the other hand is a much broader concept that focuses on human welfare indices such as life expectancy, access to and quality of healthcare and education, and so on. The point for us in Nigeria, as in most countries in sub Saharan Africa, is that this is where our greatest challenge lies. This reality is also quite apparent from the statistics I cited earlier.

Nigeria has witnessed periods of relatively high GDP growth, as in the period between 2006 and 2014, when GDP ranged from 4% to a high 11% in 2010. But the average GDP growth rate between 2010 and 2017 has been a low 1.7%.

Economic growth is essential for economic development, but economic growth does not necessarily result in development. Often, as in Nigeria, this will be the case where the gains of economic growth are in the hands of a small and wealthy elite, and growth is therefore not inclusive. The economic growth and development link may also be broken or not exist where, as in Nigeria and several oil-rich countries in Africa, growth occurs from extractive industries that are not value-added, the prices of which are subject to wild fluctuations from external factors, and the economy is not structurally on a sound foundation of endogenous productivity. This is the fundamental problem with the "Africa Rising" narrative. The Africa Rising fad was based on a rapid rise in GDP growth rates in commodity-rich African countries during the 2000s, but this so-called rise was based on a false foundation because it was not anchored on any structural shift or transformation[3]. Today, with the end

[3] Kingsley Chiedu Moghalu, *Emerging Africa: How the Global Economy's 'Last Frontier' Can Prosper and Matter* (London: Penguin Books, 2014), Chapter 1.

of the commodity super-cycle, we know better. Countries like ours are lying prostrate.

To illustrate, during the 2000s Equatorial Guinea became famous among conventional economists as the fastest growing economy in the world with economic growth rates of up to 25%. Owing to the country's small population, its GDP per capita rose rapidly in tandem with its crude oil fortunes, But Equatorial Guinea has not achieved any economic development, let alone economic transformation. Life expectancy in that country still stands at 50 years, and less than half of its primary school-aged children are enrolled in school. In Hungary, 90% of school aged children are enrolled in schools.

We now come to the matter of economic transformation. Economic transformation occurs when the economic structure of a country shifts from rural subsistence agriculture or exports of raw commodities that may provide easy income to the government when the global market is favorable, to broad-based manufacturing or services that provides more and higher-paying jobs. This should be the ambition of Nigeria's economic policy. This is not necessarily the same thing as the much-touted "diversification" of the economy that we have heard succeeding governments & speak of for over 40 years. Diversification could also mean "diversifying" away from crude oil to a new reliance on any other of the many raw solid minerals that also abound in Nigeria, or to "diversify" the country's fiscal revenue base by exporting raw cashew nuts.

Economic transformation is a different order of things. It is a process that is built on the back of strategic thinking and disciplined execution such as has been achieved by China and several East Asian economics whose experiences we will review shortly. It is purposed. It is not an accident or a state of achievement that can be stumbled into. Economic transformation seeks to transfer millions of citizens from poverty into the middle-class. It is often achieved by altering the availability and deployment of factors of production such as land, capital and labor, and through the application of productive knowledge in innovation and the competitive manufacture and export of complex, value-added products. Ethiopia is one of the very few African countries that is consciously pursuing a policy of achieving economic transformation beyond GDP growth rates.

III. *The Vision Thing: A National Vision of Economic Growth.*

Nigeria has failed to achieve high-quality economic growth because the country's economy is managed mostly on an ad-hoc, reactive basis. It is a "survival" economy in which most governments that held political power have had no real economic vision or a strategy to execute such a vision successfully. Most damaging there is little interrogation of either received wisdom based on global economic policy "fashions" or of the country's own policy assumptions that have been long on populism and short on substance.

To build a sustainable economic future, Nigeria must now address the aching need for a clear economic vision, situated in a philosophical framework from which economic policy should be derived. Nigeria's economic policy has not undertaken this kind of self-examination since General Ibrahim Babangida's military government introduced the International Monetary Fund and World Bank - inspired Structural Adjustment Program (SAP) in 1986.

The wealth of nations always has philosophical foundations. It is these fundamental understandings and how we understand and apply them, rather managing our economy with no particular lodestar or compass, that makes the difference between growth and stagnation.

The vision thing matters because it sets out a national ambition to transform the economic structure and the lives of citizens against the canvass of both the medium and long term and a clear destination.

It matters because, if communicated effectively, a national economic vision can galvanize citizens to work towards a shared goal, which builds national cohesion and wealth. A national economic vision anchored in a discernible economic philosophy makes policies derived from it more robust by imbuing such policies with internal consistency. And clarity of vision also matters because different and competing economic visions exist and have delivered prosperity to different parts of the world.

Economic planning was a feature of economic management in pre- and post-independence Nigeria, and even in the military regime of Gen. Yakubu Gowon. This approach of development plans contributed positively to the march towards economic development. They were based on a “mixed economy” vision with a strong role for the states- a developmental states of sorts. But it was subsequently abandoned after Gowon was overthrown.

The military dictator Sai Abacha commissioned the development of a “Vision 2010”. Democratically elected President Yar’Adua had his Vision 2020 while President Goodluck Jonathan came up with a Transformation Agenda. But these documents, while worthy efforts, lacked a foundational worldview and any grand, unifying vision. Moreover, the “visions” were not embedded in the structures of governance and were not executed with consistency and discipline, with targets and milestones measured constantly against implementation.

The fundamental conundrum is that of getting right the balance between the role of the state and the market in the quest for sustainable economic growth and development. As the French poet Paul Valery once wrote, “If the state is too strong, it will crush us, if it is too weak, we shall perish.” Resolving this tension isn’t easy. Nigeria has not yet gotten it right. We once had an economy in which the state stood at the commanding heights. In later years, however, the economy was increasingly liberalized.

The problem we have today is not that the economy was liberalized. The problem that continues to challenge our economic development path is that, first, liberalization happened without the necessary foundations for prosperity in a liberal capitalist economy because we moved into financial liberalization without achieving the required minimum threshold of industrialization -- which is what drives economic transformation. As a result, finance does not play the optimal role it should in economic development in Nigeria, and the three factors of production – land, capital, and labor are out of synchronization in our economy.

The second dimension of this problem is that the state is confused about its role in the economy. In various epochs we have observed the Federal Government of Nigeria as “business and private enterprise friendly”. The result, however, was cronyism and a “subordinate state” in which economic policy was effectively controlled by private sector oligarchs in the service of vested interests.

In another scenario we have seen the federal government perceived as statist in “body language”, and orientation, but nevertheless corruption and cronyism have similarly thrived, but perhaps only in a smaller circle. Moreover, there exists little capacity and the knowledge base to run a capable state-driven economy.

There is no question that the state has a key role to play, but the extent to which this role is played is what differentiates several economies even in the mature industrialized countries. In the concept of the “night - watchman state” governments are to allow the private sector to allocate resources and simply play a “watchful” regulatory role. In the “developmental state” model, government policy drives the direction in which the market allocates resources.

I believe that Nigeria should return to the model of a market-driven developmental state, not as statist as its economy was in the 1960s and 70s, but certainly not a laisser-faire extreme capitalist economy. The latter is an intellectual fallacy because even the countries that preach it have never practiced it in its pure form. The state still plays a significant role in several Western economies.

The challenge Nigeria faces is that a developmental state requires very strong leadership vision, political will, and a deep bench of intellectual and technocratic competence in economic management. This is lacking in the governance of Nigeria today.

We also do not have sufficient intellectual understanding and interrogation of capitalist economics. We are attempting to achieve development with a market based-economy but have paid insufficient attention to understanding how to unleash the three requirements for successful capitalism – property rights, innovation and, of course, capital. The result, as we see in the Nigerian economy, is a high degree of poverty for a majority and the concentration of a capitalist wealth in the hands of very few.

There is little evidence that Nigerian economic policy has studied the different shades of capitalism – entrepreneurial capitalism, welfare capitalism, state capitalism, and crony capitalism – and made any conscious policy decisions on which one/s to adopt or adapt. In order for a country as big and populated as Nigeria to grow, this level of engagement must take place.

IV) *The Asian Experience*

Much has been written and said of the "East Asian economic miracle". While no two situations are ever identical, the ability of several Asian countries to achieve economic development and transformation in a relatively short span of three to four decades holds important lessons for Nigeria. These lessons reinforce the point made earlier about the importance of a conceptually clear and rigorous approach to economic growth and development.

The role of the state and public policy and its interaction with the private sector in these countries was remarkable. Here it is important to identify two sets of East Asian countries based on their respective approaches to economic growth and the outcomes in terms of performance. The first set of countries, which generally performed better, were Japan, Korea, Taiwan, and China. The second set is the Southeast countries of Indonesia, Thailand, and Malaysia. Of the latter three countries, Malaysia is furthest ahead in terms of development, but all three are nevertheless well ahead of Nigeria in their economic performance.

In the countries of Northeast Asia, the state correctly played the necessary policy roles that provided the foundation for their eventual economic growth, transformation, and global economic dominance. This happened through three critical interventions. The first intervention was in agriculture, the second was in manufacturing, and the third was in the area of finance.

In Japan, Korea, Taiwan, and China after World War II, agriculture was restructured as highly intensive household farming, accompanied by a radical redistribution of agricultural land. As Joe Studwell explains[4], this made use of all the available labor in the economy and pushed up yields and output to very high levels. The second intervention was to direct investment and entrepreneurs to manufacturing. This was effectively the second stage of the East Asian transformation because manufacturing best absorbs the skills of the any developing country when workers being to move away from agriculture as the latter becomes more and more industrialized, as opposed to mere farming or "gardening".

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[4] Joe Studwell, *How Asia Works: Success and Failure in the World's Most Dynamic Region* (New York: Grove Press, 2013), Introduction.

In particular, the Northeast Asian governments promoted the improvement of manufacturing technology by providing subsidies to manufacturers. But these subsidies could only be obtained by manufacturers that met specific export targets! This "export discipline" was the key to the East Asian miracle because, 1) it prevented an abuse of subsidies, and 2) it drove East Asian firms to global competitiveness and even dominance. In Nigeria, in comparison, governments subsidize consumption (fuel subsidies, fixed exchange rates) instead of production. Moreover, companies that enjoy any form of state support (even tax holidays) are not held to standards of performance and accountability.

The third intervention was in the area of finance, which was directed to support small-scale agriculture and manufacturing. In order to achieve high yields from small-scale farming and promote the acquisition of manufacturing technology skills. In Japan, Korea, Taiwan, and China, financial systems were kept under close supervision and international capital flows were controlled until these economies reached an appropriate level of advancement. The lesson here, then, is not that liberalization is necessarily bad. It is the timing of its policy execution and the prior foundations that were laid that is the point.

In the countries under review here, only manufacturing companies that could prove they had secured export orders were able to obtain credit from the banking system, and the lending banks viewed export performance as an indication of the creditworthiness of borrowing firms. In order to cover the subsidies to agriculture and manufacturing, banks paid interest on bank deposits that were below market rates. This was possible partly because East Asian people tend to have high savings rates.

In contrast, the countries of Southeast Asia made some policy errors in the role of the state in their process of development. Thus, while they are today well ahead if Nigeria in their development trajectory they nevertheless lagged behind the "first wave" of the East Asian miracle symbolized by Northeast Asian countries of Japan, Korea, Taiwan, and China. This is one of the reasons why the Asian financial crisis in the late 1990s hit Thailand, Indonesia, and Malaysia particularly hard, with massive currency depreciation, inflation, and slowed growth.

While the Northeast Asian countries essentially bullet-proofed their economies with the reforms and strategies in agriculture, manufacturing and finance indicated above, thus permanently transitioning out of poverty, Southeast Asia did not fundamentally reform agricultural and land policy, failed to create globally competitive manufacturing firms, and liberalized their financial systems prematurely.

As Studwell sates in his book:

> "Southeast Asia states then made their developmental prospects even worse by following rich-country advice to deregulate banking, to open up financial markets, and to lift capital controls. The same advice had been proffered to Japan, Korea, Taiwan, and China in the early stages of their development but they sensibly resisted for as long as possible. Premature financial deregulation in South-east Asia led to a proliferation of family-controlled banks which did nothing to support export-oriented manufacturing and which indulged in vast amounts of illegal related-party lending. It was a story of banks being captured by narrow, private sector interest whose aims were completely unaligned with those of national economic development…"

This analysis can be transposed 100% to Nigeria's banking sector, at least at a certain stage in its development.

We should be careful not to draw the wrong lessons from the East Asian experience I recounted above. That experience occurred at a point in the evolution of the global economic environment that is very different from today. I do not suggest that having perhaps liberalized our financial and economic systems prematurely under the policy influence of the Washington Consensus, Nigeria should therefore return to state control of banking. In any case, the Structural Adjustment Program became inevitable because we relied heavily on one commodity, crude oil, and had not attained a sufficient stage in industrialization before the collapse in the oil price in the early 1980s made the system of a mixed economy unsustainable. It also is open to debate whether the problems associated with the SAP, such as its impact of deindustrialization in favor of financialization, arose from its internal conceptual weaknesses in assuming that the laissez-faire theories favored by the Bretton Woods institutions were applicable in every situation, or because we did not have the political will and discipline to go far enough in the reforms and thus ultimately succumbed to economic populism.

The whole point of the Asian development experience is to understand that even in a capitalist context, the state has a very important role to play in economic growth, development, and transformation in terms of its directional strategy and policy. What the specifics of those strategies and policies are will depend on the national context. Whatever the case may be, the guiding hand of the state must be at the wheel.

This means that political leaders and the governments they lead must have the vision, combined with intellectual and public policy, and the political will to drive economic growth. Although Malaysia was initially a laggard in East Asia, between the 1908s and the first decade of this millennium, the country nevertheless made remarkable progress under the vision and leadership of Dr. Mahathir Mohammed, its Prime Minister from 1981 to 2003. His eclectic engagement with globalization, not rejecting the phenomenon outright but pushing ahead with a nationalistic vision of development, enabled his country to recover faster from the Asian financial crisis of 1997 than other Southeast Asian countries.

Indonesia and Thailand have made significant strides. Indonesia has the largest economy in Southeast Asia with a nominal GDP of $932, 448 billion in 2016. But, just like Nigeria, it has a relatively low nominal GDP per capita with average income per person of $3,604 in 2016. This is below the global average. Unlike Nigeria, however, Indonesia has achieved a relatively more consistent economic growth over the past three decades, with reduced output volatility and relatively stable inflation.

The Southeast Asian giant's progress has been due mainly to competent government policy, a young and growing labor force, and a sustained effective process of diversification away from natural resources (chiefly crude oil)[5]. The country has followed a consistent path to industrialization over the past 50 years unlike Nigeria, following oil price shocks of the 1970s and the 1980s. Agriculture's shares of exports declined steadily between 1971 and the 1990s, and manufacturing exports increased from a low share of 2% of total exports in 1980 to 46% in 1993.

[5] Stephen Elias and Clair Noone, "The Growth and Development of the Indonesian Economy", *Reserve Bank of Australia Bulletin*, December Quarter 2011

Unlike most of its comparator nations in Southeast Asia, however, the growth of manufacturing in Indonesia has been based mainly on agriculture – food, tobacco, and textiles, rather than more complex products. In this there is a parallel of a similar, equally less ambitious opportunity for Nigeria to transition from subsistence, agriculture into agriculture-based industrialization, given the attributes of Nigeria's economy in which agriculture accounts for 33% of its GDP. Indonesia and Nigeria also have large population sizes, with 261 million people in Indonesia and 181 million people in Nigeria.

Overall, Indonesia's economic growth outlook remains positive. With GDP growth of 5% in 2016 it was the highest growing large emerging market according to the IMF. The country has continued with important economic reforms, most important of which are reducing the layers of government regulation, opening new areas of the economy to private investment, expanding investment in public infrastructure and expanding tax collection and broadening the tax base[6].

Like Nigeria, Indonesia 's youthful workforce can be one of the country's most powerful drivers of economic growth if productivity can be strengthened through the creation of a more skilled workforce.

An interesting lesson from Indonesia is the role of an influential group of economic technocrats nicknamed the "Berkeley Mafia". These Indonesian economists were trained at the Faculty of Economics of the University of Indonesia and earned graduate degrees at the University of California at Berkeley. Under the reign of General Suharto as military President of Indonesia from 1968, Suharto gave prominent economic cabinet posts, in the late 1960s and 1980s, to these economists, who pursued liberal economic reforms that successfully stabilized the Indonesian economy. The country's inflation rate, for example, fell from 650% in 1966 to 13% in 1969.Despite their success, the Berkley Mafia encountered fierce political opposition from economic nationalists in the 1970s in the wake of the oil boom, and again in the 1980s after their reforms revived Indonesia's economy after the oil prices dropped. President Suharto's decision on both occasions to side with the economic nationalists after seeking out and bringing in the Berkley Mafia led to the decline of the group's influence and to their removal from the Indonesian

[6] Indonesia: Resilient Economy Can Benefit From Stronger Reforms", International Monetary Fund, February 3, 2017, www.imf.org/en/News/Articles/2017/02/03/NA020317

government during Indonesia’s economic collapse induced by the Southeast Asian financial crisis in 1997.

PART 2: POLICY

The greatest policy challenge to qualitative economic growth in Nigeria is how to ensure inclusive growth, which includes creating jobs for the 30 million unemployed Nigerians and the estimated 3 million people who enter the Nigerian job market every year. We will first discuss how to achieve inclusive growth more broadly, then how to create jobs, followed by a discussion of innovation and human capital as a path to economic growth.

V. *The Challenge of Inclusive Growth*

The term “inclusive growth” has become a buzzword of development economics and political economy. As the UNDP so pithily puts it, “when you ask five economists to define the subject, you will likely end up with six answers”. But it is clear that inclusive growth is growth that is broad-based across different segments of the society and sectors of the economy. It will include a large part of the country’s labor force and create productive employment. Inclusive economic growth emphasizes equality of opportunity in terms of access to markets, employment, resources, and a regulatory environment that provides a level playing field. While it is one in which the poor are not left out or left behind, it seeks that outcome by creating productive employment and a steady increase in the *productivity* of labor, which is what creates wealth, in raising the income levels of excluded groups. This is different from direct income redistribution

Inclusive growth is Nigeria’s central economic challenge. Market-led economic growth is the dominant paradigm of economies in the world today, and rightly so because it has been the most effective path to reducing poverty, creating wealth, and achieving transformation. But its Achilles heel is always this nagging question of growth that excludes large numbers who do not have access to the opportunity for productive employment and entrepreneurship.

This matters for two reasons. First, non-inclusive growth, especially in countries such as ours that have not even taken off on a trajectory of production-driven growth, cannot achieve real development and transformation. Western countries can grapple with the 1 per cent problem, but their economies have long been structurally sound. These economies are based on innovation, industrial production, and the exports of competitive goods, and thus create jobs. Second, non-inclusive growth builds up a bottleneck of exclusion that, long term, destabilizes the security and sustainability of the social order. Again, this is why, despite the importance of social safety nets in every society, exhaustive transfers to the unemployed, rather than creating jobs for them, cannot solve the problem. Without creating a broad-based pattern of growth based on productive employment that grows both the GDP and the GDP per capita, exhaustive transfers may have populist appeal but will not be sustainable.

How can we create inclusive growth in Nigeria? The answer lies in a combination of approaches that includes (a) conceptual clarity as a point of departure, (b) rural-based economic growth, (c) infrastructure provision, (d) creating a social contract, (e) the role of business, (f) human capital development, (g) economic diversification, (h) financial inclusion, and (i) effective political leadership. We have already dealt with conceptual clarity. Orthodox definitions of economic transformation emphasize urban-based economic production, creating an "urban bias" in classical economic thinking. But, especially in a populous country such as ours, we need to begin to develop rural based economies. Cities such as Lagos, Kano Aba and Onitsha are choked. Economic activity is trapped in these cities, but 53 per cent of our population live in rural areas. Decentralized economic growth, especially based on value-added agriculture and industrial manufacturing, will create more jobs and boost inclusion.

The role of infrastructure in creating inclusive growth is obvious. This is what creates equality of access to markets and productive opportunities, and it will also create a "pull" factor for decentralized economic activity. Developing human capital through educational policy that is geared to innovation and technical skills is necessary to increase the productivity of labor, which is the critical component of inclusive growth.

Inclusive growth will not be achieved by merely diversifying into low-productivity agriculture in the 21^{st} century or mining and exporting raw solid minerals. The latter will simply create another channel of commodity dependency, and is not the model on which the true wealth of nations is based. Real diversification means a value chain of industrialization and value addition in a number of industries, whether based initially on agricultural or mineral resources, or, additionally, beyond natural resources to create other competitive goods for export. This means, in the area of solid minerals, that we need to be far-sighted and require value-addition (beneficiation) to any solid mineral mined in Nigeria before its export prior to granting mining licenses to investors. That is what creates jobs. True diversification of economies across sectors requires a strategy to achieve economic complexity. Achieving inclusive growth in this manner also requires political will to overcome the corruption and patronage systems that are frequently linked to natural resources.

Nigeria needs to create a social contract between the state and its citizens. This involves, primarily, the obligations of citizens (such as paying taxes) in exchange for the protection of life and limb, civil liberties and its limits, as well as the sustainable provision of basic infrastructure and social safety nets by the state. This gives citizens a sense of belonging, with mutual accountabilities between the government and the governed. One way to achieve this is to bring the millions in Nigeria's informal economy into the formal sector, including by making innovative use of the ubiquitous mobile telephones that are owned by 140 million Nigerians.

This is linked to financial inclusion. Inadequate access to finance plagues Nigeria's small and medium enterprises, resulting in the oxymoron of capitalism without capital. It is not enough to strengthen the role of development banks, though that is essential. Beyond this, more private sector regional banks in geopolitical zones should be encouraged as a matter of policy, so that finance is located closer to rural and semi-rural populations as well as the urban small businesses. It is shocking that, as a recent report of the Nigerian Bureau of Statistics revealed, 77 per cent of bank credit in Nigeria in 2015 went to Lagos alone. That's just one of the 36 states, and only 10 per cent of Nigeria's population. This is extreme financial exclusion, a model that cannot build or sustain an inclusive growth economy. The role of the private sector more broadly is similarly critical. Business will play a driving role in inclusive growth if the power of competition, privatization and deregulation is unleashed in a manner that avoids abusive crony capitalism.

Finally, Nigeria will not achieve real inclusive growth without inclusive governance. We will continue to suffer instability and be distracted from strategic economic transformation if the foundational elements of political inclusion for Nigeria's diverse citizenry are not addressed sincerely and effectively. The federal government today came to office in an election in which the opposition defeated an incumbent president. It had a unique opportunity to begin to truly heal Nigeria's wounds. Clearly, that opportunity was frittered away. A political re-engineering of our nationhood and our economy by revisiting a constitutional structure that traps us in a vicious circle of underdevelopment, will provide the foundation for real economic transformation.

VI) ***Jobs! Jobs! Jobs!***

Roughly 200 million persons in the world are jobless, and most of them are young men and women in developing countries such as Nigeria. That 30 million out of these 200 million people are in Nigeria – roughly 15% of the world's jobless – is a staggering fact with important consequences for Nigeria's future. When we consider that Nigeria's population is projected to double by 2050, the implications of millions of young people entering the job market without a radical success in job-creation in Nigeria becomes clearer.

The first insight is to understand that governments by themselves do not create jobs in today's world dominated by private sector-led economic activities. The private sector does. Government creates the conditions for job growth through sound economic policy.

The second insight is that, for a country like Nigeria, job-creation cannot be addressed in isolation of the wider macroeconomic environment which is a product of economic policy. The key to creating jobs is to ensure the constant increase in productivity across broad areas of the economy. Some aspects of the economy, such as manufacturing and agriculture, as well as entrepreneurship, and the IT industry, can by their nature create more jobs than others such as the petroleum exploration industry, for example. Other important constraints to job growth are limited access to finance, especially among small and medium enterprises, inadequate farming and skills among workers and entrepreneurs, and weak infrastructure – especially power and transport infrastructure[7].

[7] MSS Research, "Employment Strategies for Developing Countries", www.mssresearch.org

The critical path to job-creation in Nigeria must run through self-employment and entrepreneurship, with an emphasis on agriculture, agroindustry and small firms in the informal sector, and in the IT and services industry. The Federal Government of Nigeria and state government must utilize policy to stimulate the growth of these industries.

The number one policy response must be access to capital, in particular private equity and venture capital. Evidence across economic jurisdictions in Africa, the United States, and Europe makes clear that private equity and venture capital investments in small firms creates more jobs than the formal corporate sector. What this means is that Nigerian economic policy should encourage far more investments, local and foreign, in private equity and venture capital. The market for such investments is obvious when we consider that access to finance has been identified as the biggest obstacle to the business – and therefore job-creation – growth of SMEs and microenterprises in Nigeria.

Economic policy in Nigeria must also encourage the growth of businesses and job-creation in rural areas in order to reduce the urban migration pressures that contribute to the high unemployment in Nigeria. This has been the case in Asia. Japan's economic growth was driven by expansion of rural enterprises, with 74 of the Japanese workforce employed by SMEs. Regrettably, Nigerian economic policy is focused far more on the formal corporate firms that have access to political leaders rather than to SMEs that make up 90% of businesses in Nigeria or the informal sector that produces 65% of the country's GDP. China created 101 million jobs between 1985 and 1991, with 70% of these jobs in "townships and village enterprises" and nearly half of them privately owned[8].

It is important for the government in Nigeria to focus on a holistic strategy to expand small business and employment opportunities in Nigeria's rural areas, especially in the IT sector where opportunities exist with rural dwellers increasingly seeking connectivity with the world through internet or other IT services, and where mobile telephone penetration is already high. Specific tax incentives could be created for the establishment of businesses in rural communities.

[8] MSS Research, "Employment Strategies for Developing Countries".

VII) *Human Capital and Innovation*

Human Capital and Innovation development can help solve Nigeria's unemployment problem. Nigeria's educational system is contributing heavily to high levels of unemployment. The system churns out millions of tertiary education graduates who do not have the productive knowledge and necessary skills to start their own businesses as entrepreneurs or to be more easily employed otherwise. The education system needs to be overhauled to de-emphasize university degrees and promote the acquisition of vocational and entrepreneurial skills more conducive to self-employment, entrepreneurship, in SMEs, or increased adaptability to employment in agriculture or manufacturing.

This requires a fundamental policy overhaul of education in Nigeria that a) creates a two-track educational path after secondary school, one path leading towards vocational skills in demand in the economy but increasingly unavailable, and b) a new emphasis on applied technology and engineering in university education and a significant reduction in the number of places available for the study of liberal arts subjects and social sciences. The point is not to abolish these subjects, which are undoubtedly beneficial to the society in a normal scenario of a more mature economy. Rather, I recommend a 60:40 or 70:30 ratio in favor of applied technology and vocational subjects.

This brings us to innovation. Economies that are driven by innovation create jobs more easily, as new ways of doing things or new products create new job opportunities in the chain of distribution from invention or innovation to the market. This means that innovation economies create more opportunities for self-employment and the provision of services.

Nigeria has a national policy on Science, Technology, and Innovation but this policy has practically no impact on Nigeria's economy. This is because there is no policy support for moving the products of innovation into the marketplace through mass production and marketing distribution, and because the incentives for innovation are not yet strong enough in Intellectual Property law and regulation.

VIII) ***Nigeria's Informal Economy***

Nigeria's informal economy, which is 65% of its GDP according to the IMF, needs to be brought in from the sun. This reason is of fundamental importance to our economic growth: informal economies are a strong characteristic of low-income economies and the prevalence of the informal economy is one reason why Nigeria's GDP per capita has remained at a low average $1,646 since 1960. Second, and related to this, countries characterized by an abundance of informal businesses experience low aggregate productivity.

When people switch from informal sector to the formal sector jobs they increase employment in skilled occupations that pay higher even when those jobs are down the ladder of the hierarchies of jobs in formal sector enterprises, e.g. masons, carpenters, welders and so on. The consequence of such switches is upward job mobility[9].

The problem with formalizing the informal sector is that it is difficult to achieve when the larger macroeconomic environment is out of kilter as it is in Nigeria, and the formal industrial sector is relatively weak. Moreover, this specific challenge of economic growth does not appear to be a preoccupation of Nigerian economic policymakers. If we are to achieve economic development and transformation, it needs to become an important focus of economic policy.

IX) ***Fiscal Policy***

Fiscal policy is about how the government generates and spends revenue and how this pattern and process influences the economy. In Nigeria, most of the populace appears not to understand the difference between this government function and monetary policy which is the management of the money supply and price stability a central or reserve bank.

Fiscal policy in Nigeria is the weakest aspect of economic governance in Nigeria. There are many reasons why this is so, but they are overarchingly of a political nature. Since fiscal policy is, at its core, about how to raise and spend money,

[9] Brian McCaig, "Why Developing Countries Should Create More Formal Jobs", World Economic Forum, August 5, 2015, www.weforum,org

taxation is, or ought to be, at the heart of fiscal policy. In Nigeria, this has not been the case. This fact is at the heart of the country's economic growth challenge. The very issue – taxation – that defines the role of the state and its citizens which is that citizens will pay taxes levied by the government on their economic activities and the government will provide security and other public goods, has been relegated to secondary importance. Debt management is another important aspect of fiscal policy.

As in several natural-resource rich countries in Africa, fiscal policy in Nigeria for the past 50 years has been focused not on the efficient and effective generation and spending of tax revenue, but on rents from crude oil which have usurped normal tax policy in importance. This changes the dynamics of fiscal policy because the focus switches from the effects of policy on economic activity, to the risks of oil price revenue exposures, macroeconomic imbalances, environmental damage, and the overall distortion of governance and political power towards capturing and controlling natural resource rents for the purposes of patronage. This is the classic "gatekeeper state"[10]. The resources become the "gate" of statehood and governance, and all the political and economic action is focused on guarding, controlling, and managing "the gate".

The failure of fiscal policy in Nigeria has had five other fundamental consequences that have hobbled the ability to achieve sustained economic growth, development, and transformation. One, both the federal government and the vast majority of state government have been unable to save, even as many other resources-rich countries in the Middle East, Asia, and Europe developed savings mechanisms such as sovereign wealth funds decades ago. As a result, our country has lost nearly two generations of developmental opportunity.

Two, the mismanagement of fiscal policy has resulted in the hemorrhaging of potential savings to the maintenance of a massive bureaucratic state. That state is one marked by a bloated and inefficient size of government at the national and sub-national levels. Between 70-90% of federal budgetary revenues are spent on paying salaries and on other recurrent expenditures.

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[10] Frederick Cooper, *Africa Since 1940: The Past and the Present* (Cambridge: Cambridge University Press, 2002), Chapter 7.

Three, Nigeria has been afflicted by a high degree of macroeconomic instability as a result of the cyclical economic crises generated by fluctuations in revenues from crude oil owing to boom and bust cycles in the global price of oil. Despite a habitual political lip service to diversifying the economy away from oil revenues, the governance and economic management of Nigeria still operates in a firmly oil-price-dependent mode.

Four, fiscal management incompetence has resulted in increasing levels of foreign and domestic debt. The implication for fiscal management is that increasing amounts of future revenues will be spent in debt-servicing. Given the past record of governance and economic management in Nigeria, it is doubtful that the debt incurred will be spent in a manner transparent and effective enough to achieve economic growth that offsets the costs of the national debt.

Five, and finally, fiscal policy mismanagement in Nigeria, largely under the influence of the country's political leadership, has had a negative impact on monetary policy. Fiscal dominance has frequently created inflationary pressures that have made long cycles of tight monetary policy – exemplified by high interest rates – inevitable.

It is time for Nigeria to develop and launch a real medium and long-term program of diversification away from oil-revenue dependency. This requires a level of political will that is not evident at the present time.

Following the return to democracy in 1999, various policies were put in place to mitigate the impact of oil revenue volatility, specifically the oil price rule and the Excess Crude account. A debt cancellation deal was reached with creditors, cancelling most of the legacy debt and repaying the balance. This freed up the government's balance sheet and left significant fiscal policy space to implement a development agenda. But this progress in fiscal policy has been reversed in recent years, and the subsequent return to high levels of indebtedness raises the possibility of a debt crisis[11].

[11] Kingsley Moghalu and Nonso Obikili, "Fiscal Policy During Boom and Bust", forthcoming in *Oxford Handbook of Nigerian Politics* (Oxford: Oxford University Press, 2018)

X. *Foreign Exchange Policy Conundrums*

In the wake of the oil price decline that began in 2014, the value of the naira was inevitably affected, as foreign reserves provide the main anchor to the value of the currency in a commodity that depends, for its foreign exchange, mainly on a single commodity: crude oil. The objective of Nigeria's exchange rate policy should be a stable (but not immovable) currency, the exchange rate of which broadly reflects both an approximation of its true market value as well as Nigeria's broader economic interests. This raises the question: between a fully flexible exchange rate (full float) and a peg or a managed float of the currency, where does Nigeria's national interest lie? Answer: whichever will make Nigeria's economy more efficient and encourages production.

Two points need to be made here. First, with extremely few exceptions such as Canada and the United States, the central banks of the advanced industrial economies that mainly use flexible exchange rate policies manage their currencies through occasional interventions in financial markets to stabilize those currencies. They also carry out occasional competitive devaluations, in this case because they are productive, export-oriented economies.

Second, the naira's (and our economy's) woes were exacerbated by the Central Bank of Nigeria's prolonged pegging of the naira to a fixed, artificial exchange rate of 199 naira to the dollar, when all the rational economic factors that previously sustained this exchange rate had collapsed, rendering the peg unsustainable. This contributed to black market devaluation-fueled inflation, and unemployment, as manufacturers could not access forex at the official rate and output productivity dropped sharply. This was a major contributing factor to the recession.

The fundamental problem for forex policy is the absence of a productive economy. Two most important aspects of this challenge are electric power to support the growth of a productive, manufacturing industrial economy, on the one hand, and removing the obstacles international trade policy places on our industrialization prospects by stymying the viability of our local industries, on the other. Cheaper foreign manufactures have easy access to our markets. Conversely, our own manufactures are unable to access foreign markets because value-added goods from our country are blocked by high tariffs imposed by our trading partners (but our raw materials for their own industries are welcome and attract low tariffs!). Quality standardization concerns also dog Nigerian exports.

What is the solution? We need to shift from the never-ending quicksand of gas-based power to a focus on renewable (solar, wind, geothermal and biomass) energy for household consumption and hydro and coal-based power for industrial production. And we need to impose "smart" protectionism through high tariffs that can be justified under the rules of the World Trade Organization, on imports from foreign markets that are snuffing out our local industries in several sectors such as textiles. Absent these two policy approaches, Nigeria's economy will not attain its potential.

If these policies are combined with a flexible exchange rate policy that makes export-oriented value-added products more profitable than importation, the naira will ultimately realize a beneficial effect. This is the answer to understandable concerns about the absence of any benefits from prior devaluations. Those devaluations, though involuntary because of external shocks to which the nature of our economy exposes us, only imported inflation. That reality was not offset by any benefit because there were no complementary policy actions in other economic sectors outside of finance.

Second, and related to this, is the evident absence of a strategic linkage between fiscal policy, which is the role of the Ministries of Finance and Planning/Budget, and monetary policy which is the central bank's domain. A central bank can contribute to national economic policy, but does not on its own make such policy in the holistic sense. Rather, monetary policy complements a robust fiscal policy by maintaining monetary and price stability. This role can be a defensive one where fiscal policy is deficient. For instance, a central bank may raise interest rates if it believes there is excessive, politically inspired "fiscal dominance" that can trigger inflationary trends. The absence of a solid, comprehensive fiscal strategy is one reason why the CBN is overburdened with quasi-fiscal functions and ever-increasing development finance interventions.

Third, the CBN itself needs to develop a more strategic approach to monetary policy and financial stability, even within the limitations of the absence of a larger national economic blueprint. The Bank's responses to the challenges of the past two years have appeared short-term, reactive, episodic and experimental, and without a larger plan of action that is evident to all Nigerians, the financial markets, and foreign investors.

Fourth, adequate understanding of basic economic principles that should inform public policy is lacking in our country's populace, and even (most consequentially) in the government. Populism often reigns as a result, as emotional passions take hold and get translated into the "national interest" or that of "the masses". Zimbabwe and Venezuela offer sobering examples of this kind of approach to economic problems. Meanwhile, other oil and commodity producers have made (certainly painful) adjustments to their currencies in response to changed fundamentals in the past two years. Even the great British pound sterling sharply lost value as a consequence of Brexit

Fifth, the modern world and the fickleness of its financial markets requires highly adept communication by central banks. The CBN cannot escape the need to communicate effectively to Nigerians the fundamentals of the naira's travails, and its plan to meet evolving challenges.

Sixth, the institutional and policy autonomy of the CBN has been greatly compromised since mid-2014. Anecdotal evidence suggests that what ought to be an independent central bank has been run in recent years as a mere appendage of the Presidency. The consequences of this state of affairs on our economy, including on investor confidence, are clear for all to see. There are very sensible reasons why the laws of Nigeria provide for the independence of the CBN in the exercise of its functions, as in the case with the central banks of many nations that are making economic progress. Recent negative trends in the Nigerian economy have borne out the foresight in this principle. It is the duty of a central bank to tell a political leader not necessarily what he or she wants to hear, but rather what the leader needs to know. This is what the national interest and professionalism require. It also is a foundational basis for a serious response to economic crisis.

The CBN needs to educate Nigeria's political leadership class, for example and especially in connection with devaluations of the naira since 1985, on the global implications of the evolution of the international monetary system since 1914. Fixed exchange rates worked well only when the whole world used them. Currencies were pegged to gold from 1870 up to 1914, and then to the dollar which itself was backed by gold, after 1945. This was abandoned in 1971 when the US dollar became unable to maintain its value of $35 for one ounce of gold. Countries progressively adopted floating exchange rate regimes of various shades and complexities, and fixed exchange rates were completely abandoned by most countries in 1985. Nigeria's economy was of course not left untouched by this evolution.

Today, we know that fixed exchange rates, though they may appear to provide an appearance of stability, are largely inappropriate for the nature of the contemporary world economy, and tend to cause currency crises as we saw with Mexico in 1995 and the Asian and Russian currency crises of 1997. Flexible exchange rates, on the other hand, can also engender instability, especially for developing countries. This is why many countries have a "managed float" of some sort or the other. We have done this for most of our history as a country, but the circumstances today differ fundamentally from yesterday's.

Today as well, we have a politically induced multiplicity of exchange rates (including subsidized rates for spiritually important but nevertheless economically unproductive religious pilgrimages abroad!). The forex market is essentially on life support not from real economic activity including foreign investment, but from monopolistic interventions by the CBN. This poses two problems for economic growth. One, if the slightly recovered price of oil were to crash again tomorrow, sustaining these interventions will become increasingly difficult. The policy stance therefore engenders, fundamentally, macroeconomic instability. Two, subsidizing the market price of dollars continues to promote an import-dependent economy. This approach will not lead to a productive economy and real economic growth. This is yet another example of how crude oil dependency has fundamentally distorted our economy and prevented us from achieving sustained economic growth.

The economic precept that no central bank can have at the same time a fixed exchange rate, free movement of capital, and an independent monetary policy (a choice of two of these must be made, while markets determine the third) still holds sway. Floating exchange rates, despite their risks (which can be managed) serve the very useful function of letting monetary policy serve purposes beyond certitude. In the case of Nigeria, it can play the key roles of attracting much needed forex liquidity in the markets, and nudge the economy towards a more productive state when combined with effective trade and industrial policy.

PART 3: POLITICAL LEADERSHIP AND ECONOMIC GROWTH

Nigeria suffered economic destruction on a massive scale between 2015 and 2017. From a GDP of $568.5 in 2014 we are down to $406 billion in 2016 -- and that is if the official exchange rate of about 305 Naira to the dollar is the basis of that calculation. If you calculate with the parallel market rate of N366 to a US Dollar, the country's GDP today is well less than $300 billion. This is a massive erosion of national wealth. Foreign investment into Nigeria was $5.16 billion in 2016, the lowest in seven years. That figure was $9.6 billion in 2015, and $20.75 billion in 2014. This means that we have had more than a 75% decline in foreign investment into our economy between 2014 and now.

This massive economic contraction has happened largely as a result of cumulative bad political leadership. We know, of course, the story of the sharp decline in oil prices starting from 2014, which is a major factor. There are two other important factors. The first was the depletion of the Excess Crude Account by the Federal Government and State Governments that insisted on drawing down from the account, from about $22 billion in 2007 to approximately $2 billion as of December 2014.This left our country with no protection for the rainy day as oil prices began to decline in late 2014. We therefore had no fiscal buffers to help us defend our economy from the implications of the oil price fall for the naira. The value of the naira depends on external reserves built on the back of crude oil price sales that bring in more than 90% of our forex earnings.

The second factor is that of weak economic management by the present federal government. The government refused to make the necessary policy adjustments and has instead gone on a borrowing spree. We have increased our external borrowing by 46% (from $9.46 billion to $13.81 billion) in the past two years. We now spend over 60% of all our revenues, weak as they already are, on debt servicing.

We are where we are because of wrong political decisions that have prevented us from achieving real economic development. From the very nature of Nigeria as a petrostate on fiscal life support from crude oil sales for nearly 50 years instead of creating a productive economy with diversified streams of forex income, to the venal depletion of our savings by politicians who insisted, against the advice of technocrats, that we should not save for a rainy day because "the rain is already beating us", and on to a rigid and statist approach to economic management for political reasons that have served vested interests but not the poor masses in whose name these misnomers were proclaimed as “policy”, our political leadership choices have kept our economy down. The policy response of the federal government only bred corruption and arbitrage in the management of forex and negatively impacted manufacturing companies, leading to declining output and further job losses.

Nigerian citizens must take their destiny into their hands and take the political actions necessary to ensure that we do not remain a poor country. This means that Nigerians must understand that the political choices we make in leadership selection matter a great deal because, as I have demonstrated, the decisions taken by political leaders determine whether we are rich or poor. There are three ways in which this reality matters.

First, the primary requirement of leadership is the character, ability and competence to create positive transformations, to lead a people or institution from where the leader meets them to a much better place. Second, an economy cannot be managed to progress that is beyond the vision, capacity and competence of the political leadership, regardless of how many brilliant technical economists abound in a country. If the political leadership lacks vision, is venal and focused on other priorities, sound technocrats can't achieve very much. Their full potential contribution will be suppressed by political decisions above them, usually taken in caucuses at night in places that are not offices. Third, the political and constitutional structure of Nigeria affects its economic management, in our case in a very negative manner because the potential productivity of the country's component regions and states is suppressed by the rent-seeking politics to control absolute power at the center and dispense patronage. This is part of why constitutional restructuring for a true federalism is so essential.

In other words, the most important case for a return to true federalism is an economic imperative. With 30 out of Nigeria’s 36 states known to be fiscally unviable in the absence of bountiful oil rents, and given the future trends for hydrocarbon energy in the emerging global economy, what is Nigeria’s future? Only a new constitution that places the primary responsibility for economic management with Nigeria’s sub-national governments can re-establish economic competitiveness. The political resistance to restructuring from those who mischievously pretend that demands for constitutional reforms to reposition Nigeria for prosperity are tantamount to calls for breaking up the country, is yet another demonstration of how our political choices have kept us mired in poverty. There is no real escape route except we summon the political will to do what is necessary to liberate Nigeria's economy from mismanagement and cronyism.

All of this means that, in leadership selection, we must remember that these three issues are the ones that really matter most. We need to begin to select competent Nigerians with leadership skills, a clear economic vision, and the capability to make such visions into reality. This is the only way Nigeria can become globally competitive.

Some African countries are achieving inclusive growth economies – Botswana, Ethiopia, Mauritius, Morocco, and Rwanda. They have not gotten it right because their elected leaders are angels. Rather, they have made real progress because their leaders are competent. They are competent because they understand how leadership can create a shared sense of nationhood amongst their citizens, despite the challenges they face. They are competent because they understand political economy and economic development at intellectual and practical policy levels. They are competent because they have a philosophical worldview you can identify.

As a university professor, one of my favorite reading assignments to students was a powerful essay in defense of industrial policy written by the late Ethiopian President Meles Zenawi[12]. Despite industrial policy having fallen out of favor in contemporary economic orthodoxy, which favors unrestrained free markets and very little state involvement in national economies, Meles insisted on his vision of an economy powered by industrial policy in which state guidance is combined with private enterprise to pursue inclusive economic growth. More importantly, he understood it intellectually, applied it competently to his country's economic policy. It is working in Ethiopia. The country has had a growth rate of 8-11% for the past decade, and has one of the lowest rates of income inequality in the world.

In Rwanda, Paul Kagame has led his country to some interesting outcomes, although the political space remains restricted. Like Meles, Kagame reads wide and deep, and is intellectually curious. He has a clear vision which he has been able to

[12] Meles Zenawi, "States and Markets: Neoliberal Limitations and the Case for a Developmental State", in Akbar Noman, Kwesi Botchwey, Howard Stein, and Joseph Stiglitz, *Good Growth and Governance in Africa* (Oxford: Oxford University Press, 2012), Chapter 5.

communicate effectively to his citizens, and utilizes performance contracts to ensure effective governance. Uniquely, Kagame has empowered women far more than is the case in most African countries, and women make of 56% of Rwanda's parliament, the highest ratio in the world. His conceptual originality has led Rwanda's ruling party to own and run profit-making business corporations. That's better than stealing state resources to fund partisan politics.

In Mauritius, President Ameena Gurib-Fakim is a former university professor who has done research and published tons of scientific papers. She is a leader who is an intellectual, and has argued that citizens get the leadership they deserve because it is their vote that selects and elects their leaders.

In Botswana, the founding President Sir Seretse Khama, a British-trained barrister, instituted a superior culture of leadership grooming and succession that has assured the country's stability and economic growth from 1966, when it was one of the world's poorest countries, up till today when Botswana's nominal GDP per capita, at $7,000, is one of the highest in Africa.

We can therefore see a common thread of intellectually and technocratically competent political leadership in the successful emerging African countries. These leaders all recognize that ideas matter. They are therefore engaged with ideas, and with translating them into policy against the background of clear worldviews. The outcomes indicate successful economic performance.

We were once led in several regions of Nigeria by intellectual politicians such as Nnamdi Azikiwe, Obafemi Awolowo and Michael Okpara in the 1950s and 1960s. Their intellect was evident in their passionate and personal engagement with economic policy in Nigeria's regions at the time, in particular education and human capital development, and industrial policy consistent with structural transformation over an appropriate time horizon had this trajectory not been broken by military intervention in Nigeria's national politics and, subsequently, a ghastly civil war. The outcomes created a country that, at independence in 1960 and for a few years afterwards, was at par or ahead of several of today's East Asian economic powerhouses.

It is time for Nigerians to select a new breed of leadership that understands and can engage with, and bring political leadership to, the concepts and public policy of economic growth in Nigeria that can turn Nigeria into a globally competitive economy in the nearest future. When we continue to vote for leaders whose currency are not real leadership skills, vision and ideas but the baser ones of ethno-religious irredentism, we are great accomplices in our continuing poverty and the undisputed failure of economic growth in Nigeria. As citizens, we have the power to change our destiny. It is time to understand and to use that power. The path to economic transformation begins in our political choices.

PART 4: RECOMMENDATIONS

1. Nigeria must establish an economic philosophy from which its economic vision will be derived, and set out a vision that will drive economic policy and management. Such a vision must make clear the respective roles of the state and the market, and its position on capitalism and its various adaptations – entrepreneurial, crony capitalism, state capitalism, and welfare capitalism. The economic ecosystem will operate and be managed within this framework.

2. Economic management should be overhauled. The President should establish a full-time Council of Economic Advisers, headed by a Chairman that will serve as Chief Economic Adviser, that researches and monitors the economy 24/7 and advises the President on actions to take to enhance economic growth. This council, composed of 5 or 6 members, should be Nigeria's economic team. Ministers holding economic portfolios should not be members of this team; rather they should focus on execution and the achievement of targets set by the President, as advised by the Council of Economic Advisers. The Council's members should have expertise in the main areas of economic growth ambition or policy such as fiscal policy (in particular taxation reform), industrial policy, trade policy, energy economics, and economic history, economic philosophy and political economy.

3. From 2019, the Federal Government of Nigeria should establish a concrete economic diversification plan with a concrete path to a post-oil future for Nigeria, based on emerging global trends.

4. This plan, akin to the Saudi Arabian government's economic diversification plan, should include a clear strategy with interlinked policies – trade, industrial, fiscal – and far-reaching structural and governance reforms of the Nigerian National Petroleum Corporation that could include partial privatization (with share listed on the stock exchange for purchase by ordinary Nigerians and not by government-related cronies). In doing so, the interests of local communities in oi-producing regions must be protected – for example, by ensuring a set-aside in private ownership of the NNPC by members of the communities in the oil-producing regions).

5. To create millions of jobs within a four to five-year period, Nigeria should establish a public-private partnership private equity and venture capital fund to support job-creation through access to entrepreneurship capital. This fund should be established with not less than N500 billion, with contributions from the federal government and private sector funders, and be run on a for-profit basis as a private company by private sector managers. Mutual accountabilities must be established between the government and private sector partners, and for the operating entity.

6. To reduce unemployment in a strategic and systemic manner, the recommendation above (Recommendation #5) should be combined with a fundamental overhaul of Nigeria's educational system to cut that the system's propensity to produce graduates who will join the long lines of the unemployed. A two-track educational system should be established at secondary school level, one track going into vocational skills training, the other going into tertiary institutions reconfigured to produce graduates in applied technology and entrepreneurship subjects in a ratio of 70:30 to non-technology or entrepreneurship subjects.

7. Nigeria's tax authorities should follow the ownership trail of Nigeria's estimated 140 million mobile telephone lines to bring operators in the informal economy in the tax net and the formal economy. This approach will

generate dramatically increased internal revenue and reduce the need for external indebtedness. In return, the government must enter into, and deliver on, a solemn social contract with the Nigerian people to provide our citizens with the most basic goods of security, access to education and quality healthcare, and infrastructure.

8. The Federal Government of Nigeria should cease all new foreign borrowing. Considering the government's declining revenue profile, further indebtedness is not sustainable and will likely lead to a debt crisis.

9. The FGN needs to establish a "hedging" arrangement to manage the risks of oil price volatility.

10. The Federal Government of Nigeria should institute "smart protectionism" using tariffs to protect infant industries in Nigeria for a seven-year period, under the auspices of the Special and Differentiated (S&D) provisions of the World Trade Organization treaty. The government should subsidize manufacturing, but with incentives and accountabilities from manufacturing companies in terms of their exports to the ECOWAS, African and broader global markets. No export orders, no subsidies.

11. The Constitution of Nigeria should be amended to make the Development Bank of Nigeria a first-line charge to the Consolidated Revenue Fund of the Federation. This will enable the Bank to provide funding for big-ticket infrastructure items at single-digit interest rates.

12. Economic planning in Nigeria should henceforth take a regional approach based on economies of scale from the six geopolitical zones, based on the competitive and comparative advantages of the zones.

13. Power policy in Nigeria should henceforth prioritize industrial clusters such as Aba, Kano, Lagos, Nnewi, and Onitsha. Nigeria needs to make massive investments in renewable energy that can serve households.

14. The Land Use Act should be abolished. Doing so will help improve access to capital in the economic system because freehold land ownership will provide additional levels of collateral for bank or other forms of borrowing to start businesses. The law has outlived its usefulness and creates bureaucratic bottlenecks in the economy, especially in the area of investment.

PART 5: CONCLUSION

Nigeria has failed to achieve sustained economic growth largely because of a failure of political leadership. The absence of competent leadership, which must for a developing country include a solid understanding of economic and public policy, prevents real economic progress.

From crude oil-revenue dependency to excessive recurrent expenditure, from political interference in the central bank to returning Nigeria closer to debt peonage, Nigeria's political leaders have stymied Nigeria's economic development through a combination of incompetence and the servicing of their vested interests.

I have made several recommendations in this lecture, but the most important I save for the last: that we need a new generation of leadership that is visionary, intellectually and technocratically competent enough to meet the challenges of economic growth in a competitive global economy of the 21st century. That appears to me to be the pre-condition for achieving the other recommendations.

The fundamental solutions to our crisis of economic growth and development lie in leadership. Not the politics-as-usual of the past, but a new kind of politics of ideas. It will take this kind of politics to produce the vision and political will to undertake the necessary economic and institutional reforms.

It will take this kind of politics to educate and mobilize ordinary Nigerians to new ways economic transformation and their enlightened, collective self-interest in supporting the creation of a new economic paradigm that dramatically cuts down joblessness and poverty. It takes knowledge, which is the true wealth of nations, to even know where to begin, how to proceed, and the direction in which we should be headed.

Why are the wealthy nations rich and the poor, like our country, impoverished? I have attempted to provide answers and indicate the path which, in my view, we must follow.

It’s time to make our economy, creating jobs for the 30 million Nigerians that have none, Job # 1.

It’s time to reclaim Nigeria’s future from the limitations of our present.

It’s time to place the leadership of Nigeria in the hands of those with the knowledge and competence to create that future.

That, ladies and gentlemen, is the path to the future that our children deserve. Anyone who tells you that anything matters more your livelihood and your welfare is not being straight with you.

Thank you.