

Effect of Recession on Sustainable Development in Nigeria

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Abstract: - Recession is negative economic growth for two consecutive quarters. It is also a business cycle contraction which results in a general slowdown in economic activity. During recession the Macroeconomic indicators such as capacity utilization, business profits, GDP (gross domestic product), investment spending, inflation, and household income, fall, while unemployment rate bankruptcies and increase. Governments respond to recessions by adopting expansionary macroeconomic policies, such as increasing government spending, increasing money supply, and decreasing taxation. The study investigated the effect of recession on sustainable development in Nigeria. It also x-rayed the causes of recession in Nigeria which includes internal (endogenous) and external (exogenous) factors, these hamper the stability and sustainable development of the economy. The study, therefore recommended that Government should increase its spending in real activities during recession and also reduced its taxes for individuals and businesses to bring about stability and sustainability in the economy. Also to foster economic stability, ensure Economic growth, sustainable development and become a full partner in the global economy of the 21st century, Nigeria must embark on export diversification and take advantage of its huge stock of natural resources.

Keywords: Recession, Sustainable Development, Nigeria Economy,

I. INTRODUCTION

Recession is a business cycle contraction, and it refers to a general slowdown in economic activity for two consecutive quarters. Recession as a phase of an economic cycle at one point or the other has affected every economy (country) around the globe. Economic recession is a very serious symptom that indicates that the economy is diseased and requires vigorous economic measures to be taken for its faster recovery. In the phase of recession most macroeconomic fundamentals (variables) such as unemployment, inflation, exchange rate, and economic growth gets worsen a life become unbearable for the majority of the population (the poor) indicating that if there is no appropriate policy responds from the government, the economy may slip further into depression (Shido-Ikwu, 2017). Recession is the period characterized by a decline in income, aggregate demand, prices of goods and services, investment, and employment in the country. These characteristics and many others are present in Nigeria except one, decline in prices of goods and services. What makes the current recession in Nigeria peculiar is that it is a combination of balance of payment deficit, high exchange rate, a rise in prices of goods

and services (inflation), low aggregate demand, low output, rising unemployment, and low income. (Afinia, 2017)

Recession may be triggered by financial crisis and or credit crunch, as well as demand and supply-side shocks (Kamar, 2012). Recession, if not controlled, can have a devastating effect on the economy as most macroeconomic indicators remain negative for a long time, usually more than two years. Recession came into limelight in the year 2008 to 2009 when the annual growth rate of Nigeria dropped from over 9% to 6.7% leaving macroeconomic variables such as GDP growth rate, oil price, exchange rate, unemployment, and underemployment, inflation, external reserve, etc. relatively unstable. The consequences of the recession have led to the reduction of the standard of living and the quality of life of the people, high unemployment, falling incomes, and reduced economic activity, and an increase in the poverty rate, these have a devastating effect on sustainable development. Therefore the study examines the effect of recession and its causes on sustainable development in Nigeria.

Objectives of the study

- 1) To ascertain the causes of recession in Nigeria
- 2) To examine the effect of recession on sustainable development in Nigeria

II. CONCEPTUAL CLARIFICATIONS

Recession: is a general slowdown in the level of economic activities around its long – term growth trend for two consecutive quarters. The fluctuations between periods of relatively rapid economic growth (boom), and periods of relative stagnation or decline (a contraction or recession) that is characterized by a decrease in certain macroeconomic indicators such as GDP, employment, investment spending, capacity utilization, household income, business income, and inflation while indebtedness illiquidity, bankruptcies, and unemployment rates increase (Ezeanyej, Imoagwu, and ifeako, 2019). Recession is the period of decline in economic activity (Claessense and Kose 2012). The National Bureau of Economic Research (NBER, 2010) defines a recession as when “a significant decline in economic activity spreads across the economy, lasting more than a few months to more than a year, normally visible in real Gross Domestic Product (GDP) growth, real personal income, employment (non-farm payrolls), industrial production and wholesale-retail sales”. As argued by Tule et al. (2012), recession is a business cycle

contraction where there is a decline in certain macroeconomic indicators such as the GDP.

Sustainable development: is the creation and sustenance of the conditions for current and future generations of humans to live well on this planet (Itari and Ugbe, 2018). There are three components of sustainable development: economic development, social development, and environmental protection (Ndubuisi-Okolo and Anekwe, 2016). "Sustainable development means a better quality of life now and for generations to come. It means not using up resources faster than the planet can replenish, or re-stock influences decision making with organizations, and therefore can go towards forming principles and business 'values' – for example, providing information to the public in an open and accessible way and involving people and communities who are affected by those decisions (Akintoye and Opeyemi, 2014). "Sustainable development is the development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Sustainable development has continued to evolve as that of protecting the world's resources while its true agenda is to control the world's resources. Sustainable development aims to balance our economic, environmental, and social needs, allowing prosperity for now and future generations. Sustainable development consists of a long-term, integrated approach to developing and achieving a healthy community by jointly addressing economic, environmental, and social issues, whilst avoiding the overconsumption of key natural resources.

2.1 Theoretical framework

The study is anchored hangover theory credited by Paul Krugman (1990). It is the idea that slumps are the price we pay for booms, that the suffering the economy experiences during a recession is a necessary punishment for the excesses of the previous expansion. Recessions are not necessary consequences of booms. They can and should be fought, not with austerity but with liberality with policies that encourage people to spend more, not less. During the boom, investment spending is excessively long-term and overly optimistic. Further, high levels of consumer spending draw real resources away from the investment sector, increasing the gap between the resources available and the resources needed to see the long-term and speculative investments through to completion.

2.2 Causes of Recession in Nigeria

The recent economic recession in Nigeria was caused by internal factors; such as mismanagement of funds by past administration, corruption, import restrictions, budget approval delay, etc. The external causes of recession have to do with factors that are exogenous to the economy over which policymakers have little or no control. Factors like natural disaster, climate change, Boko Haram insurgency, (Benjamin, 2017) vandalization of oil pipeline by the militants, Claessens, and Rose, (2012) Herdsmen Farmers crisis, unexpected fall in oil price, implemented policies on the OPEC nations, etc. Agricultural economies normally face crop failure resulting in

a general economic slowdown. According to CBN (2012), recession can be caused by two broad factors: internal (endogenous) and external (exogenous). The former is usually as a result of conflict of ideas, misapplication of economic theory, and regulatory negligence of policy inconsistency. Shido-Ikwu (2017) advocated that the current economic recession in Nigeria can be linked to legacy factors, policy factors, and political/security factors. Afimia (2017) advocated the fall in demand for Nigeria's crude oil, crude oil supply glut, activities of insurgents, over-dependence on the importation, removal of fuel subsidy, are the factors that led to economic recession in Nigeria. Also, economists were on the view that negative demand and supply shocks as well as deflationary macroeconomic policies are the main causes of recession. The negative demand-side shocks that affect the aggregate demand work through a global economic slowdown that impacts major trading partners of a country. Economic recession doesn't just occur; certain factors which include dollar collapse, oil price rise, inflation, housing bubble, loss of consumer confidence, excess buying, and the global economy are responsible. Abubakar and Wang et al (2018) in their study stated that the major causes of the recent economic recession in the country were as a result of mismanagement of funds by the past administration, corruption which has destroyed the cultural, political and economic growth of any country, delay in signing the appropriation bill into law, the fall in the global crude oil prices, the security problem and the introduction of the Treasury Single Account (TSA) which pave way to the recession.

2.3 Effect of Economic recession on sustainable development

Economic recession affects all aspects of the state, national, and human endeavors and this hamper the sustainable development of the country. The rich and the poor are greatly affected by the economic recession. Recession has led to poverty and hardship of the masses; the cost of living is very high which results in the poor standard of living, children have deprived the right to quality education, there is a high rate of criminal activities. Agri, Maliafia, and Umejiaku, (2017) advocated that the economy is deteriorating in human development indices, the quality of education and healthcare has collapsed, with extreme poverty, acute hunger, and starvation prevailing amongst the poorest poor. Recession is a period of economic slowdown featuring low output, illiquidity, and unemployment. It is characterized by its length, abnormal increases in unemployment, falls in the availability of credit, shrinking output and investment, numerous bankruptcies, reduced amounts of trade and commerce, as well as highly volatile relative currency value fluctuations, mostly devaluations, financial crises, and bank failure. The socio-economic effects of the recession include; unemployment, inflation, and loss of livelihood strategies. These have serious negative consequences on the stability of families. The standard of living, education, healthcare, infrastructure, and general wellbeing is affected. People are suffering, life is tough and crime rates are on the increase as life expectancy reduces with increases in infant and maternal

mortality rates. Consumer confidence is lost; there is psychological bad faith in the economy and the government, especially by the suffering aggregate households, businesses, and external sectors. Recession has psychological and confidence aspects. For instance, if the expectations develop that economic activity will slow, firms may decide to reduce employment levels, save money rather than invest. Such expectations can create a self-reinforcing downward cycle bringing about or worsening a recession (Samuelson, 2010). An economic downturn like the 1997-98 Asian financial crises resulted in dampened business confidence, poorer company financial performance, and increased company bankruptcies. In a study by Cirmizi, Klapper, and Uttamchandani (2012), the 2007/2008 financial crisis affected companies around the world resulting in reduced demand for goods and services, contraction in the availability of business financing and a declining flow of inter-border investment funds. Shama (1978) found that consumers felt more insecure over their employment during economic slowdowns and their buying behavior changes with the changing economic conditions. Koksals and Ozgul (2007) found that managers are asked to either delay or abandon investment projects during an economic downturn. Ang, Leong, and Kotler (2000) found that businesses will encounter cash flow issues as lending institutions and suppliers are reluctant to offer favorable financing terms and customers default on their outstanding credits or they simply buy and spend less. The resulting combinations of tight finance, reduced demand, and fall in exports, reduced consumer spending and consumer sentiments will contribute to tight cash flows, declining cash positions, falling profitability, and losses leading to potential insolvency and bankruptcy. The double quarters of negative growth, High levels of inflation, the worsening purchasing power of the naira, and the increasing levels of unemployment are all strong indicators that all is not well. The effects of recession on the economy cannot be overemphasized because it affects the economy as a whole, it affects the business activities, the Quality of products and services are compromised, unemployment is greatly affected and household expenditure and consumption are at high increase.

III. CONCLUSION AND RECOMMENDATIONS

The government should Partner with foreign technical experts in other to learn from experiences and insights which will be used to develop policy frameworks for possible financial contingencies. To foster economic stability, ensure Economic growth, sustainable development and become a full partner in the global economy of the 21st century, Nigeria must embark on export diversification and take advantage of its huge stock of natural resources. Also, Nigeria should work hard to shift from oil to agriculture and other economic and social overheads which will aid the private sector on the path of

sustainable growth and development. The government should increase their spending in real activities during recession and also reduced it taxes for individuals and businesses to bring about stability and sustainability in the economy.

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