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FACTORS AFFECTING ECONOMIC GROWTH IN NIGERIA

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ABSTRACT

In recent years, all her efforts to grow the economy, Nigeria's rate of economic growth has remained very volatile and sluggish. This study examined and assessed the empirical link on the factors effecting economic growth of Nigeria. Economic growth is an increase in the production of goods and services over a specific period. To be most accurate, the measurement must remove the effects of inflation. In fact, Economic growth is the increase in the inflation-adjusted market value of the goods and services produced by an economy over time. It is conventionally measured as the per cent rate of increase in real gross domestic product, or real GDP. Rise in economic growth creates more profit for businesses and this inevitably result rise in prices of stock. Thus, it will be good to note that all countries all over the world irrespective of their economic and political policies want positive economic growth. This makes economic growth the most watched countries statistics that precede over economic events. The factors affecting economic growth in Nigeria can be seen into economic and social factors. The research work will discuss those factors that hinder economic growth such as inflation, interest rate, corruption, inability to process raw materials to finished goods, etc. and proffer some recommendations that will contribute to economic growth and development in Nigeria.

KEYWORDS: *Corruption, Development, Economy, Economic growth, Inflation, Price, Production, Services.*

1.0 INTRODUCTION

What causes economic growth has been one of the most fundamental economic issues that have received extensive attention in the economic literature in recent days. Factors that affect economic growth of nations irrespective of its economic and political policies can be economic and social factors. In fact, it can be ranging from economic, social, cultural, political and more recently, institutional reasons have been included.

Nigeria, like any other Africa countries has witnessed a series of problems that affects its economic growth and development ranging from socio-politico-economic problems, inflation, interest rate, corruption, inability to process raw materials to finished goods, etc. over the years. Economic growth in Nigeria has been affected over the years due to poor educational infrastructures, high child mortality rate, endemic diseases, growing urban population, lack of access to sanitation in the urban and rural areas, corruption, weak industrial infrastructure, ethnic conflict or crisis and low per capital income of less than two dollar per day for majority of the citizens.

The study examines the determinants that effect Nigeria's economic growth and tries to proffer solution to this dangerous and unwanted situation that lies in accelerating economic growth in real income, which is the focus of this study. The research work will try to expose these factors that cause economic problems that limits Nigeria, so that we can deal with them and enjoy inclusive sustainable economic growth and development.

However, the Nigerian Government has initiated number of programmes like Structural Adjustment Programmes (SAP), National Poverty Eradication Programme (NAPEP), and National Economic Empowerment and Development Strategies (NEEDS) and host of others all with intent of boosting economic growth and development. Nevertheless, have been hindered due to epileptic implementation problem, poor educational infrastructures, high child mortality rate, endemic diseases, growing urban population, lack of access to sanitation in the urban and rural areas, corruption, weak industrial infrastructure, ethnic conflict or crisis and low per capital income.

Thus, Nigeria has been struggling to establish the part of sustained economic growth and it is against this background, that this study has been undertaken in order to detect the causes that effect Nigeria's economic growth and foster ways to achieve high level of growth and development.

2.0 LITERATURE REVIEW

2.1 Theoretical Framework

According to Jhingan (1997), economic growth occurs when an economy's productive capacity increases, which in turn is used to produce more goods and services. Economic growth is measured by increase in the amount of goods and services that are produced in a country. Economic growth is the increase in the goods and services produced by an economy, typically a nation, over a long period. It is measured as percentage increase in real gross domestic product (GDP) which is gross domestic product (GDP) adjusted for inflation. GDP is the market value of all final goods and services produced in an economy or nation. Economists generally agree that economic development and growth are influenced factors like human resources, physical capital, natural resources and technology. Highly developed countries Governments focus on these areas while the Less-developed countries, even those with high amounts of natural resources, lag behind by failing to promote research in technology and improve the skills and education of their workers.

2.2 Economic Growth Theories

There are three main types of economic growth theories over time that have all attempted to answer that exact question. The Classical, Neo-Classical, and Modern Day theories and each will be described below:

i. Classical Theory: The classical theory of economic growth was a combination of economic work done by Adam Smith, David Ricardo, and Robert Malthus in the eighteenth and nineteenth centuries. The classical growth theory argues that economic growth will decrease or end because of an increasing population and limited resources. Classical growth theory economists believed that temporary increases in real GDP per person would cause a population explosion that would consequently decrease real GDP. The theory states that every economy has a steady state GDP and any deviation off that steady state is temporary and will eventually return. This is based on the concept that when there is a growth in GDP, population will increase. The increase in population thus has an adverse effect on GDP due to the higher demand on limited resources from a larger population.

Figure one: Thomas Malthus - Classical Growth Theorist

According to Thomas Malthus - Classical Growth Theorist the GDP will eventually lower back to the steady state. When GDP deviates below the steady state, population will decrease and thus lower demand on the resources. In turn, the GDP will rise back to its steady state.

ii. Neo-Classical Theory: Two economists, T.W. Swan and Robert Solow, made important contributions to economic growth theory in developing what is now known as the Solow-Swan growth model. The theory focuses on three factors that impact economic growth: labour, capital, and technology, or more specifically, technological advances. Neoclassical growth theory is an economic theory that outlines how a steady economic growth rate can be accomplished with the proper amounts of the three driving forces: labour, capital and technology. The theory states that by varying the amounts of labour and capital in the production function, an equilibrium state can be accomplished. The theory also argues that technological change has a major influence on an economy, and economic growth cannot continue without advances in technology. In addition, according to the theory since a nation can theoretically determine the amount of labour and capital necessary to remain at that steady point, technological advances really affect the economic growth. The theory states that economic growth will not take place unless there are technological advances, and those advances happen by chance. Once an advance has been made, then labour and capital should be adjusted accordingly. It also suggests that if all nations have access to the same technology, then the standard of living will all become equal.

iii. Modern Day theory: The new growth theory is an economic growth theory that posits humans' desires and unlimited wants foster ever-increasing productivity and economic growth. The new growth theory argues that real GDP per person will perpetually increase because of people's pursuit of profits.

2.3 Measuring Economic Growth

Gross domestic product is the best way to measure economic growth. It takes into account the country's entire economic output. It includes all goods and services that businesses in the country produce for sale. It does not matter whether they are sold domestically or overseas. Gross domestic product (GDP) is a monetary measure of the market value of all the final goods and services produced in a period, often annually or quarterly. Nominal GDP estimates are commonly used to determine the economic performance of a whole country or region, and to make international comparisons.

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time. Though GDP is usually calculated on an annual basis, it can be calculated on a quarterly basis as well (in the United States, for example, the government releases an annualized GDP estimate for each quarter and for an entire year). Thus, GDP is the final value of the goods and services produced within the geographic boundaries of a country during a specified period of time, normally a year. GDP growth rate is an important indicator of the economic performance of a country.

GDP includes all private and public consumption, government outlays, investments, private inventories, paid-in construction costs and the foreign balance of trade (exports are added, imports are subtracted). Put simply, GDP is a broad measurement of a nation’s overall economic activity. It may be contrasted with gross national product (GNP), which measures the overall production of an economy's citizens, including those living abroad, while domestic production by foreigners is excluded.

- Calculating GDP and GDP Importance: The components of GDP include Personal Consumption Expenditures plus Business Investment plus Government Spending plus (Exports minus Imports). Now that you know what the components are, it is easy to calculate a country's gross domestic product using this standard formula: C + I + G + (X-M). The national income and product accounts (NIPA), which form the basis for measuring GDP, allow policymakers, economists and business to analyze the impact of such variables as monetary and fiscal policy, economic shocks such as a spike in oil price , as well as tax and spending plans, on the overall economy and on specific components of it.
- Significance of Gross Domestic Product – GDP: GDP is an accurate indication of an economy's size, while GDP per capita has a

close correlation with the trend in living standards over time, and the GDP growth rate is probably the single best indicator of economic growth. As Nobel laureate Paul A. Samuelson and economist William Nordhaus put it, "While GDP and the rest of the national income accounts may seem to be arcane concepts, they are truly among the great inventions of the twentieth century." Samuelson and Nordhaus neatly sum up the importance of the national accounts and GDP in their seminal textbook "Economics." They liken the ability of GDP to give an overall picture of the state of the economy to that of a satellite in space that can survey the weather across an entire continent. GDP enables policymakers and central banks to judge whether the economy is contracting or expanding, whether it needs a boost or restraint, and if a threat such as a recession or inflation looms on the horizon.

- Types of GDP:
  - Nominal GDP: This raw measurement includes price increases.
  - Real GDP: To compare economic output from one year to another, you must account for the effects of inflation. To do this, the BEA calculates real GDP. It does this by using a price deflator. It tells you how much prices have changed since a base year. The BEA multiplies the deflator by the nominal GDP.
  - Growth Rate: The GDP growth rate is the percentage increase in GDP from quarter to quarter. It tells you exactly whether the economy is growing quicker or slower than the quarter before. Most countries use real GDP to remove the effect of inflation.
  - GDP per Capita: GDP per capita is the best way to compare gross domestic product between countries. This divides gross domestic product by the number of residents. It's a good measure of the country's standard of living. Some countries have enormous economic outputs only because they have so many people.
- Some criticisms of GDP as a measure of economic output are:
  - It does not account for the underground economy: GDP relies on official data, so it does not take into account the extent of the underground economy, which can be significant in some nations.
  - It is an imperfect measure in some cases: Gross National Product (GNP), which measures output from the citizens and companies of a particular nation regardless of their location, is viewed as a better measure of output than GDP in some cases. For instance, GDP does not take into account profits earned in a nation by overseas companies that are remitted back to foreign investors. This can overstate a country's actual economic output.
  - It emphasizes economic output without considering economic well-being: GDP growth alone cannot measure a nation's development or its citizens' well-being. For example, a nation may be experiencing rapid GDP growth, but this may impose significant cost to society in terms of environmental impact and increase in income disparity.

Note: When economists talk about the "size" of an economy, they are referring to GDP.

2.4 Factors Affecting Economic Growth in Nigeria

i). Corruption: Corruption is dishonesty and illegal behaviour by people in positions of authority or power or inducement to wrong by improper or unlawful means such as bribery, embezzlement etc. In general, corruption is a form of dishonesty or criminal activity undertaken by a person or organization entrusted with a position of authority, often to acquire illicit benefit. staffs put needless hurdles to delay or make a simple process hard, creates artificial scarcity, make the office environment oppressive, or come late to work so that the people are anxious and ready to part with money to get quick service.

In fact, impact of corruption is very hard on public life and economy as a whole. Corruption may include many activities including bribery and embezzlement, though it may also involve practices that are legal in many countries. In Nigeria, corruption occurs in many areas but the most common is corruption of government officials. Newspaper reports quoting EFCC, give large figures of amounts past government officials have allegedly stolen. Ministries, Directorates and Agencies of government have a staff or two who would disrupt the smooth flow of the system to extort or get bribe from the public for a free service.

Effect of corruption in Nigeria is horrible. Every citizen in Nigeria can now feel its consequences. Every sector of the economy is dreadfully involved in corruption. Several Governments have launched several anti-corruption policies but no significant changes have occurred. What is the real effect of corruption in Nigeria?

In fact, the situation is that corruption affects the economy daily making government projects costlier; contractors to do poor jobs, worsening state of infrastructure in the country, and helping unqualified students to gain admission into universities, etc. The situation in Nigeria is drastic. According to the American financial researches, if the corruption in

Nigeria does not slow down, then by the year of 2030, it will cover about 37% of GDP. It means that every citizen starting from today will lose about $1000 to corruption every year. By the year of 2030, this number will increase up to $2000 per person.
Corruption has had a negative effect on growth and development of Nigeria.
ii). Poor Infrastructure: Life in Nigeria has been a mix of daunting challenges and boundless opportunities. Yet with the seeming boundless opportunities, the country suffers. This has projected a bizarre image of Nigeria as a country with capital flight, capital sink and capital stagnancy. Poor Infrastructure such as lack of constant power supply and transportation system hinders businesses in Nigeria from doing well. Poor infrastructure doubles the cost of production and sale of finished goods in Nigeria. The roads need repairs due to destruction caused by haulage of goods by road instead of using train on railways.
"According to J f Kennedy, America has good roads, not because America is rich, but America is rich because it has good roads".
Thus, social issues are part of factors affecting economic growth in Nigeria, Nigeria's infrastructure is in a deplorable state, and the nation's infrastructural needs are evident for all to see.
iii). Red Tape: Red tape is excessive bureaucracy or adherence to official rules and formalities. In addition, Red tape is an idiom that refers to excessive regulation or rigid conformity to formal rules that is considered redundant or bureaucratic and hinders or prevents action or decision-making. Red tape makes government slow and costly. It costs much more to get anything done due to red tape in the system. For instance, paying tax is difficult, clearing your goods at the ports is hard, and registering a new business is an uphill task.
All this hinders with Nigeria's economic growth and development.
iv). Inflation: Inflation is a general increase in prices of goods and services or general fall in the purchasing value of money. It is a sustained, rapid increase in prices, as measured by some broad index (such as Consumer Price Index) over months or years, and mirrored in the correspondingly decreasing purchasing power of the currency. It has its worst effect on the fixed-wage earners, and is a disincentive to save.
Inflation do not wish any economy well because it devastates social, health and educational, infrastructure and the economy as a whole so it should be discouraged in our system.
v). Insurgency and Terrorism: Insurgency destroys a countries economic growth and development because it Decreases international investments, Increases of security measures in the country, Decrease of GDP, Infrastructure destruction, and effects all kinds of Business, Market and the Economy as a whole. Many foreign investors stay away from Nigeria and some of those already in the country end their investments to take them to safe havens.
Emergence of insurgency terrorist group in April 2014 Boko Haram which means "western education is a sin" and Militancy in the Niger Delta is also one of the major factors affecting economic growth in Nigeria. The militants are Kidnapping and blowing up major pipelines carrying crude oil for export, and disruptions of crude oil production of 2.2 million barrels per day, almost crippled the nation's economy when it reduced to half. While on the other hand the Boko Haram murder, plunder Nigerians, and destroy our country.
All this have caused a great setback to Nigeria economic development in recent times. This state of insecurity is scaring foreign investors away from the country. To stop capital flight, government must decimate Boko Haram and the Niger Delta militants so that the economy in that area will go back to normal, and restore confidence in our security apparatus and their ability to secure the land.
vi). Over Dependence on Oil: Crude oil as the largest single export commodity since 1970s has linked the performance of the external sector inextricably to the development of the world oil market. With a share of more than 50% of total export in 1970, crude oil achieved the fact of becoming the largest single foreign exchange earner in Nigeria.
Since then its share of total export has increased currently standing at about 96% thus intensifying the concentration on foreign exchange earnings in a single export commodity with its attendant high viability in export proceeds. Although Nigeria witnessed an oil boom in the early 1970s this was illusory as the so-called oil boom did not result in laying a sound industrial base capable of effectively diversifying the economy. The third quarter of 2011 report on Nigeria's trade by the Bureau of Statistics has shown that crude oil exports contributed 95.3 per cent of total exports".
vii). Over Dependence on Import: Nigerians have continued to spend the nation's foreign reserves in the importation of finished consumer products that could be sourced locally if efforts are made to patronize made in Nigeria products. Some Nigerians see use of imported products as status symbol. They believe eating imported corned beef, Uncle Bens Rice, Baked Beans and drinking exotic Wines, identifies them as high-class citizens. This has resulted in the continued low capacity utilisation and low production in Nigeria-based companies and industries resulting in high unemployment figures in the country thereby affecting the Nigerian economy negatively.
xi). Value of Naira: The value or worth of the naira is one of the factors affecting economic growth in Nigeria. Changes in the value of money have got far-reaching effects both on the store of wealth and on the wealth-producing capacity of the economy. These changes arbitrarily re-arrange the purchasing power in the hands of the people who hold it.

Thus, the worth of the naira to other currencies at any time is vital for easy planning, production and importation of raw materials, and sale of finished goods for all businesses in the country. It should be understood that if the value of money falls (and the price level rises) proportionately with a given increase in the quantity of money. Conversely the value of money rises (and the price level falls) proportionately with a given decrease in the quantity of money, other things remaining the same.

xii). High Interest Rate: Higher interest rates tend to moderate economic growth. They increase the cost of borrowing, reduce disposable income and therefore limit the growth in consumer spending. Higher interest rates tend to reduce the rate of economic growth and inflationary pressures.

xiii). Government Policies and Regulations: Government regulation is important to keep standards that all operators in an industry must follow for the safety of consumers, employees, natural resources, the environment growth and development. Healthy Government policies and regulations affect the economy positively and an unhealthy Government policies and regulations will inevitably affect the economy negatively.

xiv). Human Resources: The skills, education and training of the labor force have a direct effect on the growth of an economy. A skilled, well-trained workforce is more productive and will produce a high-quality output that adds efficiency to an economy.

xv). Technology: Improvements in technology have a high impact on economic growth. As the scientific community makes more discoveries, managers find ways to apply these innovations as more sophisticated production techniques. Lack of technology and inability to process raw goods into finished products is one of the factors affecting economic growth in Nigeria. This problem is so bad that it costs the country and its farmers, agricultural commodity and solid mineral exporters millions of naira yearly.

For example, you need a produce buyer who has capacity to store and process into finished goods for most agricultural products, if you wish to maximize the sales price of raw agricultural products harvested from the farm.

However, the application of better technology means the same amount of labour will be more productive, and economic growth will advance at a lower cost.

3.0 CONCLUSION

Economic growth is one of the most important indicators of a healthy economy. One of the biggest impacts of long-term growth of a country is that it has a positive impact on national income and the level of employment, which increases the standard of living. As the country's GDP is increasing, it is more productive which leads to more people being employed. This increases the wealth of the country and its population. Therefore we can see from the research work that the factors affecting economic growth in Nigeria are social and economic issues which include corruption, poor infrastructure, inflation and worth of the naira, to mention but a few. Government should also strive to achieve sustainable price stability, fiscal discipline, and economic efficiency driven by infrastructural support and enhanced technological capabilities, strong institutional and economic reforms to increase production capacity

Higher economic growth also leads to extra tax income for government spending, which the government can use to develop the economy. This expansion can also be used to reduce the budget deficit.

Therefore, to ensure sustainable economic growth, government should watch and manage those factors, create price stability and the enabling environment for the private sector, which is the engine of growth to thrive to achieve growth and development.

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