

Economic Growth Figures In Nigeria Mean Nothing!

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At London, the CBN challenged the projected growth ceiling supposedly placed on Nigeria by such agencies as the IMF, The Economist etc. The message was unequivocal: Nigeria's real output grew by 5% in first quarter of 2009 without electric power and therefore even without power Nigeria will most likely expand its real activity levels by the same percentage. IMF had at the start of this year forecast a 2.9% expansion in Nigeria's real output while the Economist Intelligence Unit predicted a 4.6% growth. With a 5% growth in a period generally considered to be fraught with severe macroeconomic uncertainty, low levels of income and unemployment amidst decrepit infrastructure, Nigeria really achieved a wonderful feat. Let somebody say Halleluyah! This is particularly so when this growth rate is very close to the country's long-run rate of about 7.5%. A curious observer of the developments in Nigeria in 2009 knows that there is more to this than meets the eye and thus the following questions become necessary: (a) where are sources of this growth? (b) what does this powerful growth rate mean to an average Nigerian? (c) can we truly rely on published data from the National Bureau of Statistics? And so on.

By way of elimination, this expansion in real output could not have occurred from the oil sector as both oil prices and production volumes have been lower on average relative to the corresponding periods last year. Agriculture may be the source if we can authoritatively determine that the prices of food items which in the inflation data of the National Bureau of Statistics have been falling are indeed the case and are attributable to the expansions in agricultural output relative to the demand for them. But majority of Nigerians know that the opposite is indeed true: prices of most staple foods featured in the food portfolio of the composite price index actually increased by up to 30% almost across all parts of Nigeria. The financial services sector is actually out of it as they are still struggling to cope with globally and locally generated crises. Other areas of growth therefore would be the telecoms, and some other trade activities not directly exposed to the recent naira devaluation.

If indeed growth were witnessed in these sectors in same period, of what importance is it to majority of the Nigerian people? We should realize that this was not the only time that we hail and clap hands over an illusory strong growth phenomenon. In the Obasanjo years, GDP growth which was straddled on the back of good oil prices and CBN-orchestrated inflation was quite strong. Unfortunately, in spite of the hand clapping, that same period (ie. between years 2000 and 2008) was when more than 820 companies closed shop according to the report by manufacturers association of Nigeria. Were they growing and closing shops? The rate of poverty and unemployment did not abate either. What this means is that the GDP growth rate as a measure of economic growth and prosperity is at best a faulty and misleading gauge that best serves the interest of politicians who find it convenient to use it to mask poor performance in other critical sectors by focusing on an illusory and not-too-useful concept.

The GDP was originally invented solely for measuring aggregate domestic production in terms of the volume, value or quantity of goods and services. But come to think of it, even the sheer burgeoning size of humans in the country can lead to expanded output even when the ratio of output to aggregate input is declining. This therefore draws in a more important issue of the difference between growth in production and productivity growth. Growth in productivity goes many steps ahead and not only takes into consideration the increase in output levels, but relates same to the time it takes to

achieve the additional output, the people for which these increased output are meant for and value of the money which are being used to purchase the output makes most meaning. Thus real economic growth should make most sense when the additional output level: (a) are achieved with same or lower volume resources in the current year relative to the previous year. Only technological efficiencies and the drastic reduction in our public sector corruption as well as enhanced macroeconomic certainty that can enable the achievement of this objective. (b) benefits more people relative to previous years. These additional benefits can be measured in terms of higher real income, more employment opportunities, reduced prices of increased output etc (c) can be purchases with less or same amount of money relative to the previous year. Thus meaningful increases in real output levels should ordinarily manifest in very low inflation.

If we can develop an index to capture these measures of relevance, then we should be able to say whether Nigeria has indeed grown by 5% or declined further by same percentage. The summary is that given the current Nigerian context, the announcement of a 5% growth rate does not mean anything. In fact it is a useless measure of Nigeria's growth and prosperity as it does not tell us much. Now, the use of this measure is partially at the heart of the underperformance of governments - such as ours - as their is concentration on aggregate measures for its performance evaluation and policy actions to the utter neglect of how well or miserably individual Nigerians or business units are doing.

Therefore just as true economic profitability or positive economic value added more appropriately measures authentic performance of corporates as it nets off discrepancies and engineered but untrue accounting profits, so shall it be the best measure of prosperity or productivity growth in any economy as a whole. Taken from the perspectives of the suppliers of labour and by extension; suppliers of income to households, the economy can be said to have grown when more of the firms in that economy have recorded more positive economic value added. Such growth will equally be sustainable as positive economic value added for majority of the firms in any economy can rarely be achieved if the rule of law does not take a place of prominence. It can also be rarely achieved in the absence of fiscal and monetary stability. Yet in our particular contexts even in (a) the absence of rule of law marked by heightened Niger Delta insurrection, widespread kidnapping, widespread violence, increased public sector corruption (b) declining quality of fiscal spending with (c) increasing expansions in money far in excess of real macro-economic productivity levels, we clap hands and echo that we are growing: Boasting of further growth in output even without power supply! Haba! Such growth could have been another inflationary balloon from governments 500% growth in fiscal deficits within the first two quarters or leftover air from the deflating ballooned system.

In concluding this piece, I deliberately left out the issues of (a) inflation and its effects which are not captured in the use of the real GDP growth concept to measure economic growth regardless of the computation of the GDP in constant terms that supposedly would have netted off inflation. That is also one of the points where economic analysts are very well blinded. I will treat this subject at a later date, (b) another question which I deliberately avoided was that of the statistical inaccuracies and bias that are associated with the measure. This also will be visited at a future date.

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