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Economic Development Theories And National Development In Nigeria

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Abstract

The united effort of development economists in the years after World War II has led to the emergence of several theories of economic development usually discussed under four major strands of thoughts namely: Linear Stages of Growth Theories, Theories and Patterns of Structural Change, International-Dependence Revolution, and Neoclassical Free-Market Counter Revolution. This work takes a look on these theories with a view to making appropriate recommendations as a contribution to the development efforts embarked upon by states in Nigeria. The paper emphasizes that the government of Nigeria should invest more in quality education as a crucial instrument of economic development.

Keywords: Economic development, National development, Sustainable development, Industrial development, Unemployment, Inequalities

Introduction

Few would argue that the most serious engagement of countries of the world since the end of World War II has the fight against

hunger, malnutrition, extreme poverty, disease, unemployment and inequalities – in one word, the fight against underdevelopment. Several international agencies exist under the United Nations Organization

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(UNO) to finance international development. These include the World Bank, the International Monetary Fund, the International Bank for Reconstruction and Development, the International Development Association, etc. Similarly, some developed countries set up their own special agencies to coordinate their developmental assistance to the poorer countries. These include the United States Agency for International Development (USAID); the Canadian International Development Agency (CIDA); and the United Kingdom's Department for International Development (DFID).

Unlike the First and Second World Wars, the war against underdevelopment has remained protracted. In other words, the world's efforts, over the years, to bring about development have not yielded any appreciable results so far. To the more than four billion poor people in the world today concentrated mostly in Africa, Latin America and Asia (DFID 2008), development is only a hope, perhaps for their children or children's children. Not even the Millennium Development Goals (in which countries of the world fix 2015 as target year to eradicate extreme poverty and hunger, achieve universal primary education, promote gender equality and empower women, reduce child mortality, improve material health, combat HIV/AIDS, malaria and other diseases, ensure environmental sustainability, develop a global partnership for development) nor the fine targets under them give the poor any hope that their bondage under poverty will ever be broken.

In Nigeria, over one-half of the more than 140 million citizens live below the poverty line (Federal Office of Statistics, 1999). Several strategies by successive administrations since independence have been crafted and implemented to eradicate extreme poverty and create jobs but with-

out any appreciable success. Extreme poverty is the main reason why youths take to some unwholesome behaviour and most parents surrender their children to serve as housemaids in major cities across the nation.

Why has the problem of underdevelopment remained insurmountable? Why have we not found the right formula for development? The problem seems to lie with our changing definition of development.

Some economists do not distinguish between economic growth and economic development. Some do so only in terms of the type of economy described. According to Maddison as cited by Jhingan (2003), the raising of income level is generally called economic growth in rich countries but economic development in poor countries. Schumpeter (1934), Nurkse (1966), Kindleberger (2003), and Jhingan (2003) maintained that economic growth refers to increase in output as measured by GNP while economic development implies both increase in output and changes in the technical and institutional arrangement by which production and distribution are carried out. According to Torado and Smith (2003), economic development in traditional economic sense means the capacity of an initially static economy to generate and sustain an annual increase in its GDP at 5% to 7% per annum. Before the 1970s economic development was nearly always seen in terms of rapid gains in overall and per capita GNP growth. Economic development strategies usually focus on rapid industrialization, often at the expense of agriculture and rural development. Problems of poverty, discrimination, unemployment and income distribution are of secondary importance to getting the growth job done.

The experiences of 1950s and 1960s when many developing countries did realize

their economic growth targets but with the living standard of the masses of their peoples remaining, for the most part, unchanged led many economists to conclude that something was wrong with the narrow definition of development. Many development economists, according to Todaro and Smith (2003), stress that economic growth as measured by GNP alone is not a sufficient and appropriate measure of development. We cannot say, indeed it is inhuman to say, that economic development has occurred in any country at any given period in its history merely because the country has recorded statistical growth in its GNP when there exists in the same country high levels of poverty, unemployment and inequalities. It is possible for an economy to grow while it is not developing.

The World Bank in its 1991 World Development Report emphasized that the challenges to development especially in the world's poorest countries is to improve the quality of life not only in terms of higher income but most importantly in terms of better education, higher standards of health and nutrition, more quality opportunities, greater individual freedom and richer cultural life. Sen (1999) argued that the "capacity to function" is what really matters for status as a poor or non-poor person. According to him, economic growth cannot be sensibly treated as an end in itself. Development has to be more concerned with enhancing the lives we lead and the freedom we enjoy.

Development economists nowadays emphasize sustainable development. The term was first used in the World Conservation Strategy presented by the International Union for the Conservation of Nature and Natural Resources 1980. The Brundtland Report – Our Common Future – of the World Commission on Environment and Development defines sustainable development as meeting the needs of

the present generation without compromising the needs of future generations. Jhingan (2003) maintained that sustainable development emphasizes the creation of sustainable (on-going, or everlasting) improvement in the quality of life of all people through increase in real income per capita, improvement in education, health and general quality of life and improvements in quality of natural resources. Thus, sustainable development is all about maximizing the net benefits of economic development subject to maintaining the stock of all environmental and natural resources (physical, human and natural) over some time.

Some economists favour "strong sustainability" which requires that the natural capital stock should not decrease. Others favour "weak sustainability" which requires that the total value of physical, human and natural capital stock should not decrease. Weak sustainability allows increases in other capital stock to substitute for decreases in the natural capital stock.

Theories of Economic Development

According to Tadora and Smith (2003), literature on economic development in the years since World War II has been dominated by four major strands of thoughts namely:

1. The linear stages of growth theories
2. Theories and patterns of structural change
3. The international-dependence revolution
4. The neoclassical free-market counter-revolution

In recent years, an eclectic approach to development that draws from these classic theories has emerged. This work is an attempt to take a closer look at some of

these theories and to make recommendations for economic development policies for the various states in Nigeria, particularly Akwa Ibom State.

The Linear-Stages Theories of Economic Development

Development economists in the 1950s and early 1960s viewed the process of development as a series of successive stages of economic growth, which all countries must pass. The linear-stages theory of economic development emphasized proper mixture of right quantities of savings, investment and foreign aid in order for developing nations to proceed along an economic growth path that historically had been followed by the more developed countries.

Rostow (1960), an American economic historian, and the most outspoken advocate of the stages-of-growth theory of development, described the transition from underdevelopment to development in terms of five stages through which all countries must proceed. These stages are:

- (i) The traditional society
- (ii) The pre-condition for take-off
- (iii) The take off
- (iv) The drive to maturity
- (v) The age of mass consumption

According to him, it is possible to identify all societies in their economic dimensions, as lying within of these five categories.

Under the linear-stages theories of economic development, one of the principal strategies for take-off is the mobilization of domestic and foreign savings in order to generate sufficient investment to accelerate economic growth. Harrod (1949) and Domar (1957) described the economic mechanism by which more investment leads to more growth in what is referred to as the Harrod-Domar Growth

Model. According to the model, the more a country can save and invest, the faster it can grow. A simplified version of this model can be written as:

$$\frac{\Delta Y}{Y} = s \cdot k$$

Where:

$\Delta Y/Y$ = rate of growth in GPN

s = national saving ratio

k = national capital-output ratio

The Harrod-Domar model of economic development can be explained simply that the rate of growth of national output ($\Delta Y/Y$) is directly and positively related to the saving ratio s and inversely related to the national capital-output ratio k . The economic logic of the Harrod-Domar theory is this: For any economy to grow, it must save and invest a proportion of its GNP that will be sufficient to replace worn-out stock of capital and make new investment or net addition to the capital stock. The net addition to the capital stock will bring about increase in national output in proportion to the national capital-output ratio. It follows that multiplying the rate of new investment ($s = 1/y$) by its productivity (i.e. the investment output ratio ($1/k$)), will give the rate by which national income or output Y or GPN will increase. The economies of most states in Nigeria, in the light of the linear-stages theories of economic development, are in the traditional society stage, or at best, the pre-condition for take-off stage. At the national level and in each state effort is being made to kick-start economic development. Given that a principal strategy for kick-starting economic development is the mobilization of domestic and foreign savings in order to generate sufficient investment to accelerate economic growth, some practical steps must be taken to encourage

domestic savings as well as attract foreign direct investment.

Strategy to Mobilize Domestic Savings

Domestic savings is difficult to generate in an economy in which poverty is pervasive. The Federal Office of Statistics in 1999 stated that in Nigeria 70.7 percent of the people live below the poverty line. These include 36.3 percent and 33.4 percent described as moderately poor and core poor respectively. Only 29.3 percent are said to be non-poor. With a GDP per capita of \$1,213 in 2008 Nigeria ranks 165th in the world, and 33 out of 44 countries in Sub-Saharan Africa. The population grows at 2.38 percent per annum with industrial output growth of 2.40 per annum. In an economy with such statistics, it is not difficult to discern that domestic savings is almost impossible. A determined effort on the part of the government is required to generate domestic savings. The following strategies are suggested:

1. The implementation of the Small and Medium Industries Equity Investment Scheme (SMIEIS) should be re-strategized by eliminating equity participation by banks and channeling the accumulated (but largely unutilized funds) through the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) from where small and medium enterprises may source funds at not more than 5% interest to finance their operations. The non-utilization of the SMIEIS funds since its inception has been largely due to the stringent equity participation conditions demanded by participating banks. This apart from diverting the concentration of banks from their primary intermediation function has tended to create a bottle neck in the flow of the funds already provided by the banks to the small and medium scale entrepreneurs who need same for investment purposes.

2. The government at the three levels must

demonstrate serious commitment to industrial development. Our experience since independence has shown that government direct involvement in production is wasteful, and therefore not advisable. What is suggested here is that government at all levels must commit at least 10 percent of their annual budgets to investment in industrial production. The contributions at the federal and state levels should be channelled through Bank of Industry (BOI). Local Government Councils should channel their own contributions through designated micro finance banks. Adequate legal framework should be put in place such that private investors should access such funds at a maximum of 5 percent interest to finance domestic production.

Underdevelopment is more destructive than war. The millions who are dying silently annually through preventable diseases occasioned by poverty cannot be regarded as normal deaths. It is our collective responsibility to harness the records of oil and gas sales to increase the productive capacity of the agricultural and industrial sectors where many more Nigerians can directly participate as a mean of escaping the poverty trap.

Strategy to Mobilize Foreign Investment

Investment, like the growing of any particular species of crop, requires a minimal conducive milieu to blossom. Whenever such a milieu exists, anywhere in the world, profit-seeking investors will seek it out. The provision of basic social infrastructures, political stability, social and religious harmony will induce foreign investors to scramble for investible opportunities that abound in every state in the country. The current expensive re-branding (image laundering) effort abroad to attract foreign direct investment is, to say the least, unnecessary. Serious investors do not rely on image laundering information to com-

mit their scarce resources. Where investible haven exists anywhere in the world is known to them. Nigeria is such a haven with its large population of intelligent and hard-working people, cheap labour, large market and abundant natural resources. What is lacking in Nigeria is social infrastructures and security. These are where we need to dissipate our energies and disperse our funds.

The Structural Change Theories of Economic Development

The focus of the structural change theory of economic development is on the mechanism by which underdeveloped economies transform their domestic economic structures from a heavy emphasis on traditional subsistent agriculture to a more modern, more urbanized, and more industrially diverse manufacturing and service economies. It employs the tools of neo-classical price and resource allocation theory and modern econometrics to describe how this transformation process takes place.

Lewis (1954) formulated a theoretical model of economic development that focused on the structural transformation of a primarily subsistence agricultural economy to a more modern urbanized and more industrially diverse manufacturing and service economy. The Lewis two-sector model formulated in the mid-1950s became the general theory of the development process in the surplus-labour Third World nations during the 1960s and early 1970s.

In the Lewis two-sector model, the underdeveloped economy consists of two sectors:

1. A traditional, overpopulated rural subsistence sector characterized by zero marginal labour productivity, i.e., excess labour.
2. A high productivity modern urban in-

dustrial sector into which labour from the subsistence sector is gradually transferred.

The primary focus of the model is on both the process of labour transfer and the growth of output and employment in the modern sector. Both labour transfer and the modern sector employment growth are brought about by output expansion the speed of which is determined by the rate of industrial investment and capital accumulation in the modern sector. Such investment is made possible by the excess of modern-sector profit over wages, on the assumption that capitalists re-invest all their profits.

This process of modern-sector self sustaining growth and employment expansion is assumed to continue until all surplus rural labour is absorbed in the new industrial sector. Jhingan (2003) quoted Lewis saying that:

The central problem in the theory of economic development is to understand the process by which a community which was previously saving and investing 4 or 5 percent of national income or less converts itself into an economy where voluntary saving is running at about 12 to 15 percent of national income or more. This is the central problem because the central fact of economic development is rapid capital accumulation (including knowledge and skills with capital).

A few states in Nigeria such as Lagos, Ogun, Oyo, Kano and Rivers approximately fit into the Lewis two-sector model. All other states in the federation are more or less mono-sector economies which by nature are traditional, rural and subsistent. A modified Lewis two-sector model of economic development is recommended for all the states in the country. In this modified model, all the assump-

tions in the Lewis model apply with the addition that there is a purposive injection of investible funds by government to augment whatever re-investment of profit that is done by capitalists. This purposive injection of investible funds is necessary, given the paucity of savings in the economy due to poverty, in order to accelerate the process of capital accumulation.

The Neo-classical Theories of Economic Development

The central argument of the neo-classical theories of economic development, which gained wide acceptance among development economists in the 1980s and 1990s is that underdevelopment results from poor resource allocation due to incorrect pricing policies and too much state intervention by overly active developing nation governments. Adherents of this school of thought argue that it is state intervention in economic activities that slow the pace of economic growth. They maintain that by permitting competitive free markets to flourish, privatizing state-owned enterprises, promoting free trade and export expansion, welcoming investors from developed countries, and eliminating the plethora of government regulations and price distortions in the factor, product and financial markets, both economic efficiency and economic growth will be stimulated. Three identified strands of the neo-classical argument are:

1. The Free-Market Approach with its firm stand that markets alone are efficient and economic matters are best determined by the invisible hands.
2. The Public Choice Approach or New Political Economy Approach with its emphasis that government can do nothing right and therefore minimal government involvement in economic activities is the best. This approach argues that politicians, bureaucrats, citizens and states act solely

from a self-interest perspective, using their power and authority for their own selfish ends.

3. The Market-friendly Approach which recognizes that there are many imperfections in LDCs product and factor markets, and that government do have a key role to play in facilitating the operations of markets through non-selective (market-friendly) interventions such as investment in physical and social infrastructures, health care facilities and educational institutions, and by providing a suitable climate for private enterprises.

The Solow Neo-classical growth Model

The Solow model of economic growth for which Robert Solow of the Massachusetts Institute of Technology received the Nobel Prize is probably the best known economic growth model and remains a basic reference point for the literature on growth and development (Solow, 1956). The major emphasis of the Solow model of growth is that economies that have similar characteristics that affect growth (saving rate, population growth rate, technological growth rate, depreciation and productivity growth) will conditionally converge at the same level of income or steady state in the long run. This means, in effect, that poor countries having the same saving rate and level of technology of rich countries will reach the same steady state growth rate in the long run. Given the production function:

$$Y = F(K, L)$$

we can derive

$$y = f(k)$$

which is a production function in which everything is measured in quantities per worker. This equation states that output per worker y is a function that depends on the amount of capital per worker k . The more capital with which each worker has to work, the more output that workers can produce. In the Solow model saving per

worker is sy . Since income equates output, $sy = sf(k)$.

The investment required to maintain capital per worker, k , depends on population growth, n , and the depreciation rate, d . Since the population grows at the rate n , the capital stock grows at the rate nk to provide capital for the growing population. Also since depreciations is a constant d per cent of the capital stock, dk is the investment per worker dk is added to the investment needed to replace worn-out capital. The depreciation investment per worker dk is added to the investment per worker nk to maintain capital-labour ratio for the growing population,

$$(nk + dk) = (n + d)k$$

This is the investment required to maintain capital per worker. The net change in capital per worker (capital-labour ratio) k , over time is the excess of savings per worker over the required investment to maintain capital per worker. That is to say, his total capital stock growth savings are greater than depreciation and what is required to equip new workers with the same amount of capital as existing workers have.

Thus in the Solow equation, the growth of the capital-labour ratio, k (known as capital deepening) depends on savings $sf(k)$, after allowing for the amount of capital required to service depreciation, dk and after capital widening nk (that is, providing the existing amount of capital per worker to new workers joining the labour force). That is, $k = sf(k) - (n + d)k$.

This is the fundamental equation in the Solow model where the study state corresponds to $k = 0$. The economy reaches a steady state where $sf(k) = (n + d)k$. The Solow model predicts conditional convergence. All countries having similar characteristics like savings rate, population growth rate, technology, etc; that affect growth will converge at (i.e., reach) the

same steady state of growth rate in the long-run.

The amount of capital with which a worker has to work k , or the level of technology available in each country depends on the level of investment i that country is willing to make taking into consideration population growth rate n and the depreciation rate d , and this determines the level of output the country can produce. Thus the more a country is willing to invest in the development of appropriate technology and human capital, the greater the output of relevant goods and services it can produce.

A major conclusion from the neo-classical theories of economic development is that the war against underdevelopment can be fought and won. Yes, government purposive market-friendly interventions in economic activities are the arsenal the Nigerian government should employ to transform the country into the economic giant Nigeria can become. If vision 20:2020 is not intended to remain a paper-and-pen economic development strategy, then a close attention must be paid to the conclusions drawn from the neo-classical theories of economic development.

The Endogenous Growth Theory

Current economic development theory explains long-run growth rate of an economy on the basis of endogenous factors as against the exogenous factors of the neo-classical growth theory. The Solow neo-classical growth model explains that the long-run growth rate of output is based on two exogenous variables, namely: the rate of population growth and the rate of technological progress that are independent of the saving rate. Romer (1986) had pointed out that in models with exogenous technical change and exogenous population growth, it never really matters what the government does. The neo-classical mod-

els are criticized for having no policy implications. The new endogenous theory introduces endogenous technical progress in growth models.

Arrow's Learning by Doing Model

In 1962 Kenneth J. Arrow introduced the concept of learning by doing and regarded it as endogenous in the growth process. The Arrow's Learning by Doing hypothesizes that, at any moment of time new capital goods would incorporate all available knowledge based on accumulated experience, but once built, their productive deficiencies cannot be changed by subsequent learning (Jhingan). Arrow's model can be written as:

$$Y_i = A(K)F(K_i, L_i)$$

Where:

Y_i = output of firm i

K_i = capital stock of firm i

L_i = stock of labour of firm i

K = aggregate stock of capital

A = technological factor

Arrow argued that if the stock of labour is held constant, growth ultimately comes to a halt because socially very little is invested and produced.

The King-Robson Model

King and Robson (2003) emphasized leaning by watching in the technical progress function. According to them investment by a firm represents innovation to solve any given problem. If the firm is successful, other firms will adapt the innovation to their own advantage. Thus externalities resulting from learning by watching are a key to economic growth. Their model shows that innovation in one sector of the economy has the contagion or demonstration effects on the productivity of other sectors thereby leading to economic growth.

The Romer Model

Paul M. Romer, in 1986 presented a variant of Arrow's model which he called learning by investing. He considered investment in research as endogenous factor in the production function and assumed that creation of knowledge is a side effect of investment. His model is written as:

$$Y = A(R)F(R_i, K_i, L_i)$$

Where:

Y = aggregate output

A = public stock of knowledge from research and development

R_i = firm i 's stock of result from research expenditure

K_i = firm i 's stock of capital

L_i = stock of labour of firm i .

Romer argued that it is the spillover from research efforts by a firm that leads to the creation of new knowledge by other firms. A new knowledge is the ultimate determinant of long-run growth which is in turn determined by investment in research technology.

The Lucas Model

In 1988, Robert E. Lucas developed an endogenous growth model in which he assumed that investment in education leads to the production of human capital which is the crucial determinant in the growth process. He made a distinction between the internal effects of human capital where the individual worker who undergoes training becomes more productive, and external effects which spill over and increase the productivity of capital and other workers in the economy. Lucas emphasized that it is investment in human capital rather than physical capital that has spillover effects that increase the level of technology.

Lucas' model can be expressed thus:

$$Y_i = A(K_i)^e (H_i)H_e$$

Where: A = technical coefficient

K_i = stock of physical capital of firm i

H_i = input of human capital for firm i

H_e = the average level of human capital in the economy. The parameter "e" is strength of the external effects from

human capital to each firm's productivity.

Y_i = output of firm i

Lucas' model stipulates the existence of the following relationships in family of endogenous growth theories of economic development: learning by doing and economic development through accumulated experience, learning by watching and economic development through adaptation, learning by investing and economic development through shared knowledge gained from research efforts, and economic development through investment in education and the production of human capital. From them we conclude that economic development cannot occur by accident. Where the right strategies are applied, economic development results. Also, economic development is a process. It can be sustained, retarded, or scuttled. The importance of education, as emphasized in the Lucas model in economic de-

velopment raises the question as to whether Nigerian leaders believe in or are interested in the development of the country. What kind of education is provided in the country for the majority of the citizenries? What kind of economy will these leaders bequeath to their children (the few) whom they send abroad to be educated while they destroy or do nothing about the educational system at home where the children of the poor (the many) waste their time for want of alternative. The year 2020 is nine short years away. When it arrives we shall discover that economic development is more than a mere mental picture and is not achieved through a media blitz.

Conclusion

The Nigerian economy can be developed. It was a baseless assertion that was once made by a Head of States that the Nigerian economy defies all economic development strategies that have yielded positive results in other countries. All we need to do to get the kind of result we want and get to where we ought to be as a nation (given our natural and human endowments) is to adopt the economic development blue-print highlighted in this paper conscientiously and consistently.

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