GLOBAL CAPITALISM, ECONOMIC CRISES, AND THEIR IMPACT ON NIGERIA'S EDUCATION SECTOR

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ABSTRACT

Economic recessions occur every ten years or so; they are cyclical in nature. Whenever a recession occurs, measures are taken to ensure non-occurrence. Yet occurrence occurs. The paper examines whether it is the measures taken to ensure non-occurrence that are faulty or it is the basic structure of the capitalist economic system that is faulty. The paper touches on the meaning and philosophy of capitalism, and the nature of economic recession. The paper also examines the implications of the crises on Nigeria's education sector, which include the sector's inability to employ more urgently needed teaching personnel. The paper concludes that the capitalist economic system, as it presently is, has some structural defects that need to be corrected, example the philosophy that government should not regulate the economy. Seven recommendations are made. One of them is that stricter banking regulation and supervision all over the world are required.

Introduction

There are different economic systems being practiced all over the world. Capitalism is one of them. An economic system is a system that involves the production, distribution and consumption of goods and services between the entities in a particular society. According to McConnell and Bruce (2002), an economic system is the method used by society to produce and distribute goods and services. The economic system is composed of people and institutions, including their relationships to productive resources. Marcus (2009) explained that an economic system is the means by which problems of economics are addressed, such as the economic problem of scarcity, through allocation of finite productive resources. Examples of contemporary economic systems include capitalist systems, socialist systems, and mixed economies.

The capitalist economic system, undoubtedly, rewards hard work, innovative thinking, and the willingness to take risk (entrepreneurship). Its major drawback, unfortunately, is that its driving force (profit) often leads to unhealthy practices, with disastrous consequences such as economic crises.

The socialist system, on the other hand, ensures some level of equilibrium in an economy, since the government owns all the factors of production. By taking away the profit element, so basic to the capitalist system, it minimises the often disastrous consequences associated with profit making. However, since the state controls the factors of production, the economy is deprived of the benefits associated with entrepreneurship. The mixed economic system has elements of both the capitalist system and the socialist system.

Conceptual Framework

Capitalism

Capitalism is an economic system in which wealth, and the means of producing wealth, are privately owned. Through capitalism, land, labor and capital are owned, operated and traded for the purpose of generating profits by private individuals either singly or jointly. According to De Soto (2000), under capitalism, investments, distribution, income, production, pricing and supply of goods and services are determined by voluntary private decisions in a market economy. The fundamental assumption of capitalism is that markets are self-regulating, and governments should be laissez faire. The general theory of the free market economy is that scarcities are resolved through changes in relative prices rather than through regulation. If a commodity is in short supply relative to the number of people who want to buy it, its price will rise, producers and sellers will make higher profits and production will tend to rise to meet the excess demand. If there is excess supply of a commodity, price falls, thereby attracting more buyers and discouraging producers and sellers from entering the market.

Ersson (2002) explained that capitalism suffers a basic problem in its inability to recover from periods of slowdowns in investment. A capitalist economy could remain in an indefinite equilibrium despite high unemployment. He pointed out that some people may have a liquidity preference which would see them rather hold money than buy new goods or services. This, therefore, raises the possibility that an economy in recession may not recover without a somewhat comprehensive lifeline (bailout) for investors. This point raised by Ersson is important as it exposes the basic weakness of capitalism as an economic system, and thus the need to introduce some form of reform in the free market economic system which capitalism represents.

Capitalism, naturally, has many apologists. For example Akerlof and Shille (2009) believe the free market is the best system for producing wealth and promoting prosperity. Also in support of capitalism, Haberler (2002) argued that free-market capitalism is essential to a democratic society. By ensuring a free, stable environment, contends Haberler, capitalism affirms the autonomy of the individual and prevents the government from gaining too much power.

Perhaps one of the greatest apologists of capitalism is Roger B. Butters, a Reader of Economics at the University of Nebraska in the United States. Butters (2009) eulogized capitalism thus: "The greatest triumph of capitalism is that it enables human choice.

It establishes the sovereignty of human choice as the principle upon which societies are founded and grow. It provides mechanism, through property rights and the rule of law, to ensure that the sovereign choices of one individual do not improperly impinge on the ability of another to exercise his sovereign franchise. In achieving this feat, capitalism creates a social structure that entities the human spirit, encourages innovation and feeds physical needs.

At current rates of growth, capitalism will have eliminated poverty by 2100". It will certainly not be out of context to conclude that Butters' view above draws the curtain on all arguments in favour of capitalism.

Economic Recession (crises)

To understand the nature of an economic recession, there is the need to understand how the economic circle behaves. When the economy is strong, most people are employed and are making money. There will be high demand for goods such as food, electronics, houses and vehicles. With time, demand becomes so much that supply cannot keep up. Ibrahim (1989) explained that this excess demand creates a rise in prices, or inflation. As prices go up, salaries need to rise to keep up with the rising prices of goods. The rise in labour cost for companies translates into a rise in prices for most items. When the prices for goods and services become too high, consumers decide goods are too expensive and they slow down or stop buying. When demand decreases, companies lay off workers because they don't need to produce as much as before. Decreasing demand means the economy is in a recession. Companies counter this by lowering prices to spur up demand. As demand picks up, people begin buying again, fueling the need for greater supply. The cycle starts again. When an economy is in recession it shrinks, it contracts.

Gross Domestic Product (GDP) is the real measuring tool of the performance of an economy. Economists traditionally measure the size of a nation's economy using its GDP. GDP has several components: consumer spending, private investment, government spending and net exports (exports minus imports). In technical terms: GDP = C + I + G + (X – M). GDP is the market value of all goods and services produced in a country in a year. It is the total output of an economy.

When the GDP or output is declining, there is less need for people who are creating the products. Manufacturers have no option than to apply cost-cutting measures. Naturally, the first and obvious strategy is to lay off employees (labour costs are always the highest in production) resulting to unemployment.

Ju (2008) defined economic recession as a slowing down or reduction or contraction in economic activities. For the contraction to qualify as an economic one, Ju (2008) opined that it must be significant, it must spread across the country and it must last for more than a few months. This is rather vague; for example what level must the contraction reach before it qualifies as "significant"? Again, how long is "more than a few months?"

Damien, Sorin and Gur (2009) explained that in macroeconomics, a recession is a decline in a country's GDP, or negative real economic growth, for two or more successive quarters of a year, or a 15% rise in unemployment within 12 months. A recession is usually preceded by several months of slowing but positive growth. It usually feels like a recession before it has officially started. Therefore, they concluded, a recession is a period when economic growth slows, businesses stop expanding, employment falls, and unemployment rises.

From the above, it is clear that an economic recession is scary. Almost every facet of people's lives as consumers is affected by a recession. Basic essentials like food and housing become difficult to obtain as prices sky-rocket and fear escalates. Cornish (2009) emphasised that one of the most important causes of economic recession is unrestrained capitalism.

It is important to analyse the features of the current economic crises. This will enable an understanding of, and identify, the inherent weaknesses in the free economy philosophy of capitalism. The following aspects of the current economic crisis deserve attention as the world looks at the future:

1. As rightly pointed out by Ibrahim (2009), the crisis was triggered by the excesses of the financial system in the United States due to greed and neglect of regulatory stipulations. There was complacency in adhering to regulatory norms. In short, there was total failure of financial regulatory and supervisory bodies in the United States and other advanced economies with regards to risk assets management.
2. There was excess liquidity in the United States' market, due to large inflows of foreign funds.
3. Greed blurred the sense of business reasoning of most chief executives, especially of banks. Most of the banks took high risks. They greedily engaged in highly volatile transactions. Other top echelons of managements within the United States' economy failed to provide sense of direction in their organisations.
4. The consequence of the third point above is the accumulation of toxic (bad) loans by most of the banks, especially the investment banks. These toxic loans have to be fully provided for by the banks. This eroded their capital base and thus their ability to lend to the real sector of the economy.
5. Since the real sector could not borrow from the banks, Gross Domestic Product (GDP) of countries all over the world fell.
6. The natural consequence of (5) above is the collapse of businesses and laying off of workers all over the advanced economies.
7. Collapsed businesses cannot, naturally, make profit and thus cannot pay dividend. As such, stock markets all over the world have been adversely affected. The markets are at present feverishly bearish, and are likely to remain so for sometime.

Global Capitalism and Economic Crises

Of all the points raised above, what stands out glaringly in an economic crisis is regulatory failure in relation to financial markets. Some parts of the financial system have either been loosely regulated or not regulated at all. This results in 'regulatory arbitrage' with funds moving from the more regulated to the less regulated segments. In the case of the present crises, the regulators did not exercise the required degree of oversight and control of even the loosely regulated sectors of the United States' economy.

One of the cardinal principles of the capitalist system is that the government should not interfere in the running of the economy. Researchers, such as Alec (1987), however argued that government regulations are necessary to protect consumers, the environment and the general public. Regulation looks out for the safety of customers, protects the safety and health of the general public as well as the environment and looks after the stability of the economy. These researchers claim corporations are not looking out for the public's interest, and that it is precisely for this reason that regulations are required. Rampell (2009) argued that there is the need for new regulations to legally limit bankers' abilities to develop new products and revising old ones.

Effects of the Economic Crises on Nigeria's Education Sector

The current global economic crises have the following far-reaching consequences for Nigeria's educational system:

1. The crises have resulted in a general economic down turn. This has affected the world's demand for crude oil; Nigeria's major foreign exchange earner. This, in turn, has affected federal and states' budgetary allocation to education.
2. Another serious effect of the crises is that thousands of academicians who left the country (the brain drain syndrome) are not willing to come back, because the academic environment in the country is, to say the least, not appealing.
3. The crises have led to astronomical rise in the prices of almost everything in the country, including teaching and learning materials and equipment and the cost of building classrooms, laboratories etc. in the country.
4. Because the budgetary allocations to education

have greatly reduced as a result of the crises, the education sector cannot employ more urgently needed teachers.

5. Unfortunately, the crises are forcing those in the academic community to seek for greener pastures outside the teaching profession, with many leaving the country and taking up appointments in other countries.
6. Perhaps the most important consequence of the crises on Nigeria's education is that the lack of enough finance, teaching and learning equipment and facilities and teaching personnel all result in lowering of the standard of education in the country.

Conclusion

It is important to understand, from the onset, that the writer is not advocating socialism as a substitute for capitalism. Rather, governments all over the world, capitalist economists and the general public should understand, appreciate and accept the inherent weaknesses in the capitalist economic system. It requires structural changes that are inevitable. The sooner the changes are carried out the better. Even the European Union governments agree that more regulation of financial markets is needed.

The structure of capitalism in any economy depends on the respective roles assigned to the state and the market. In any economy, the state can play three roles in relation to economic activities — as a provider of marketable goods and services, as a provider of public goods and services, as a regulator. It is in the area of the state as a regulator that the writer hopes to see significant changes in the coming years. Regulation of markets, more particularly financial markets, will assume importance. There will be a restraint on financial innovations. Runaway financial innovations which are dysfunctional in character can do more harm than good. This is a lesson that can be drawn from the current fundamental crisis. The financial collapse has demonstrated, once more, that markets are not self-correcting.

Globalisation as a process of connecting countries and communities will continue. International trade in goods and services will continue to expand. However, the coming years may see restrictions being put on financial flows. Developing countries may not want to see unfettered freedom in the flow of funds; despite the impassioned arguments of De Soto (2000) that globalisation increases international flow of money.

In the final analysis, the fundamental characteristics of capitalism may thus not undergo any radical change. Markets will continue to play an important role but what will emerge as a consequence of the financial crisis will be greater control and regulation of the markets in general, and financial markets in particular. The failure of the financial system has affected the productive sectors. The excesses of the financial system are what need correction. Acceptable capitalism would require more regulation.
The capitalists' axiom that 'government has no business doing business' has been proven wrong by the current as well as past economic recessions. In fact history has shown that recessions and other economic turbulences are direct consequences of governments' refusal to do their rightful business; the business of regulation.

The Alternative (Recommendations)

1. Financial capitalism must undergo radical changes. The scope and nature of regulations in the sector will have to undergo structural changes. The existing regulations have failed. They failed because they are insufficient and thus have to be revised. Accordingly, fixing the financial system must become the first priority. There should be tighter control over the financial system. Standards of regulations will have to be consistent globally. There is a need for an international body that will oversee the implementation of the regulations within and between countries.
2. Governments all over the world, especially those of the United States and other advanced economies, have to address some fundamental issues such as current account deficits.
3. As surmised by Ibrahim (2009), it is only when the United States', Japan's and the European countries' economies are put on a sounder footing and are back on track that the global economy can be revived. This should thus be a priority.
4. Globalisation has proceeded on a rapid pace in recent period. This has, undoubted, resulted in better allocation of

resources, particularly investment, among different countries. Unfortunately, the emphasis on efficiency, which is the outcome of globalisation, led to the accentuation of inequalities among and within countries. Globalisation spreads both prosperity and distress. It cuts both ways. A good example in this wise is India; there are both prosperity and abject poverty of unspeakable proportion in India. As such, the recommendation of Ibrahim (2009) that a revision of the statutes of the IMF and the World Bank be given top priority to ensure that these institutions can dedicate greater resources to meeting the requirements of developing nations, is worth reiterating here. Also, each country should be at liberty to decide on the extent of openness with which it is comfortable.

5. More, stricter banking regulation and supervision all over the world are required. Financial regulators must be alert and on the watch. At the slightest sign of trouble in any financial institution, appropriate actions must be taken.

6. Countries all over the world, especially the advanced economies, will have to reach some form of agreement on how to control institutions which operate globally (that is the multi-nationals), especially financial institutions. A new set of regulations should be evolved for all segments of the financial system, including redefining of investment banking.

7. Most of the economic problems associated with the capitalist economic system can be traced to greed on the part of corporate chief executives. Accordingly, sanctions must be put in place to punish whoever is responsible for any problem in an organisation or industry. This is important, particularly in the financial industry. People must just have to be made to take responsibility for their actions. As pointed out by Ibrahim (2009), it is a fact of life that if the greedy are shielded from the consequences of their actions, they not only remain greedy, but they conclude that greediness pays, thus breeding more greedy people.

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