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UNDERSTANDING ECONOMIC RECESSION, THE ROLES AND LIMITATIONS OF MONETARY POLICY IN RECOVERY

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1.0 INTRODUCTION

Historically, economies go through business cycles, characterised by periods of expansions (booms) and contractions (bust). Typically every economy, at any point in time, is either going into or recovering from a downturn. In boom times, the economy experiences prosperity with rising employment, income and stability in the general price level, among others. During recession, however, bankruptcy and unemployment increases resulting in declining income and output. Managers of the economy, therefore strive at all times to optimize the use of resources including physical, natural, time and human labour to promote efficiency, productivity and economic prosperity.

The history of economic recession dates back to many centuries with different episodes of varying degree cutting across different jurisdictions. The 1930 economic crisis, which started with the crash of stock prices in the United States and affected many countries, represents the most serious episode ever recorded. However, since the crisis, which pushed many countries into poverty and lasted till the end of World War II, there have been many other episodes. The most recent (with similar widespread impact) was the 2007-2009 global financial crisis, which eventually metamorphosed into an economic crisis, and recession in many countries. Experiences of past episodes revealed that economic recessions are usually preceded by several debilitating factors including: huge debt service bill due to high foreign debt; high interest rate, which discourages investment; low household wage/income which erodes purchasing power; and sometimes high inflation.

In deciding the appropriate measures to address the multifaceted challenges of recession, experiences have shown that government must adopt a policy mix not only to mitigate the impact and reduce the duration of recession, but also to return the macroeconomic environment to favourable path and quicken recovery. Policy options range between the general fiscal and monetary policies, and other fundamental or structural measures to redirect the path of the economy away from downturn to recovery. This paper discusses the causes and effects of economic recession, highlight the roles and limitations of monetary policy in economic recovery and proposes appropriate policy options to address the menace of recession with a view to promoting economic recovery. Following this introduction, section 2 presents the meaning, causes, features or effects and brief history of recession. Section 3 briefly discusses the recent economic recession in Nigeria, while section 4 highlights the roles and limitations of monetary policy as well as other possible policy options for recovery. Section 5 concludes the paper.

2. UNDERSTANDING ECONOMIC RECESSION: MEANING, CAUSES, EFFECTS AND BRIEF HISTORY

Business cycle reflects the natural fluctuation path of an economy over time with periods of expansion and contraction showing the dynamics of activities in the economy. A Business cycle generally has four distinct stages: expansion (when an economy is growing); Peak (when an economy reaches its full potential); contraction (when an economy is declining); and trough (when and economy reaches its lowest performance). Typically, the trough in a business cycle is the opposite of peak as contraction stage is the opposite of expansion stage. The different stages are usually differentiated using economic phenomenon such as employment or unemployment rate, growth of output (gross domestic product), trends in consumer spending and movement in interest rates, among others. However, of the different variables, real GDP growth is the most commonly used. This explains why an economic recession is more generally described as a condition where an economy experiences two consecutive quarters of contraction (negative growth) of real GDP. Consequently, based on the movement in the gross domestic product (GDP) during a business cycle, scholars are able to identify what stage of the cycle

the economy is experiencing. Put simply, economic recession denotes the period in an economy when there is general reduction, mainly, in the purchasing power of consumers or the capacity of businesses to continue with production activities. The situation usually leads to lower general demand, rising unemployment and declining production.

In a broader sense, recession is widely described as a period of general decline in economic activities (reduced output) along with increased unemployment, deterioration in the stock market indices and poor performance in the housing market. The National Bureau of Economic Research (NBER) defines a recession as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in the dynamics of the real gross domestic product (GDP), real income, employment, industrial production and wholesale-retail sales." Claessens and Kose (2009), however, noted that recessions are infrequent, but could be costly and have certain common characteristics. They added that recessions typically last a year and are characterised by: declining output; greater loss in investment and industrial activities relative to consumption; and reduced export and import. A more severe form of recession occurs when high unemployment is accompanied with high inflation usually due to increased cost of production otherwise referred to as cost-push inflation. An economy in this condition is said to be experiencing stagflation – a terminology used to describe a period when the economy experiences recession and high inflation.

2.1 Causes of Recession

To effectively prevent and properly address the challenges of economic recession, policy makers strive to identify and understand the dynamics of the underlying events that lead to the different episodes in the past. Historically, recession in an economy may be induced from external developments or internal factors such as social strive and natural disasters, among others. Where a country is dependent on commodity exports for revenue and foreign exchange earnings, adverse external developments may have severe consequences on the dynamics of the domestic economy leading to recession. More recent episodes have, however, been associated more with improper economic planning and management, inappropriate monetary or fiscal policies, destructive external shock as well as fall out of excessive innovative activities which exposes the economy to damaging vulnerabilities.

The experiences and lessons of past episodes of recession across the world have identified the major causes of recession to include: low household wage/income and high inflation leading to declining purchasing power; huge debt service bill, especially due to high foreign debts; and increased interest rate, which discourages investors. Generally, recessions arise from a combination of two or more factors. Claessens and Kose (2009) provided scenarios to demonstrate how each of these factors can lead to recession in an economy:

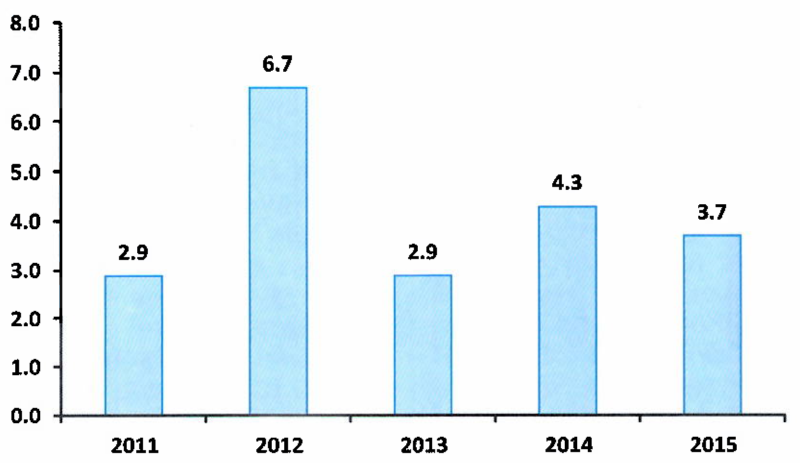
- **High Inflation:** A number of reasons may account for increase in general prices either for consumption or production activities. Sharp increase in the price of inputs for production activities causes increased costs are passed onto consumers in the form of high prices. High prices reduce consumer purchasing power and aggregate demand. The resultant pile up in stock of unsold

Table 1: Percentage Contributions to GDP on Sectorial Basis (2011-2015)

Activity Sector	2011	2012	2013	2014	2015
Agriculture	23.33	23.91	23.33	22.90	23.11
Industry	22.39	21.74	29.59	20.54	19.30
Services	34.34	34.59	35.87	36.17	36.76

Source: Central Bank of Nigeria (2015). Annual report and Statement of Account

Figure 1: Growth Rate of Nigeria's Agricultural Sector GDP-% (2011-2015)



goods and services ultimately lead to decline in production and shut-down of production plants and machinery.. On the business side, increased cost of production input may arise from high interest rates, depreciated exchange rate and increased international prices, among others. When production cost increases, investment spending declines resulting to contraction in production activities.

- **Contractionary Monetary or Fiscal Policy:** For different reasons, governments deploy fiscal or monetary policy measures to achieve set goals. Loose or expansionary measures, which put more money in the hands of economic agents, are deployed when it is desired to facilitate increased economic activities and promote national output growth. On the other hand, when the economy is overheated or too much demand causes increase in the general price level, the governments introduce contractionary measures to moderate consumer and business expenditure. Excessive use of contractionary monetary or fiscal policies can, however, negatively impact household and business spending, and ultimately cause a fall in aggregate demand for goods and services, accumulation of inventory stocks, decreased output and production shut down.

- **Inefficient/Malfunctioning Financial Market:** Proper functioning of the financial market engenders efficient pricing of financial assets which facilitates and promotes productive investments. However, where inefficiency of the market leads to asset price increase that is not based on sound fundamentals, economic agents strive to take advantage of the super profit. Economic prosperity increases wealth of economic agents (individual/corporate) which generates speculative behaviour by investors trying to take advantage of the favourable economic conditions. The excess demand for credit by households and corporates for profit motive cause significant credit growth as individuals/businesses become overexposed and begin to face difficulties to honour their obligations. This lead to decline in investment and consumer spending, ultimately leading to fall in economic activities. Although, not all credit booms end up in economic downturn, recessions that arise due to credit burst are usually costlier than others.

- **Low household wage/income:** As population grows and society develops, the needs of economic agents also grow. However, where household income remains unchanged for a long period, in spite of improvement in the wider economy possibly due to inefficiencies in income redistribution, economic agents experience declining purchasing power. Therefore, when the income level remains stagnant, economic agents' demand for goods and services reduces as a result of inadequate purchasing power. The development result in decline in aggregate demand and production line shut-downs.

- **External Shock:** For nations that rely solely on export of primary commodities (agricultural and natural resources), such economies are vulnerable to changes in the international prices of the commodities. Whenever the prices of the commodity increase, the government earns and spends more, a situation which leads to expansion of economic activities and boom. On the other hand, a significant deterioration in the prices of such commodities reduces revenue to the government, hurts or disrupts the economic programmes and lead to declining economic activities. This is the dilemma faced by most primary commodities exporting low income developing economies.

Other major causes of economic recession include accumulation of debt servicing especially foreign debts which reduce financial resources available to expand and sustain economic activities. Huge debt servicing by the government which limits the capacity of the government to pay remunerative wages to its workers, honor its financial obligations to contactors and carry out expenditure on infrastructures that facilitate economic activities. High interest rate can also cause recession through increase in the cost of economic activities which discourages investment and in turn cause contraction in national output. Similarly, mass unemployment and general loss of confidence in the Government is another major cause of recession. It is, however, important to note that while these factors might be the causes of recession, they are at all times also the main impacts of recession.

2.2 Features and Effects of Recession

In practice, recessions are summarily considered as synonymous with periods of significant decline in general economic activities and defined as a contraction in GDP for two or more consecutive quarters. However, it is important to note as emphasized by Mordi (2017) that "...... while it is conventional to associate a recession with two or more consecutive quarters of negative GDP growth rate, a recession could also manifests after several quarters of slowing but positive growth. Often a quarter of negative growth will occur, interspersed by positive growth for several quarters, and then another quarter of negative growth". Usually, these trends

occur when some sectors of the economy are in recession, while others are not. Hence, a recession is largely characterised by a decline or fall in some key economic indicators including:

- Low aggregate demand due to contraction in purchasing power arising from low real wages and income or reduced investment. This usually results in low wholesale andretail sales, accumulated stock and facility shutdown.
- Low industrial production and manufacturing capacity utilisation due to closure of production lines as a result of low sales and build-up of inventory stock.
- High unemployment arising from shut-down of production lines and factories which lead to lay-offs and retrenchments.
- Low productive economic activities or real Gross Domestic Product (rGDP) and components as production reduces and factories remain idle.
- Real income of economic agents falls due to reduced salaries and wages, and widespread unemployment.
- Contraction of credit due to combination of rising defaults by businesses and households who are unable to service existing credit facilities on account of reduced cash inflows. Credit institutions also suffer from reduced liquidity which further limits the capacity to create and grant credit.
- Stock and housing markets are usually hit hard during recession even when the recession does not arise from the sectors. Burst in stock and housing markets speculative bubbles have resulted in recessions across different jurisdictions[1]. Also, recessions arising from other causes have generally resulted in housing and stock market price falls.

2.3 Brief History of Economic Crises and Recessions

The history of economic recession globally dates back to the beginning of mankind. Recessions have been a common economic event, often occurring after every few years and lasting for longer period, though recent recessions have lasted for shorter periods. From the Financial Panic of AD 33 in the 1st century as a result of the mass issuance of unsecured loans by the main Roman banking houses, to the imperial crisis of the Roman Empire in the 3rd century, the Great Depression of 1929-1930 and the 2007-2009 global financial and economic crises, there has always been the notion that every occurrence of recession is a repeat of history. More important is the fact that while there are instances of similarity in the genesis of the crises, the specific events leading to the different episodes have been as varied as the number of crises. However, the impacts of recession have generally included declining purchasing power, low aggregate demand, falling output, factory shut-downs, rising unemployment and in many cases high inflation.

The Crisis of the Third Century, also known as Military Anarchy or the Imperial Crisis (AD 235–284) represented the one of the earliest occurrences of recession in history. Recession in the 18th century was caused by stock price bubble known as South Sea Bubble. This was followed by series of financial and economic crises arising, mainly, from bank failures during the 19th century. Economic recession in these periods usually lasted for between 4 and 6 years and often degenerate into economic depression. The 20th century heralded a new era of more frequent and short-lived economic recessions, but with more pervasive impact.

The Great Depression of 1929-1930, caused by the Wall Street Crash of 1929, represented perhaps, the worst depression in modern history. The ensuing economic disaster in the United States of America led to nearly a 10-year economic slump that affected the entire industrialized countries. The crisis was precipitated majorly by the non-passage of the original tariff bill which had caused excessive over-speculation in market. The Great Depression led to huge losses by thousands of individuals and businesses through speculative investments and savings. The reduced spending and demand led to reduction in wages, factory shut-downs, unemployment, increased poverty and worldwide depression. The world has, however, experienced other episode of economic recessions with more varied causes and dynamic impacts. Apart from the energy crisis of 1970s due to oil price shock, there were also, the Black Monday sharp recession of the early 1990s in Australia, Canada and United Kingdom; the economic crisis of Mexico and Argentina in 1994 and 1999, respectively. The 2007-2009 financial and economic crisis is the most recent that caused worldwide recession in much of developed economies. It is the worst since the Great Depression of the 1930s and was caused by the subprime mortgage crisis and failure of large financial institutions in the United States.

[1]The Great Depression of 1920/1930 due to Huge Market Bubble in the US and the 2009 Near Systemic Banking Crisis in Nigeria due to bubble in the Stock Market and Margin Loan Crisis

Table 1: Selected Major Economic Crises/Recessions in the World

Crisis	Causes/Genesis	Effect
The Financial Panic (AD 33) Imperial Crisis (AD 235-284)	The result of the mass issuance of unsecured loans by main Roman banking houses. Civil war, invasion, diseases and the assassination of the Emperor.	Almost led to the end of Roman Empire but eventually caused the empire to split into three competing states.
14th Century Economic Crisis	Banking crisis from default by the Royal house of England and other notable rulers to honour maturing obligation/ debt.	Collapse of banks and economic crisis across Europe
The Great Depression (1929-1930)	Huge stock market bubble due to high speculations and investments for super profit (expectation that the passagge of tariff bill will increase stock price and profit). Fundamentally precipitated by growth in industr ies, technological progress, and increase in productivity and national income in the US.	stock prices drop, decline in values of industry and assets, large number of banks failures, international trade decline due to tariff and extreme world-wide depression
Global Financial Crisis and Economic Recession (2007-2008)	Recession due to subprime mortgage crisis and failure of large financial institutions in the United States	Much of the industrialized world was in recession in 2008-2009 and is the worst since the great depression of the 1930s.

Source: Authors Compilation

3. THE RECENT NIGERIAN ECONOMIC RECESSION

Many oil dependent economies, including Nigeria were faced with various economic challenges traceable to the sudden crash of international oil prices in late 2014. The persistent low oil prices imply that less revenue accrue to oil-dependent economies which limited the ability of the national governments to fund budgetary spending. Driven, largely, by the public sector because the government commands a significant proportion of national resources and represents the biggest spending economic agent, the Nigerian economy was not an exception. The dwindling government revenue and foreign exchange receipts resulted in the inability of the government to carry out its budgetary spending, while the economy faced severe foreign exchange scarcity. Many state governments were unable to pay workers' salaries, while the Federal Government could not settle huge bills owed to contractors.

The persistent depreciation of the naira exchange rate due, mainly, to supply shortage and high demand for foreign exchange affected inflation through significant increase in the prices of imported food and non-food items. Also, the rising cost of critical production inputs led to substantial increase in production cost which was passed on by the producers in the form of increased price for the finished goods. Hence, headline inflation, on year-on-year basis, increased steadily from single digit (9.6%) in January 2016 to 18.7 per cent in January 2017.

The real sector generally underperformed due to foreign exchange scarcities and high cost of production. Persistent supply-demand imbalance in the foreign exchange market made it difficult for industries to secure adequate supply of inputs causing shut down of production plants. Hence, the GDP recorded negative growth in 2016 and the first quarter of 2017, reflecting the decline in both the oil and non-oil components. Overall, the development had a negative impact on large and small businesses, leading to production slow down with attendant decline in industrial and manufacturing production, loss of jobs, falling real income and declining consumer spending. The 2016 recession in Nigeria was described as a special type of recession and the worst in Nigeria's history since 1980. With more than 75.0 per cent of the state governments unable to pay salaries and non-payment of contractors' bills for several months by the Federal Government, the hitherto economically active part of the population experienced low purchasing power which negatively affected aggregate output. Also, the significant rise in inflation implied that every naira buys less amounts of a goods or

services.

Lack of diversification, large scale corruption, improper management of resources and lack of adherence to development plans in the past were some of the factors identified to have contributed to the recession. Unfortunately, persistent low international oil prices, disruption of domestic oil production and tight financial conditions in the international community significantly reduced the resources available to the Government. The recession did only affect aggregate demand, but was also accompanied by acute supply challenges. Thus, the Nigerian economy was said to have experienced stagflation due to the twin tragedy of high unemployment and inflation. In macroeconomics, this condition imposes a huge loss on the economy because with high unemployment comes loss of productivity which inevitably increase prices.

4. ROLE AND LIMITATIONS OF MONETARY POLICY IN ECONOMIC RECOVERY

According to IMF (2009), theory and experience show that recessions are in most cases characteristically followed by quick recovery. However, the extent, duration and severity of the impact of a recession usually determine the urgency and nature of remedial actions. Recent cases of economic recession have, however, had more pervasive effects on not just businesses but also the lives of individuals and households. More importantly, recoveries have traditionally been slower and more difficult when there is lack of technological progress or when policy makers are faced with inadequate financial resources. Because of the enormous amount of resources required to expand aggregate demand and push the economy out of recession, policy makers are generally incapacitated when there are structural imbalances in the economy and the financial conditions are unfavorable.

As noted earlier, a major feature of recession is low aggregate demand and so policies must target boosting consumption and investment spending to increase aggregate demand. Most economists hold the view that since recession is caused by inadequacy of aggregate demand, expansionary macroeconomic policy should be the ultimate solution to resolving economic recession. The central bank is a very active and conspicuous player in policies to promote economic growth and development, especially in developing economies. To this end, they are mostly looked up to in times of economic recession not just for policies to moderate the impact but also facilitate and ensure quick recovery. Without doubt, the role of central banks' monetary policy is fundamental in economic governance. However, its effectiveness as a tool of economic stabilisation varies from country to country overtime. So the question is how and to what extent monetary policy influences aggregate demand, production and employment.

4.1 Monetary Policy

The major tool of monetary policy is the policy interest rate which the central bank adjusts upward or downward to influence the dynamics and structure of other short-term rates including the inter-bank rates at which banks trade funds among themselves. Changes in the short-term rates influences the rates at which banks are willing to provide credits and the borrowing costs for households and firms. Similarly, by adjusting the reserve or base money, central banks influences growth in the money supply and by extension, credit. Hence, through the adjustment of the short-term interest rate or base money, central banks influence the financial conditions in terms of inflation and borrowing cost. With adjustment in the financial condition, consumer and investment spending as well as production activities are adjusted accordingly. Usually in the short run, monetary policy impacts the general price level (via interest rate) and ultimately the inflation. Through its effects on the financial conditions of households and firms, monetary policy influences consumption and investment demand for goods and services (aggregate demand).

4.1.1 The Expectation

Expansionary monetary policy, either through reduction in interest rates or increase in money supply is traditionally expected to stimulate economic activities through increased aggregate demand. Lowering the interest rate reduces cost of borrowing for individuals and businesses, promotes credit growth and ultimately increases consumer and investment spending. Similarly, in economies with vibrant mortgage industry, a lower interest rate reduces mortgage payments which increase disposable income of homeowners. The central bank may also adjust the base money by reducing the reserve requirement and allowing the banks to create more credit. In addition, changes in short-term interest rates have implications for long-term rates because the present dynamics of the short-term rate reflects its expected future values and provide a gauge of the trajectory of movement in the long-term rates. Overall, whether through

[2] https://www.federalreserve.gov/faqs/money_12856.htm

interest rate reduction or reduction of base money, expansionary monetary policy leaves more money in the hands of individuals or business to engage in exchange of goods and services and ultimately lead to expansion of general economic activities.

4.1.2 The Reality

But can central banks really do much to justify the huge attention on every of its activities, when in fact monetary policy decisions are short-term. Monetary policy does not impact the long-term (non-monetary) factors which more directly influence economic activities and improve welfare. Monetary policy can only do one or combination of few things:

- By ensuring monetary and price stability, effective monetary policy helps to establish and maintain stable monetary environment that enhances predictability for business planning. Low and stable inflation over the short to medium period keeps borrowing cost low and makes business planning easy for economic agents thereby promoting investment and economic activities. Without much impact on the long-run path of economic activities, central banks adjust interest rates to keep the general prices stable and inflation low; and

- Over the years, central banks around the world have played critical roles in helping to prevent and address challenges of financial crisis. In recent times, central banks have been very innovative in its approaches to promote and sustain financial system stability, thereby preventing otherwise catastrophic consequences.

Though, monetary policy has been recognised as uniquely effective in the management of inflation, its effect on real economic activity is established to be limited and short-lived (Lacker, 2016). Monetary policy does not have control over demographic trends, technological advancements, labour productivity and global fiscal policies, which are the main factors that drive long-term expansion in economic activities. These factors are not monetary policy phenomenon, hence the effect of monetary policy is ultimately reflected wholly in price adjustment, as established in the classical economic model. Without any friction in the goods market (in which case money is neutral), the price level is all that monetary policy influences. The effect on real economic activity occurs only when friction in the goods market prevents quick and complete adjustment in price in the short-run. As concluded by Lacker (2016), the effect of the increase in money supply from expansionary monetary policy is to determine the long-run path of inflation and short-run transitory changes in real activity.

Furthermore, disruptions in financial markets during economic recession impair transmission mechanism and the efficiency of monetary policy. At the extreme, further interest rates cuts to levels close to liquidity trap limits the ability to influence short-term interest rates and constrains monetary policy. The limitations of monetary policy during crisis necessitated the adoption of non-traditional or unconventional policy measures. The measures, largely, in the form of liquidity interventions, are designed to provide additional support to the critical sectors of the economy. In this regard, the central banks purchase long-term toxic assets, debts and securities issued by the government, state-owned companies and blue-chip corporations as was done with Asset Management Corporation of Nigeria (AMCON). The monetary authority may also provide cheaper and easily accessible funding through various intervention programmes in critical sectors of the economy, including infrastructure financing. Some of such programmes in Nigeria include: the anchor borrowers scheme (ABS); power and aviation intervention fund (PAIF); and real sector support facility (RSSF), among others. These programmes lower the interest rate or provide additional liquidity to targeted sectors, which eventually improve financial conditions and promote expansion of economic activities.

In the case of employment, non-monetary factors generally determine the level of employment and the long-run expansion path in an economy. Where the central bank adjusts interest rate or influence money supply to promote economic activities beyond levels that is in tandem and can be supported or accommodated by the existing levels of non-monetary factors, the economy usually experience higher inflation. Such actions eventually hurt the real economy with consequences for the macroeconomy. The central bank can therefore only influence employment to the extent that the non-monetary factors can accommodate or make up for short-run gaps in the product or labour market due to temporary disruptions in the goods or labour market. Population, demography and education determine the size, structure and quality of labour, while fiscal incentives facilitates efficient operation of the labour market. On the other hand, capital accumulation and technological advancement also directly impact the quantum

and rate of employment because firms hire based on available physical factors and expected productivity of labour. Labour market policies, including minimum wage laws, income taxes and unemployment benefits are all critical to employment and unemployment conditions.

Overall, monetary policy has the unique ability to control inflation over time, whereas its influence on real activity is transitory and short-lived. This underscores the need for caution in the deployment of monetary policy measures to influence the real economy over the medium term. As concluded by Lucker, (2015), in typical circumstances, monetary policy that successfully stabilises inflation and inflation expectations will have only transitory effects on real activity.

5. OTHER POLICY OPTIONS

In the face of the economic pain suffered by the populace during recession and the obvious limitations of monetary policy, what options are available to policy makers? First of all, challenges of economic recession are multifaceted and therefore require combination of measures to address the different perspectives. A major feature of recession is low aggregate demand and so policies by the authorities must target boosting consumption and investment spending to increase aggregate demand. From either the theoretical or empirical point of view, lessons from past episodes of recession points to the need for a combination of fiscal, structural and monetary policies to quickly and successfully move an economy out of recession.

Most economists hold the view that since recession is caused by the inadequacy of aggregate demand, expansionary macroeconomic policy should be the ultimate solution to resolving economic recession. The Keynesian school suggests that for economy to be taken out of recession, fiscal measures must take the lead, supported by other policies to increase aggregate spending. Fiscal policy is believed to work better because of the larger multiplier and quicker effect. In any case, government is the ultimate determinant of the macroeconomy. Through the tax and trade policies, government influences consumption, savings and investment which ultimately lead to increased demand and production. Moreover, fiscal policies that increase spending on education, health, science and technology as well as research and development improve the quality of manpower, production efficiency and ultimately enhance productivity.

5.1 Fiscal Policy

Expansionary fiscal policy effectively increases the aggregate demand. This can be achieved through: reduction in personal income taxes to increase disposable income and consumption spending; reduction in business taxes to increase after-tax profits which raises investment spending; and raising government spending via increased expenditure on final or public goods and services as well as infrastructure. Expanding financial support to subnational governments also increase expenditure on final/public goods and services. It is important to also note that tax incentive encourages foreign investors and thus, increase inflow of foreign exchange to ease exchange rate pressure during recession.

Increased strategic spending by government in areas with high multiplier effect such as infrastructure, agriculture, science and technology, research and development and manufacturing activities expand aggregate demand. Similarly, increased expenditure on skill acquisition in areas like IT, telecommunications, agro-allied, sports, among others, with emphasis on practical and multiple competences promotes entrepreneurship, which addresses joblessness. These actions, together, increase the purchasing power of households and businesses thereby raising aggregate demand.

Beyond the resolution of the recession, appropriate policy mix will ensure a sustainable economic system that effectively moderate the impact of future episodes and reduce the chances of recurrence. This is why policy analysts worldwide advocate for structural policies as a means for assuring sustainable long-term growth and development.

5.2 Structural Policy

Monetary and fiscal measures are generally considered stabilisation policy to correct short- to medium-term deviations from the long-term growth path. They are demand management measures to manage excessive growth or decline in aggregate demand beyond or below the economy's underlying output capabilities. However, during recession, the economy's challenges are deeper and more fundamental. They arise from imbalances in the structure of the economy due to the consequences of inappropriate government policies or private sector activities, global economic distortions or natural destabilising events. These imbalances prevent efficient allocation and utilisation of resources leading to supply shortages. In such instances, structural policies to address the imbalance and realign the long-term factors that matters helps to ensure optimal resource allocation.

Structural policies are generally incentives, arrangements and regulations maintained over a long period, which enhances the ability of businesses to respond to shock. It helps to moderate productive activity loss due to adverse shocks. They include measures directed at fixing inadequacies in the labour and goods markets including ensuring appropriate pricing, financial system rules, regulation and operations, functioning of government and its enterprises as well as social order. Economies with rigid product and labour market as well as inefficient government system suffer more in economic downturn. Imbalances and inadequacies in the non-monetary factors that drive long-term growth make necessary adjustments in businesses, labour market and public administration difficult. Structural policies address hindrances to the fundamental drivers of growth and assist in boosting adjustment capacity, competitiveness and growth potential. All of these are outside the control of monetary policy.

Appropriate structural policy therefore specifically target a number of areas, including price system and allocation conditions in the labour and goods markets, structure and regulation of the financial system as well as efficiency of public finance, administration and public enterprises. Adequacy and quality of public goods and infrastructure remain a critical focus of structural policy to ensure smooth running of economic activities. Proper working of all these facilitate efficient resource allocation, ease the adjustment system, enhance resilience of the economy to shocks and provide the basis for long-term growth.

- To stimulate labour market efficiency and productivity growth, appropriate measures must support liberalised wage system and moderate wage growth, deliberate process of continuous improvement through reformed education and value adding training as well as structures that facilitate unrestricted labour mobility. The focus is to address issues in the labour market that are deeper and go beyond simply the effects of business cycle. Also, review of overly generous safety net or unemployment benefit programs to discourage labour lay-back are some of the structural measures to facilitate efficiency in labour engagement and utilisation as well as improve productivity.

- Finance lubricates the engine of business and economic activities. Underdeveloped or poorly regulated financial system not only hinders efficient resource allocation and reduce economic growth but also limits the effectiveness of stabilisation policies. Moreover, underdeveloped financial systems are susceptible to crisis which discourages savings and investment due to disruption of the financial intermediation process. Deliberate development of structures along with effective regulation and supervision of the financial system would ensure a system that supports, promotes and sustain continuous expansion of economic activities.
- Reform of public finance and administration, including enhancement of the composition and quality of government revenue and expenditure mix will be critical to the foundation that support sustainable growth. Clearly, productive government expenditure (on infrastructure and public goods) improves the growth potential through positive effect on the marginal productivity of labour and capital. Appropriate reforms will therefore focus on reform of complex tax laws and structure as well as inefficient tax administration to prevent distortions, increase tax coverage and revenue. Better management and optimal public finance, including tax structure and administration, expenditure on infrastructure and public goods effectively raise human and physical capital stock and technological advancement. This creates complementing and enduring synergies between public and private sectors that promotes long-term productivity growth.
- Focus of reform in the product market would include measures to stimulate productivity, innovation and competitiveness thereby increasing resilience of the economic structure. Reduction of excessive regulation of business operations promotes competition and innovation. Such business rivalry is beneficial to consumers in the form of efficient resource allocation and production, lower prices as well as increased purchasing power which raises aggregate demand in the medium-term to log-term. Higher spending and incentives for research and development stimulates long-term productivity. Institutionalisation of venture capital, especially in developing economies is known to better fast-track progress through quick on-boarding and faster incubation of start-ups. Public-private partnership also facilitates significant

progress in the set-up of complex and capital intensive ventures. Overall, removal of barriers to start-ups and operations in terms of regulations facilitate the regeneration and restructuring of existing corporates and the emergence of more efficient entities.

In the case of Nigeria, the overdependence on a single product for government revenue and foreign exchange receipts has been a challenge to the growth of the economy. There is need to further intensify, improve and sustain ongoing efforts at diversifying from a mono-product to multi-product economy. Such diversification should focus on jump-starting and improving productivity in the critical sectors of manufacturing and information technology. Increased productivity in the critical sectors would provide opportunity for multiple levels of value addition, employment opportunities and increased income level for the household and investable surplus by the corporate sector. The gains in this area can be deployed to extend the agricultural value chain.

6. CONCLUSION

Recession occurs when there is a widespread decline in consumer and investment spending, which ultimately causes a decline in aggregate demand. The literature established that though there could be several causes, lessons from experiences have also shown that while these factors may be the cause, they may also be the outcome of recession. Moreover, experiences reveal that economic recessions are generally multifaceted and therefore would require a multipronged approach.

Monetary policy is a stabilisation policy that is important in the short-run, whereas the challenges of an economy in recession are deeper and more fundamental. Monetary policy determines inflation over time, but its influence on real activity is transitory and short-lived. It is therefore imperative that the government take the lead and leverage on appropriate structural measures to realign the imbalances among the non-monetary factors that had driven long-term underperformance of economic activities. Only long-term structural changes can lead to the desired shift in the demand and supply curve that can move an economy quickly and successfully out of recession to sustainable growth and development.

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