Financialisation, Capital Accumulation and Economic Development in Nigeria

Financialisation, Capital Accumulation and Economic Development in Nigeria:

A Critical Perspective

By

Ejike Udeogu

Cambridge Scholars Publishing

Financialisation, Capital Accumulation and Economic Development in Nigeria: A Critical Perspective

By Ejike Udeogu

This book first published 2018

Cambridge Scholars Publishing

Lady Stephenson Library, Newcastle upon Tyne, NE6 2PA, UK

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN (10): 1-5275-0776-9
ISBN (13): 978-1-5275-0776-0

To
Agnes, Jason and Audrey – the three special people in my life.

TABLE OF CONTENTS

PREFACE

A mainstream conventional account on Nigeria goes as follows: Nigeria is an emerging globalised market and an oil producing country that succeeded with its neo-liberal market reforms; with a current population of circa 190 million people the country has a great potential and it is currently the largest economy in Africa surpassing even South Africa in 2014; in addition, this mainstream view goes, Nigeria enjoyed an average growth rate of 8% in the first decade of the 21st century, whereas the average OECD growth stood at 1,8%, meaning that the country is well on its way to converge with the rest of the advanced economies of the developed core. This is not correct, Ejike Udeogu argues in this theoretically and empirically informed study of Nigeria's political economy.

Nigeria's economy, having been peculiarly inserted in the cycles of global accumulation of capital since its independence from British colonial rule in 1960, has at the same time reproduced unevenly the cycles of its subordination to the capitals of the core. Thus, Udeogu makes clear right from the beginning of his narrative that his account is put together from the point of *critical* political economy that takes the issue of *development* (and not just growth) very seriously. "Beneath the promising economic growth outlooks and the abundant natural and human resources", Udeogu says, "still lay a widespread underdevelopment". He continues: "Even though the country's GDP (the aggregate national output) has been growing exceedingly high over the years, and despite the economy becoming the biggest in Africa, a majority of the population are still poor. In fact, over 60% of the country's population still live below $1.25 a day and over 80% below $2 a day (according to the World Bank's 2013 estimate)". Moreover, Udeogu observes, since the early 1980s, that is the period in which neo-liberal reforms had been initiated, the rate of growth of real capital stock declined sharply. Confronting this and similar data that the reader can find abundantly in this book, mainstream conventional arguments seem to be out of touch with political and economic realities on the ground. In fact, Udeogu's account discloses to the reader the rather ideological and politically motivated character of those arguments.

Udeogu places Nigeria's economy in the periphery of global capitalism, which is led by the advanced transatlantic core. His choice is the result of a thorough discussion of such scholars as Immanuel Wallerstein, Giovanni Arrighi, Christopher Chase-Dunn and Andre Gunder Frank. But this is not done at the expense of other critical and heterodox political economists, whose contributions are classic: from Adam Smith and Karl Marx to John Maynard Keynes, Paul Sweezy and Paul Baran, this book builds a comprehensive theoretical apparatus before delving into concrete empirical and historical analyses in order to construct its main arguments.

Udeogu argues that Nigeria's under-development reproduced itself qualitatively both under the post-independence peculiar Keynesian policy regimes *and* the era of neo-liberal financialization that ushered in after the mid-1980s. Keynesianism and the period of "import-substitution industrialisation" were brought to their knees due chiefly to what Udeogu calls "the contradictions of Keynesianism": the fall in oil prices in the early 1980s, the negligence of the agricultural sector by the post-independence governments and, as in other peripheral economies, such as in Latin America or Yugoslavia, the effect of the interest rates spike propelled by the American Fed under Paul Volcker, a fact which dramatically increased the country's debt. As elsewhere in the world, the regime of neo-liberal financialization spread in Nigeria in the 1980s by way of taking advantage of the crisis of Keynesian public policy while sapping the real economic sector even further. This had had as a result consistent fall in the (average) rate of profit, especially in manufacturing, making the country even more dependent on international financial flows of capital on the basis of floating exchange rates conditions and increased volatility of financial markets. Neo-liberal financialisation in the periphery becomes a transfer mechanism of value from the periphery to the core. Being forced to store dollars in order to conduct international trade or use them during periods of shortage and crisis, Nigeria, same as other peripheral economies, ended up buying large amounts of American T-bills – a phenomenon that Costas Lapavitsas called "subordinate financialisation". In the event, however, this is nothing more and nothing less but appropriation of international value, hence imperialism. Neo-liberal financialization in Nigeria did not diminish the regime of dependency and subordination of the country, it deepened it further. The collapse of the real economic sector and the fall in the rate of profit, and/or the financialization of it, are behind rising unemployment rates, poverty and widening income inequality. In this context, Udeogu loses no sight on corruption: "neoliberal financial reforms of deregulation and liberalisation", he says, "were largely propelled by foreign exchange speculation and interest rate arbitraging, and in some cases, plain simple fraud". Correctly, also, Udeogu does not fall into line with arguments, also quite conventional, that see corruption in peripheral capitalism as the main systemic disease to be cured and once it is cured the sunshine of capitalist modernisation would appear and lead the way forward to progress and economic prosperity for all. Udeogu remind us that Nigeria's economic system is a *capitalist* system and, as elsewhere in the world, corruption thrives. Advanced capitalist countries are equally corrupt, first and foremost America and Japan. One also might go a step further and argue that corruption in the advanced core is institutionalised, precisely because, as Antonio Gramsci put it, in advanced capitalism civil society is sustained by robust institutional-legal structures that absorb shocks and tremors generated by the system. Corruption and immorality cannot easily be detected in core capitalist countries because it is institutionalised and hidden behind legal provisions, norms, regulations and requirements of all sorts. This, obviously, is not the case in the periphery. Lacking a strong civil society and a socially embedded legal system – what in the West is referred to as *rule of law* – Nigeria and other peripheral countries easily resort to military rule in order to discipline social actors and conflict, whereas corruption can be seen and felt at all levels of social tissue and in every-day social practices and interaction.

This book is a refreshing analysis not only of Nigeria's economy; it is also a sober and critical account of neo-liberal financialization in a theoretical, comparative and historical context. Written by a young and promising scholar, this is a work of scholarship and rigour. Versed in the tradition and debates of such Africanist scholars and post-Marxists as Immanuel Wallerstein and Giovanni Arrighi, this book attempts, and succeeds, in advancing this tradition and debates further. Therefore, it deserves our most serious attention and discussion.

Vassilis K. Fouskas,
Professor of International Relations, University of East London

LIST OF ILLUSTRATIONS

Figures

Tables

PART ONE:

THE THEORETICAL FRAMEWORK

CHAPTER ONE

INTRODUCTION

The cause of Nigeria's perennial underdevelopment has been a subject of long debate over the years. The country's economic tragedy, in the face of the abundant natural and human resources, has been the most baffling paradox. Interestingly also, there has been no consensus regarding the fundamental factors undermining development in the economy[1]. Given that some of the previous studies have contributed, in some way, in shaping the policies adopted in the country over the years, the persistent underdevelopment of the economy could also be interpreted to suggest that some fundamental issues undermining development in the country might have been missed by these past studies.

Although Nigeria has suffered many setbacks – many of which were self-inflicted – that could be argued to have somewhat contributed to undermining its ability to achieve sustainable economic development[2], the country's continued poor economic performance in recent times, also

[1] Factors, such as resource curse, inept government, weak institutions, corruption, civil unrest, unfavourable weather conditions and lack of social capital have mostly been put forward as the main reason for the economic deterioration in Nigeria (see Collier, 2008; Collier and Gunning, 1999a; Sachs and Warner, 1997 and Bloom and Sachs, 1998, for instance). However, despite these views gaining traction in the mainstream, several other studies have also pointed to external factors (such as imperialism and unfavourable international relations) as the main cause of underdevelopment in Third World countries such as Nigeria (see Arrighi, 2002, Amin, 1977, Prebisch, 1963, Baran, 1957 and Singer, 1950, for example).

[2] One of such setbacks is the Civil war in 1967-70, which caused the loss of a vast number of both human and physical capital. According to some estimates, over 2 million lives was lost and the economic impact immeasurable (Nafziger, 1972). Others include political instability, brought about by military coup d'états, and religious/ethnic conflicts, which have exacerbated economic uncertainties in the country.

points to the inability of the political-economic arrangements[3] - both past and present - at addressing the issues at the heart of the country's problems.

In the main, Nigeria's perennial underdevelopment could be said to be the result of the declining rate of capital accumulation[4] in the domestic economy: for a declining rate of capital accumulation (real investment or industrialisation) has, in addition, rising unemployment, which accelerates poverty and widens income inequality. Aside these obvious benefits that derive from the expansion of capital accumulation, the enhancement of skills – such as the training of managers – and the dispersion of technology also emanate from the expansion of industrialisation. These latter benefits are often viewed as *technological externalities,* which also benefits the development of the wider economy in the long-run (Levine and Zervos, 1998).

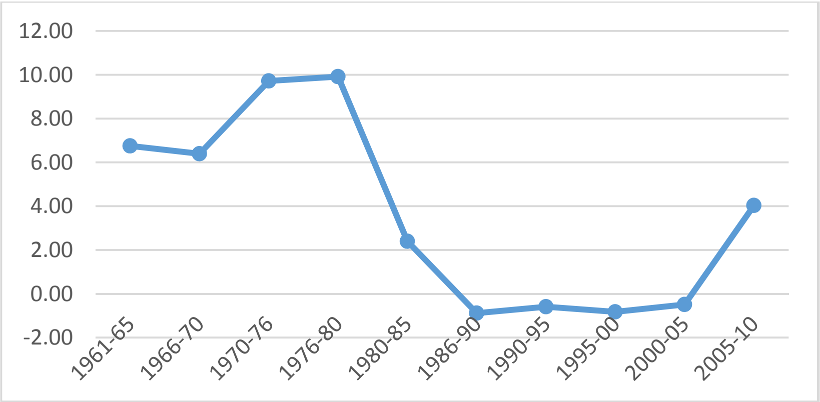
Unfortunately, since the early 1980s, the rate of growth of the real capital stock in Nigeria has declined sharply (Figure 1.1). The deceleration of the rate of accumulation of capital could be seen to have subsequently exerted significant social and economic cost on the country: there has been a significant increase in the number of people living below the poverty line

[3] The political-economic arrangement is interpreted here as the set of ideologies that govern both the political and economic institutions that impinge upon the capital accumulation process. In particular, it is viewed as those set of ideologies that expresses a perspective on the way an economy should run and to what end.

[4] Capital accumulation, as interpreted in this text, follows the definition given by Marx ([1867] 1990). It is viewed as the capitalist process of reconverting *surplus value* into *capital*. Surplus value is defined as that extra value that is created from the sum of the values of the commodities (such as labour, raw materials, machines etc. – referred to as inputs) used in production (*ibid*). Surplus value is derived as follows: in the M-C-C^1-M^1 circuit, C is commodity capital, which contains constant capital, c and variable capital, v. So, $C = c + v$. When transformed through the labour process of production, it becomes $C^1 = (c + v) + s$, where s is the surplus value. This surplus value, according to Marx, is a mere congelation of surplus labour time. The surplus value can be split into various parts – profits, interest, merchant's profit, rent, etc. In simple terms however, it can be viewed as the 'excess' value accumulated from the employment of a given *capital*: *Capital* is seen here as only those resources (e.g. money) that begets commodities (such as raw materials, labour etc. [the factors of production]), of which their interaction in turn begets the original money expended, including the surplus-value, which can be reconverted into further accumulation of money capital.

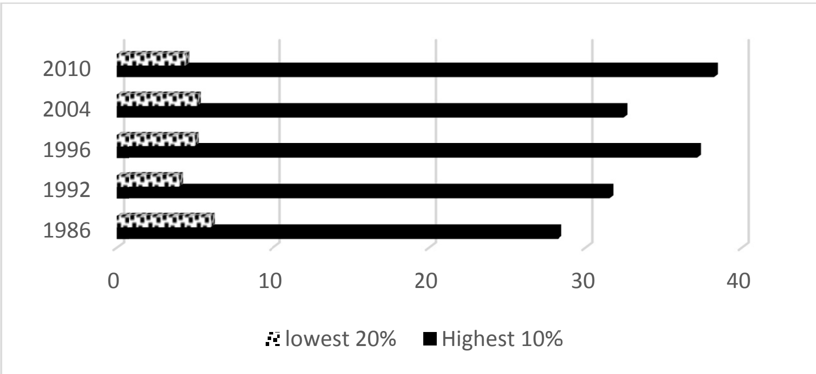
in the country (over 77% of the population live below $3.20, with 54% living below $1.90 a day, as of 2009) and income inequality has also widened over the years (Figure 1.2).

Figure 1-1 Average percentage change in the level of capital stock in Nigeria (1961-2010)



Source: Own elaboration with data from the Penn World Table, Version 8.0, compiled by Feenstra *et al* (2013).

Figure 1-2 Income distribution (% of national income shared)



Source: Own elaboration based on data from World Bank 2014 development indicator database, http://databank.worldbank.org/data/views/variableselection/selectvariables.aspx?source=world-development-indicators

Overall, the deceleration of capital accumulation has been the main reason for the growing unemployment, poverty and widening of income inequality – the three pillars of development – in the economy. A declining rate of capital accumulation could thus be said to be mitigating development in the economy. This book aims primarily at highlighting those unobtrusive elements, particularly the unapparent contradiction of the contemporary political-economic arrangement, undermining capital accumulation *cum* economic development in Nigeria.

The inadequacies of many past studies that have tried to detail the causes of the persistent underdevelopment in developing countries – such as Nigeria – derive mainly from the focus and, in some cases, the methodologies adopted by the researchers. It has been observed (Kotz *et al.* 1994), that although many researchers recognize the inability to reproduce sufficient profit as undermining the capitalist accumulation process (and as a result the development of an economy) that they (the researchers) have nevertheless often tended to ignore the importance of the political-economic arrangement in the formation of expectations about the rate of profit, and in some cases, have failed to provide a substantive account of this factor. This book is an attempt to bridge this gap. It focuses on elucidating how the inherent contradictions of the contemporary political-economic arrangement in Nigeria has been undermining the peculiar capital accumulation processes in the economy, which in turn has slowed economic development in the country.

The rest of the book is structured as follows. Chapter two introduces some of the main theories on the capital accumulation-growth/development nexus that informs the rest of the discussion in the book. The chapter attempts to articulate the primary source of development in an economy. Inference is drawn from the works of classical writers such as Adam Smith, David Ricardo and Karl Marx. Chapter three includes an extensive review of some leading mainstream theories on investment and growth, starting with the Harrod-Domar analyses. The endogenous growth theories that were propounded in the 1980s to address some of the inadequacies of Solow's theory are also briefly discussed in this chapter. Chapter three documents a detailed analysis of the emergence, features and contradictions of the two contending frameworks for organising the political-economic institutions that impinge upon the accumulation process. This chapter lays the foundation for the argument put forward in this book. Chapter three also contain the discussions on the major criticisms of the established growth theories and literature. Some of the main heterodox theoretical arguments that have been put forward to counteract mainstream theories of economic growth are also discussed in this chapter.

Chapter four contains the discussion on Nigeria's political-economic environment since the Bretton-Woods agreement. The chapter discusses the political-economic arrangements that have been in place since the country's independence in 1960: starting with the reasons or factors that necessitated the transformation from the embedded capitalist system to the free-market system, and the main features of these systems. A summary of the main monetary policies that were implemented in the country from 1959 to 2013 is also highlighted. Chapter five documents the perceived unobtrusive yet fundamental factors that are contended to have contributed significantly to the perennial underdevelopment of the country's real economy over the years. Particularly, it discusses the various consequences associated with the contradictions of the political-economic arrangements that have moulded the structures of accumulation in Nigeria since the country's independence. The concluding remarks are contained in chapter six.

Taken together, it is hoped this book will paint a clearer picture of the effect of the contradictions of the dominant political-economic ideologies in Nigeria, and, perhaps, will be instrumental in reshaping policies that will help accelerate the pace of capital accumulation along with economic development in the country someday.

CHAPTER TWO

DETERMINANTS OF THE WEALTH OF NATIONS: FOUNDING THESES

The nature and sources of wealth of nations have been the lead concern of economists since Adam Smith (1723-1790), Thomas Malthus (1766-1834), David Ricardo (1772-1823) and Karl Marx (1818-1883). Even though the writings of these classical scholars were diverse, ranging from philosophy to sociology, economic and socio-political issues remained central in their works: particularly those concerning economic growth, poverty and inequality.

To begin with, the central argument of Adam Smith's *Wealth of Nations*, first published in 1776, was that increasing returns (on investments), which he posits helps to accelerate the pace of capital accumulation cum economic well-being, stems from the division of labour. The division of labour, Smith remarked, determines the level of labour productivity, which influences the level of profits, from which further accumulation of capital is possible. For Smith, the division of labour (or gains from specialisation) is therefore the very basis of the wealth of a nation. Additionally, Smith also noted that self-interested pursuit of gain is productive of benefit to the society: he reckons that the enterprise of individuals was capable, when left free of regulation, of carrying the standard of material well-being of nations to heights hitherto impossible and scarcely calculable. Overall, Smith contended that division of labour and free-market, which enhances productivity and thus boosts capital accumulation, are the main drivers of economic growth and development.

On the other end, reverend Malthus, in his famous book, *Essays on the Principle of Population*, published in 1798, reckoned that unchecked population growth is the basis of economic problems. Particularly, he argued that reproduction by the poor should be severely scrutinised lest the world succumb to overpopulation, which he contends will lead to chaos and misery: since the population grows geometrically while food output grows arithmetically.

For Ricardo, who published his *Principles of Political Economy and Taxation* in 1817, if both population and output begin to grow steadily, land will become increasingly scarce relative to other goods. The law of supply and demand then implies that the price of land will rise continuously, as will the rents paid to landlords. As a result, the landlords, he contended, will claim a growing share of national income, as the share available to the rest of the population decreases, thus upsetting the social equilibrium.

Marx's *Capital*, published in 1867, focused more on the analysis of the internal contradictions of the capitalist system. Marx concluded that there is an inexorable tendency for capital to accumulate and become concentrated in ever fewer hands, with no natural limit to the process. For Marx, the development of the modern industry cuts from its feet the very foundation on which the bourgeoisie produces and appropriates products: what the bourgeoisie produces, Marx noted, are, above all, its own gravediggers – its fall and the victory of the proletariat, Marx concluded, are inevitable; hence the perpetual contradiction of the capitalist system. Overall, Marx's view of the capitalist system is of a system that has class struggle as an inherent feature, and which, in the long-run, will destabilise the capitalist economic system.

Despite this tradition of classical political economists writing on political and socio-economic issues, economic development[1] (particularly regarding the issues of income distribution and poverty), as a theoretical topic, did not receive much interest from the economic profession until after the Second World War. In fact, the revival of interest in development theory, particularly concerning the distribution of wealth, came at the wake of the war. Mainly because several war-damaged nations were looking for ways to reconstruct their economies, while the newly independent and less developed ones were attempting to initiate programs in their economies that will help them achieve 'Western' level of economic advancement.

[1] According to Dudley Seers, development means creating the conditions for the realization of human personality. Its evaluation, Seers argued, must therefore take into account three linked economic criteria: whether there has been a reduction in (i) poverty; (ii) unemployment; (iii) inequality Seers, D. (1972). What Are We Trying to Measure? *The Journal of Development Studies,* 8**,** 21-36.

It could be argued that the major intellectual boost to the development discourse, in the twentieth century, actually came from the seminal publication of Simon Kuznets – the renowned Belarussian-American Nobel Laureate – in 1955: this is because the central theme of Kuznets' ground-breaking paper was more on the character and causes of long-term changes in the distribution of income. In the paper, Kuznets examined whether inequality in the distribution of income increases or decreases in the course of economic growth. Using data from the United States, England and Germany, Kuznets posited that the relative distribution of income, as measured from annual income taxes, has been moving toward equality as these economies experience significant rises in real income per capita (Kuznets, 1955: 4-5).

Also, Kuznets remarked that the wider inequality in the secular income structure of underdeveloped countries is associated with a much lower level of average income per capita (*ibid*: 23): according to him, the unequal income structure in underdeveloped countries coexists with a low rate of growth of income per capita. In sum, Kuznets concluded that the countries of Latin America, Africa, and those of Asia, are underdeveloped because their rate of economic growth has been far lower than that in the Western World. Based on this loose[2] relationship between economic growth and living standards (or development), greater attention was thus accorded economic growth theories; they were thereafter seen as the "workhorse" of economic development.

From the plethora of economic theories that emerged after the Second World War, the Solow growth model is still seen as the "backbone" of economic growth/development theories in mainstream economics: because of its parsimonious mathematical properties. In broad terms, Solow's analysis has two main propositions. The first is that if the initial capital stock is below a certain equilibrium ratio, capital and output will grow at a faster pace than the labour force until the equilibrium ratio is approached. The other is that if the initial ratio is above the equilibrium value, capital and output will grow more slowly than the labour force. The inherent implication of these propositions is that poor countries (those with initial capital stock presumed to be below the estimated equilibrium ratio) will grow at a faster pace and will catch up with the rich (those with initial

[2] In the sense that the connexion, as Kuznets also conceded (*ibid*: 26), was based on 95% speculation and 5% empirical information.

ratio above the equilibrium value) – this is the basis of the "convergence" thesis (see Barro, 1997: 1).

In essence, Solow's theory, like Kuznets', also affirms that poor countries – i.e. those with low starting capital/labour ratios – have the potential to grow at a faster rate, and as a result catch up (converge) to those already with higher capital/labour ratios (i.e. the rich countries); if the level of capital, cum output, could be increased (Solow, 1956: 70-71).

Following Solow's findings and that of many other notable economists at that time (such as Arthur Lewis and Walt W. Rostow), many newly independent countries in Africa thus turned their focus on mobilising capital. Convention then was that these economies had excess supply of labour but deep 'financing gap' (these views were explicitly put forward by Lewis in his famous book, *Theory of Economic Growth*, first published in 1955 and by Rostow, in his book, *The Process of Economic Growth*, published in 1960). It was based on these prevailing analyses then that interest ceilings were consequently adopted by many governments, to afford domestic capitalists cheap access to credits – in the bid to accelerate the pace of capital accumulation cum economic growth.

In all, during the period from 1945 to late 1970, active government intervention in the economic process was deemed necessary for mobilising capital, which was seen as essential for stimulating the growth (and development) of the economy. The active government participation was underpinned by the Keynesian view that the market economy would not avoid serious depressions unless the government stood ready to compensate for fluctuations in private investments.

Notwithstanding the concerted efforts that were put in place to help develop the underdeveloped economies in the 1960s/70s, many still lagged behind. So, in the late 1970s, given the failure of many economies in the Third World to catch up with the development in the West (and the North – the United States mainly), attention turned to economic liberalism. Government intervention in the economic process was subsequently blamed for the sluggish performance of many of the developing economies. For instance, a renowned economist, Ronald McKinnon, argued then that government intervention creates fragmentation in the economy, and causes the misallocation of resources (McKinnon, 1973). It was based on this, and other numerous arguments put forward in favour of free-market[3], that most governments in developing countries, such as in Nigeria, deregulated and liberalised their economies in the 1980s.

Without a doubt, since the turn of the twenty first century, following the deregulation and liberalisation of the Nigerian economy, the growth rate of the country's Gross Domestic Product (which is the "economic growth" indicator) has indeed surpassed those of many developed and emerging economies. From 2000 to 2010, for instance, Nigeria's GDP grew at an average of 8% while that of OECD countries grew at an average of 1.8%, in the same period. Based on Kuznets' interpretation that economic growth is the workhorse of development (the tide that lifts all boats), Nigeria should be 'converging' to the level of income distribution (or development) associated with developed countries, which had had such high economic growth rates in the past. Unfortunately, however, beneath the promising economic growth outlooks and the abundant natural and human resources still lay a widespread underdevelopment: even though the country's GDP (the aggregate national output) has been growing exceedingly high over the years, and despite the economy becoming the biggest in Africa[4], a majority of the population are still poor. In fact, over 60% of the country's population still live below $1.25 a day and over 80% below $2 a day (according to the World Bank's 2013 estimate).

---

[3] These include the free-market ideologies of Friedrich Hayek and Milton – their arguments are discussed in more details in chapter three.

[4] The country's GDP was rebased in 2013 and as a result, the GDP shut up from 42.4 trillion Nigerian naira to 80.2 trillion naira (equivalent to $510 billion) in 2013, making the country's economy the largest in Africa ahead of South Africa's.

CHAPTER THREE

FRAMEWORK OF ANALYSIS

Dominant Views of the Past

The pace and character of industrial development (i.e. capital accumulation) of a country, as the World Bank carefully articulated in its 1987 development report, and which Kotz *et al* (1994) also summed in their book, depends on several factors, which if right, it is claimed, accelerates the capital accumulation process and economic development consequently. These factors, as the Bank and Kotz *et al.* highlighted, include - the country's size, its natural and physical resources, the external political-economic arrangement, the stability of government and institutions, and their ability to promote effective fiscal, monetary and exchange rate policies that are conducive to industrial development, the skills of its people and a series of other factors that, one way or the other, impinge upon the accumulation process (World Bank, 1987; Kotz *et al*, 1994).

These factors if harnessed effectively, it was remarked, determine the pace of capital accumulation and promotes economic and social development in the long-run. In other words, when these factors are not harnessed, there is a tendency the pace of capital accumulation along with the development of a given country could decelerate. Over the years, it has been a standard practice for analysts to examine one or two or a combination of many of these factors, and how their development or underdevelopment impinges upon the accumulation process. For instance, the cause of the declining rate of real capital accumulation in developing countries such as Nigeria in the 1940-60s was largely attributed to the low rates of savings that were prevalent in many developing countries at that time (Domar, 1946, Lewis, 1955, Rostow, 1960). In fact, these scholars remarked then that any key strategy of development necessary for economic 'take-off' in Third World countries would require the mobilisation of domestic and foreign savings in order to generate sufficient investment to accelerate economic development. Furthermore, weak financial institutions widespread in many Third World countries were also seen to be contributing to the low rate of savings (Sikorski, 1996): the weak institutions were seen to be ineffective in mobilising the scarce financial resources needed to quicken the pace of capital accumulation that will accelerate economic development. Equally, immediately after the Second World War, capitalism as it were then (unfettered) was deemed to have failed to guarantee overall well-being (development) of human race; Minsky (1986: 121) noted that it was self-evident in the 1930s that the liberal market system was 'a fallible coordinator of economic activities'. Overall, the political-economic arrangement of 'Economic liberalism' was also deemed ineffective at quickening the pace of economic development in most economies, such as in Nigeria.

In general, given this consensus then, the 1940s-1960s was thus replete with various suggestions for reforming the liberal market mechanism. As many economists argued at the time, to achieve a close approximation to full employment, an appropriate use of fiscal and monetary policy was needed. Most posited that the only democratic way forward, which would guarantee peace, inclusion, improved well-being and stability, was to construct the right blend of state, market, and democratic institutions (that is a regulated political-economic arrangement) that could facilitate the mobilisation of savings, address weaknesses in the financial systems and in the real economy: given that the liberal system was a 'fallible coordinator'.

As a result, of this general consensus on the ability of government intervention in the economic processes to ameliorate the various institutional weaknesses and to assist with the mobilisation of savings, government participation in the economic processes were thus deemed both pertinent and necessary for stimulating capital accumulation, and for accelerating economic development in most countries. As Long (1993) and Harvey (2005) observed, the administrative setting of interest rate ceilings and allocation of credit to essential industries and the use of subsidies were all deemed conventional for stimulating economic development in those years given the perceived varying structural weaknesses in the economic system. To plug the finance gap that was deemed as the bane of development in most Third World countries then, interest rate ceilings were used, and foreign aids aggressively solicited by the governments of most developing countries. In all, the convention then was that the state should focus on full employment, economic growth, and the welfare of its citizens and that state power should be freely deployed in the market processes to achieve these ends (Harvey, 2005).