

GLOBAL ECONOMIC MELTDOWN: CAUSES, CONSEQUENCES AND RESPONSES

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Abstract

This study looks at the knotty issue of the current global economic meltdown, capturing the causes, consequences and responses, and raising the issues to widen the horizon of the debate. Proper analysis of the antecedents, the tempo and the dynamics of the current global crisis points to the age-long Business Cycle Theory, which says that following on the heels of booms is a potential to derail into recession and bursts. Therefore, it is opined that behind the current economic crisis is the excessive boom of the US mortgage market. The major hit of the crisis in the Nigerian economy is the spot where the boom is most evident - the Nigerian Stock Exchange market. Booms need to be cautiously managed, to minimize the impact of subsequent recession.

Introduction

One unmistakable reality in this 21st century is that the business environmental equation has altered significantly. The global village phenomenon facilitated through advancement in information technology and the increased expectations and

demands from societal stakeholders all join to worsen the complexities of today's industrial societies. Consequent on the above, the operating business environment has witnessed remarkable shifts. It has shifted from linearity to multi-linearity, from homogeneity to heterogeneity, from single task to multitask and from specializations to multidisciplinary approach to increasing complex dynamics of our business issues. Economic issues have spill-over effects on socio-political areas, and the understanding of the former can be done in the light of proper analysis of the latter.

Specifically, the global business environment has been, to say the least, chaotic in the last two years. The toll of global economic recession is being felt by everyone. Major businesses are collapsing, unemployment and inflation rates are spiraling out of control, stock market indices have defied bookmakers' prediction and analysis and there is global food scarcity (Box 15.1).

Box 15.1: *Preceding trend to global economic meltdown*

The world, in the last couple of years, has watched with shock the collapse of big organizations, like Enron, Arthur Anderson, Marconi, Merrill Lynch and several others on account of non-adherence to ethical standards in business (Buck, 2003). The media is awash with ethical dilemma to the proportion that the world cannot afford to sit on the fence and do nothing. As Haas (1996: 83) rightly observes:

"A quick scan of today's headlines shows that ethical dilemmas are everywhere. Prudential-Bache Properties Inc. is sued by its investors, who allege it sold limited partnerships misleadingly; corruption cause the fortunes of Gitano Group Inc. to collapse; and executives of American subsidiary of Honda Motor Co. Ltd. are charged by federal prosecutors with accepting bribes from dealers in exchange for franchises and hot-selling models."

Source: Onodugo, V.A and Nwoji, S. (2009), "Compounding the Dynamics of Business Ethical Dilemma: The Globalisation Equation," a paper being processed for publication.

Nigerian economy is not isolated from these global economic catastrophes. All economic indices, including oil prices, are down. The purchasing power of the people is increasingly being eroded and the standard of living is on steady decline.

It is in the light of the above backdrop, that the topic of this forum finds its relevance. It seeks to highlight the causes, consequences and responses of the global economic meltdown. It is believed that the paper and the debate that it will generate will inform personal and collective policy responses to cope with the crisis.

Definitions and Theoretical Framework

It is common place, as history has shown, for new dispensations to come with new concepts, terminologies and nomenclatures. The current global economic meltdown is not an exception. In this regard, this section seeks to attain common understanding of these terminologies.

Economic Crisis

This generally refers to a sudden negative turn of events in the economy. It is usually characterized by general slow down in economic activity over a sustained period of time. This slow down can be regarded as a period of stagnation, recession or depression.

Stagnation, Recession and Depression

This is regarded as a long period of economic slow down that is not characterized by negative growth. If the stagnation is characterized by a negative GDP lasting between six months and two years it is called *Recession*. If the stagnation prolongs beyond two years then we have what is called *Depression* (Onyukwu, 2009).

Economic Melt Down

This is specifically the term used to capture the current slow down in economic activities that began in US and spread over the whole world in 2008 and 2009. The characteristics of this slow down are such that it can be grouped under recession.

Securitization

This is a very important concept in this global economic crisis. It is the innovation that allows the original lender to offload mortgages before maturity to other investors (spreading risks). It serves to replenish lender's funds, originate more loans, and earn fees. This tendency shifted emphasis on originating loans and not on credit quality- any and everyone can qualify.

Sub-Prime

This is loan that is given to those who are predominantly poor and whose credit history is questionable. It is sub-prime because they are loans that would have failed in a normal competitive credit market because it is uncertain that the borrowers have sufficient income to support the monthly repayments. The rates are usually higher because it is riskier.

Economic crisis generally stem from the challenges associated with the management of the economy. Incidentally, Economics as a field of study developed along the lines of the varying philosophies associated with the way the economy should be managed. Because of the unique relationship between economic crisis and the philosophical underpinning of theories of economic management, it is expedient to briefly discuss the essential thrusts of the leading schools of thought.

Classical School of Thought - Laissez Faire

This was the foremost school on how the economy should be managed. Its essential kernels were contained in the book of Adam

Smith, titled *Inquiry into the Nature and Causes of the Wealth of Nations*. The underlying philosophy of this school is that the economy should be left in the hands of the market forces, which he called *invisible hands*. It is believed by this school that the normal working of the economy will naturally lead it on to full employment. Therefore, whatever output that exists is the maximum that can be attained by the fully employed labour. This school also believed that there could be temporary departures from full employment, but the invisible hands (demand and supply) would unaidedly bring the economy back to full employment equilibrium. The policy implications of this school is that government should leave the economy in the hands of the market forces. This is the philosophy behind private wealth accumulation and modern day capitalism.

Keynesian School of Thought

For a very long time, the orthodox classical view held sway because nothing significant has challenged their proposition. However, the Great Depression of the 1930s (1929-1934) questioned the veracity of the claim that market forces on its own can steer the economy in the right direction. On the heels of this challenge came in 1936 the path-breaking work of Lord John Maynard Keynes, titled the *General Theory of Employment, Interest and Money*. Keynes successfully argued that the economy is not always in full employment. He posited that level of employment was a variable with full employment as one of them. Others are severe unemployment and levels between the two extremes (Akpakpan, 1987). The policy implications is that contrary to the assertion that market forces always lead to full employment, Keynes proposed that government should intervene in the management of the economy using appropriate monetary and fiscal policies. This thinking gave rise to what is generally called Macroeconomics.

Monetarist School of Thought

This school was championed by Milton Friedman. He adjudged the demand management policies postulated by Keynes as ineffective in solving the twin problems of unemployment and inflation. It was highlighted that the macroeconomic policies aimed at stimulating the economies beyond its productive capacities will lead to inflation. This view seems to have empirical backing in the Great Inflation of the 1970s and Hyper Inflation of 1980s, especially among the Latin American economies. This school, which can be classified as neo-classical school, proposed a revival of classical approach to domestic price stability as a means of managing the economy.

Generally speaking, macroeconomists have since Keynes, been broadly divided into two groups: those favouring an active, interventionist approach to macroeconomic policy - Keynesians, neo-Keynesians and Heterodox groups; and those favouring rule based, and largely non-interventionist regime - Classical, neo-Classical(Monetarist) and Washington Consensus (Soludo, 2008). This current crisis challenged the Washington Consensus which is the prevailing economic view prior to the crisis. Washington consensus is largely rule-based and believes in trade liberalization, deregulation, privatization and other self-regulating corporate governance policies.

Deductively, we can conclude that economic crisis highlights the inadequacy of the ruling economic view, and in most cases, set in motion processes for a paradigm shift. The emerging policy responses to the current economic crisis, as we shall see in the later section, is reminiscent of the kind of approach adopted in the earlier crisis. The Great Depression of the 1930s highlighted the inadequacy of the doctrine of *laissez faire*, while the Great Inflation of the 1970s and 1980s questioned the adequacy of the Keynesian School in solving all the economic problems, and the

current crisis has shaken the foundation of the Washington Consensus. Like all other economic crises, the current crisis has orchestrated a shift from full economic liberalization to allowing for discretion and government intervention.

Origin and Causes of the Current Global Economic Crisis

It is common knowledge and consensus that the current global economic crisis is made in America (Soludo, 2008; Anyanwu, 2009). Its world-wide impact reflects the global village phenomenon bequeathed on us by globalization. The global economic integration which characterizes globalization is facilitated by the advancement in information technology, such that what happens in one region orchestrates a band-wagon and spill-over effect on the other regions and countries of the world.

An analytical review of the literature on the current global economic crisis has tended to take a short term perspective with respect to its genesis and antecedents. Emerging facts show that the immediate cause of the crisis is the bubble that busted in the mortgage industry in the US. It is however, the considered opinion of this paper that before the burst and collapse of the US mortgage market, there must have been some unnoticed accumulated pressure on the system which was either neglected or not properly attended to. This view is supported by Agulanna (2009: 2) when he opines that “before a financial meltdown sets in, a financial system such as banks must have experienced prolonged distress which may not have been noticed or detected or which may be hidden from the investing public.” Consequently, this paper will look at both the immediate and remote causes of the global economic meltdown.

Immediate Cause of the Global Economic Melt Down

There is a convergence in the literature that the immediate cause of the current global economic meltdown (between 2007-2009) was the collapse of the US mortgage market which was transferred to other financial markets and led to the collapse of major financial institutions with the attendant job loss, crisis of confidence on the system, panic withdrawal and high incidence of risk averse posturing among investing public.

Specifically, two related factors could be said to have laid the foundation for the current global economic crisis. One was the boom in the US home market between 1997 and 2006. The prices of home recorded over 124% increase within the period, which naturally attracted the attention of the investing public. To sustain the market boom, the brokers enticed home buyers with low income and questionable credit pedigree to take mortgage loans in what is called *sub-prime* loan arrangement. These sub-standard loan arrangements were repackaged and sold to other unsuspecting financial institutions using financial derivatives in what is called *securitization*. This arrangement allowed investors to invest on the secondary financial instrument relying on the strength of the financial integrity of the selling institution not on the credit worthiness of the original debtor.

Coincidentally (this is the second factor), this was happening during the regime of easy credit and weak financial surveillance in America. The then Chairman of the Federal Reserve Bank, Alan Greenspan, for whatever reason, did not believe in regulating the use of financial derivative. If anything, he encouraged its use when he lowered the Federal Fund Rate to 1% for more than a year. This helped to make fund available for the reckless mortgage securitized investment. The chicken came to roost when sometime in 2006, home prices began to fall and it was difficult to refinance mortgages because of the declining value of the asset on which they were secured. Given this scenario, the sub-

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prime mortgage owners began to default leading to foreclosures (forced withdrawal of homes from the buyers as a result of default) of their homes. With more defaults and foreclosures the prices and value of mortgages began to tumble. Within three months (between March and October, 2007) the market has lost \$200bn as a result of default. Other financial institutions which invested in the derivatives began to suffer significant losses. This began to spread in and out of America (Box 15.2).

Box 15.2: *Genesis of the global financial meltdown*

During the early 2004, the mortgage industry in the US enjoyed an unprecedented boom whereby mortgage brokers enticed prospective buyers with inadequate income or poor credit history into taking mortgage loans with little or no down payment. These sub prime loans were later repackaged and sold to banks and other financial institutions which then created Collateralised Debt Obligations (CDOs), and sold these financial instruments to worldwide investors who unsuspectingly relied on the “strength” of the sellers rather than the risk rating of the underlying financial instruments. The chicken came home to roost in mid 2007 when sub-prime mortgage borrowers unable to service their loans, which were then due for refinancing began to default en masse. The mass default triggered the beginning of the global crisis because the investment banks who sold the CDOs could no longer service the huge debts packaged as repurchase notes from commercial banks.

Central to the mortgage crisis were two institutions – The Federal National Mortgage Association also known as Fannie May and its sister Institution, Federal Home Loan Mortgage Corporation known as Freddie Mac, which are both government-sponsored institutions, set up by the US Congress to facilitate and promote mortgage lending to poor or low income home buyers in the US. In practice, they do not make home loans directly to home buyers, but rather create liquidity by buying up mortgage market. It is the reckless and unbridled activities of the primary lenders actively encouraged by Fannie May and Freddie Mac with readily available liquidity who in turn sold these mortgage securities to investment banks that triggered the crisis. An increasing number of borrowers often with poor credit history started to default and many with adjustable rate mortgages saw their monthly mortgage payments go up far beyond their means. This resulted in a precipitous rise in foreclosures (seizing of the homes from the borrowers) and home prices fell sharply as increasing foreclosures created excess supply of homes over demand. Home loans gradually dried up, interest and principal repayments on foreclosed homes became frozen. This immediately affected the ability of the investment banks to service their obligations under the CDOs and repay short-term borrowing from banks. Effort by the Federal Reserve Bank (FRB) to inject liquidity into the system with \$100 billion and to save Fannie May and Freddie Mac did not yield positive result. It rather exacerbated the situation.

The first casualties were Fannie May and Freddie Mac who were forcefully taken over by the Federal Reserve Bank (FRB) in September 2008 due to huge debt burden caused by the collapse of the mortgage industry. This was followed in quick succession by the collapse of Bear Stearns – an investment bank heavily exposed in the CDOs. This was followed by the collapse of another investment bank – Lehman Brothers, also a major player in the CDOs, which failed under a heavy burden of rapid losses. Lehman Brothers in particular, had sold huge CDOs to foreign financial institutions and had relied heavily on the repurchase market i.e. short term financing from banks to finance its CDOs activities.

Source: Adeji, I.I. (2009), “Lessons of the Global Economic Recession for Nigeria”, a Paper presented at the national symposium on the global financial crisis organized by African Institute for Applied Economics in Abuja on June 18.

Remote Causes of the Global Financial Crisis

As earlier mentioned, it is believed that the precipitate factors that led to the eventual collapse of the American, and by extension, the global economy must have been on far before it manifested in 2007. What shall be done here is to paint the broad picture of some of the inherent structural imbalances in the American economic system that must have predisposed the system to vulnerability and volatility. Some of them are discussed as follows:

Consumption-based Economy

For a long time before 2007, American people have, contrary to economic principle, turned into a consumer not an investing nation. It is common knowledge that America became the largest market for any known consumer product in the world. It was such that manufacturers of products must do ‘American specification’ for them to sell a good chunk of their products. America, in the process “massively owed the rest of the world, particularly China in the last couple of years, through accumulated trade credits and dollar denominated foreign reserves. Unfortunately, America was using these credits from other countries to fund consumption and housing rather than investments that create exportable goods” (Onyukwu, 2009:6). This tendency created structural imbalance in the economy. No country or business unit can survive for a long time when it is consuming more than it invests in production.

Poor Savings and High Credit Culture

The vogue in America for a very long time is a move away from cash to credit economy. While this has its own merits, it gradually

made Americans a savings deficit people. It is such that Americans have generated debts that will take more than half their life span to amortize. People buy cars, homes and other consumer goods that take sometimes up to twenty years of steady stream of income to liquidate. It is considered strange in America for one to make down payments for goods purchased. Again, this tendency is grossly antithetical to economic principle of growth and sustainability. In economic theory it is the accumulated savings that is used to make investments so as achieve economic growth and development. Given this economic posturing, all that is required for the economy to come tumbling is for most people to lose their source of income, which in most cases is the only basis for retiring the loan.

Huge Financial Outflow Spent In Prosecuting War Against Terrorism

The September 11 2001 attack provoked an immediate redefinition of the American international defense policy. It deployed a lot of resources to prosecute war against terror. Albeit, it seems that America has little options regarding defending itself, it however underestimated the length of time it will take and the toll it will take on America and the global economy. The war on terror took over seven years, and tens of billion of dollars was expended in the process. Further, because it was in the gulf region, the prices of crude oil which is a major determinant of cost of production was at its peak within this period. All these stretched American economy to its limit and added insult to injury to the already vulnerable economy.

Inadequate Regulatory Framework

It was evident that the American regulatory framework was weak. The attitude of the regulators toward the use of financial derivatives and provision of easy credit for reckless consumption rather than for investment showed that it was inadequate to check

the abuses in the system. This is however, not unconnected with prevailing economic ideology of the time represented in the 'Washington Consensus'. Predominantly, this economic doctrine believes in rule-based economic management with minimal intervention and discretion. This was why the government began massive interventions when the bubble busted.

High Incidence of Fraud and Corruption

This is another factor that put stress in the system leading to its eventual collapse. Towards the build-up to the financial crisis, America began to witness an increased spate of corporate corruption and fraud. This was further worsened by complicity by audit and accounting firms. The Enron and Arthur Anderson case is a typical example. Since then many more financial frauds have been uncovered including the recent Maddof saga. All these put pressure on the system making it more vulnerable to collapse.

Consequences of the Global Financial Crisis

The consequences of the global financial crisis are as far reaching as they are evident. Because of the excessive securitization of the mortgage bond among financial institutions in the US, the crash of the mortgage industry quickly spread to other sectors of the economy.

Several reasons accounted for why the impact became global. First, is the interrelatedness of the global economy as a result of globalization. Consequently, what happens in one region quickly has spill-over effect to other countries and regions of the world. Second, is the extensive '*dollarisation*' of most economies. Most nations keep their foreign reserves in dollars. Since the value of a country's exchange rate is a reflection of how strong the economy is, the value of dollars witnessed a downward slide following the economic crisis. This affected tremendously countries that keep their foreign exchange in dollars and those who

are owed by Americans. Third, is that America is the largest market for most goods. Their purchasing power was hugely eroded by the crisis and as a result it affected global demand for goods and services. With fall in demand, prices began to fall and supply began to recede and all other indices took a downward spiral.

For purposes of clarity and precision, we shall discuss the consequences of the global economic crisis in two broad categories. First as it affects the global economy and second as it affects the Nigerian economy.

Global Impact of Economic Meltdown

There is no doubt that the global crisis inflicted tremendous economic injury to the global economy. For want of space, we shall limit ourselves to a few significant ones below:

Collapse of Big financial and other Institutions

The immediate outcome of the global financial crisis was the collapse of big financial organizations. The worst hits were firms from mortgage, financial and automobile sectors. In America alone, institutions like Freddie Mac and Fanny Mae which were at the centre of the mortgage crisis became instantly hit. With them are other institutions such as Lehman Brothers, Bears Stearns, Merrill Lynch, JP Morgan Chase, AIG Investment Bank, etc. Much recently we have leading auto makers like General Motors, Ford and Daimler Chrysler all started on the way of bankruptcy. The financial shaking of these institutions impacted negatively on employment and the investors' confidence on these sectors.

Increase in Unemployment

Unemployment became a natural aftermath of the collapse of most of these big global institutions. Available data shows that between 2007 and 2009 the US economy witnessed the highest rate of unemployment since the last 26 years. The unemployment

situation was such that for a continuous period of three weeks, a section of the British workforce demonstrated requesting that foreigners should leave the few available jobs for the British citizens. The global unemployment situation became so bad that it has not been so witnessed in the last two decades. Semovia (2008) predicted that the world may lose about 20 million jobs as a result of the crisis.

Decline in Capital Market Capitalization

Several factors combined to orchestrate a downward decline in capital market capitalization. Liquidity squeeze, lose of confidence in the system arising from the depreciation of the value of stocks and bleak future of capital appreciation all led to massive divestment from the capital market. The inevitable outcome was persistent decline in stock market prices and capitalization.

Decline in Global Market Demand

Ranging from consumer goods to investment goods there was a massive decline in global market demand. Oil prices tumbled, just in the same way as the patronage in aviation industry and hospitality industry went down drastically. This is expected following decline in income and restricted access to credit.

Increased Incidence in Fraud and Corruption

It is possible that fraudulent activities have been on the increase without notice but the incidence during this period has been phenomenal. In the development literature, prior to this time, corruption used to be seen as a developing countries affair. It is surprising that within this period the world has witnessed a remarkable rise in the incidence of corruption. It is only a matter of conjecture as to why it is so. Perhaps as a coping mechanism to mitigate the harsh bite of the consequences of the global economic crisis.

Nigerian Specific Consequences of the Global Economic Meltdown

Due to substantial fortification of the Nigerian financial system following consolidation, it was initially thought that Nigeria will be insulated from most of the consequences. However with time it became obvious that no nation is spared of the sweeping consequences of the global economic crisis. Specifically, the consequences of the meltdown on the Nigerian economy are discussed briefly below as follows:

Oil prices glut and declining GDP

The first major hit of the global recession was the prices of the crude oil which regrettably is our major foreign exchange earner. With declining global output of goods and services, the demand for oil fell and with it, the prices of oil. Oil that sold for up to \$140 per barrel for most of last year hovered around \$50 to \$60 per barrel. This affected our earnings and foreign reserves. This fiscal imbalance led to tight budget constraints and fund squeeze in the economy.

Collapse of the Capital Market

There is hardly anywhere in the world where the capital market witnessed the level of divestment and declining capitalization as in the Nigerian Stock Exchange (NSE) market. Prior to the crisis, NSE was reputed as one of the fastest growing capital market with promise of good return on investment. This posturing attracted hedge funds and FDI from overseas to the market. With the crisis, most investors withdrew their monies and the migrant remittances into the market ceased and the market began to tumble. Available records show that the share lost up to 70% of its original value before the crisis. Specifically, the market capitalization fell from

N13 trillion as at July 2007 to less than N5trillion by the end of 2008.

Reduction in Oversea Development Assistance and Foreign Direct Investment (FDI)

There is no doubt that the volume of grants, aids and development assistance from the developed countries into the country dwindled considerably as a result of the crisis. The same for FDI from overseas. The benefactor nations spend most of their resources trying to cope with the challenges associated with the crisis that little is left to extend to developing countries like Nigeria.

Rising tide of Corruption and Social Vices

The global economic crisis exacerbated the already bad unemployment situation in the country. This is believed to have given rise to the increased incidence of social vices. The 'advanced fee fraud' otherwise known as '419' is still on the increase. It is common to see a litany of unemployed youths in the cyber café looking for whom to trap and dupe. The spate of kidnapping for ransom has been on the increase in the country. All these are believed to be survival strategies as a result of the crisis.

Devaluation of Naira and Rise in Inflation

The sharp drop in the prices of oil led to the depletion of the accumulated forex reserve to sustain imports. With time, Nigeria has no choice but to devalue its currency in the foreign exchange market. This led to increase in the prices of imported goods and worsening of the standard of living of her citizenry.

Policy Responses

Economic history has shown that there seems to be a predictable response when there is an economic crisis of this magnitude. If the crisis is thought to have arisen from allowing excessive rule-based

and non-interventionist posturing, just as the case with the current economic meltdown, the response is usually to increase intervention and discretion. On the other hand, if the crisis arose from excessive government discretion and intervention, the standard response would be to allow for more rule-based and less government intervention.

Globally, the key strategic response to the current economic crisis among developed countries of the world is to inject more money into the economy as a bail out to vital sectors. The leading economies of the world, US, UK, France, Russia, Japan, etc, have all injected billions of dollars into the economy to stimulate demand and stem the tide of the global recession. At the 'G20' world economic summit that held in London in April 2009, it was agreed that an additional \$1.1 trillion should be injected into the global economy to stimulate it away from recession.

It is sad to note that aside the normal CBN expansionary monetary policy adjustments there is no coordinated response by the government of Nigeria to reverse the economic situation of its citizenry. It was such that Oyeboke (2009: 19) decried the scenario below as follows:

Despite the devastating effects of the global financial crisis on the Nigerian economy, with crash in the oil market prices, a massive foreign divestment, the collapse of its stock market resulting in around 65% loss of value, ballooning lending rates, incredible unemployment rates, collapse of public infrastructure and production units, ravaging corruption in practically every sector of the economy, lack of a safety ... it is unbelievable that our response to the crisis has been largely timid and unimaginable, if not, in fact, a non-response.

In spite of the seemingly apathetic position of the government of Nigeria in fashioning a coordinated policy action and response to the global economic meltdown, we make the following suggestions as a way to mitigate the harsh realities of the crisis:

A. National Responses

Below are our suggestions on how the nation should respond:

- **Proper Monitoring and Surveillance of the Nation's Financial System:** Most economic crisis stem from poor monitoring and supervision on the part of the regulators. The CBN and NDIC should dispassionately monitor the economy to ensure that financial recklessness are detected on time and nipped in the bud before they escalate into full blown crisis.
- **Diversification of the Economy:** It has become obvious that we cannot continue with our mono-product economy. In the time of crisis those with diverse sources of income stand better chances of surviving than those that depend on single product. Diversification, aside from helping us cope with economic stress, will facilitate increase in national output and employment generation.
- **Creating Enabling Environment for Doing Business:** The federal government should embark on massive investment in infrastructural development so as to create enabling environment for doing business. The excess crude should not be shared for consumption but for strategic investment to develop the nation's infrastructure. This will increase the chances of FDI and migrant remittances flow for investment.
- **Bail-out and Support for the Capital Market:** The government should do within its power to encourage the

capital market. If it can financially bail it out fine, otherwise necessary policy incentive should be used to stimulate active trading at the NSE.

- **Support to SMEs and Massive Industrialization of the Nigerian Economy:** One sure way for Nigeria to overcome the challenges of unemployment, under-utilization of domestic resources and industrial capacity and poor domestic output is for the government to initiate policies to encourage local manufacturers. Policies like tax incentives, strategic cluster support, entrepreneurship promotion and financial support to SMEs could be used to stimulate private sector investor and industrialization.

B. Personal Responses

Individuals can equally proactive overcome and mitigate the impact of the global economic crisis by doing the following:

- **Prudent use of Resources:** Individuals and households should find cheaper ways of making ends meet. This time calls for optimal utilization of resources by everyone.
- **Multiple Sources of Income:** One key strategy on how to overcome economic stress is by having multiple sources of income. The short fall in one source could be made up by the flow from others.
- **Savings and Investment Tendencies:** One thing that individuals can take out of the current economic stress is that savings and investment are indispensable to sustainable economic welfare. Americans ran into this problem because of excessive consumption-orientation.
- **African Social Safety-Net:** Africans have rich social tradition of helping one another in times of stress. This is a major plank for individuals to cope with the stress.

Lessons and Conclusion

This paper for the most part, looked at the knotty issue of the current global economic crisis and captured the causes, consequences and responses. Evidently, it did not provide exact cut-out answers to the problem, but raised the issues to widen the horizon of the debate. Proper analysis of the antecedents, the tempo and the dynamics of the current global trends leaves us with one key lesson. The lesson is captured in the age-long theory of Business Cycle Theory. The theory says that following on the heels of booms is a potential to derail into recession and bursts. Behind the current economic crisis is the excessive boom of the US mortgage market. The same is the case with most of the other economic crises. The major hit of the crisis in the Nigerian economy is the spot where the boom is most evident - the Nigerian Stock Exchange market.

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