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THE IMPACT OF MERCANTILISM ON MACROECONOMIC EXPOSURES OF BUSINESS IN NIGERIA: IMPLICATIONS FOR ECONOMIC POLICY

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ABSTRACT

The paper examined the impact of mercantilism ideology on macroeconomic exposures of business in Nigeria. This was prompted by the sluggish growth and poor performance of businesses in Nigeria. In order to probe into this issue, an attempt was made to investigate the relevance of mercantilists' contributions to the Nigerian business activities by discriminately considering macroeconomic exposures, which is operationally defined as the business environment. For this issue to be addressed, questions on how macroeconomic exposures such as personal income tax, company income tax, unemployment rate, GDP per capita, per capita income, money supply and lending rate have impacted on business in Nigeria was raised. For the sake of empirical evidence, those macroeconomic exposures appealed to some secondary data by proxy. The findings ensued from the analysis are that the contributions of mercantilists are relevant to macroeconomic exposures of business in Nigeria because their business philosophy is in line with realities on Nigerian business environment. However, unemployment rate as a macroeconomic exposure did not conform to the philosophy of mercantilism. Arising from the foregoing, it was concluded that if the Nigerian business world should look inward and harness the available economic resources, then the ideas of the mercantilism are likely to be totally relevant. Based on this, it was therefore recommended that the Nigerian Government should initiate economic policies that could encourage sectoral protection.

Key Words: Mercantilism, Macroeconomic Exposures, Business Environment, Personal Income Tax, Lending Rate, Money Supply

INTRODUCTION

The philosophy of every discipline is the base of its evolution. So there is no discipline today that does not attribute its existence to the philosophy of its history. This implies that the understanding of the history and philosophy of any discipline can help strengthen the theoretical and logical framework of the discipline. Therefore, the benefit of history of economic thought deserves mention if we are to appreciate the historical controversies that are inherent in various schools of thought in the discipline. The different ideologies held by diverge Economists of past and present have been well captured by the theoretical history of

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the discipline which is today reflected in the family tree of history of economic thought. A careful view of the graphical version (family tree) of the history of evolution of economics serves as a basis of classification of the views held by each group in the history of economic thought. It is important to mention that in this family tree of history of economic thought, where we have the Greek Philosophers, the Mercantilists, Richard Cantillon, the Physiocrats, and others. This paper singles out a particular school of thought known as Mercantilism. According to the Akpankpan (1999), proponents of this school of thought are Sir Thomas Mum (1571-1641), Gerald Malynes (1586-1641), Edward Misselden (1608-1654), William Godwin (1956-1836).

Mercantilism is the economic philosophy underlying early European colonial policy that existed from the 16th to the 18th century. It is an economic ideology that extensively emphasized the importance of commerce and free trade with its main goal of increasing a nation's wealth by imposing government regulation concerning all of the nation's commercial interest. It was thought of in the ideology of Mercantilism that national strength could be maximized by limiting imports via tariffs and maximizing exports. In this direction, Alzheimer (2009) points out that according to Mercantilist thinking, a country should encourage exports and discourage imports by means of tariffs, quotas, subsidies, taxes, etc. This means that in order to achieve the favourable balance of trade, mercantilists maintained that production should be stimulated by governmental interference in the domestic economy and foreign trade should be regulated and there should be prohibiting duties placed on manufactured goods from abroad, and the importation of cheap raw materials should be encouraged for the manufacturing sector in order to increase exports.

The philosophy that underlies the Mercantilist school of thought is captured in the contributory relevance to the development of economics. Due to this, Akpakpan (1999) pointed out that Mercantilist economic idea gave rise to some contributions to the development of economic science. They showed the positive effect that a purposeful government regulation of certain aspects of the economy could have on the society, and inspired such actions, especially regulation of wages; they drew attention to the role of increased quantity of money in lowering interest rate and, by so doing, stimulating business activities. They also brought about a more favourable attitude to business by businessmen which promoted the growth of business enterprises and their role in the development of the society. They helped to break down the medieval attitude towards money lending; the attitude which condemned money lending because it involved usury. The importance of these contributions for the growth of business is obvious.

Thus, it is evidence that the ideologies of Mercantilism are directly rooted in the activities or the participation of government in an economy. It is in this wise that this paper, given the fact that Mercantilism is centred on trade and commerce, seeks to examine the relevance of Mercantilist economic contributions to macroeconomic exposures of business in Nigeria and its implications for economic policy. This paper is considered in this context because business is the pivotal element and the wheel upon which the economic thought of Mercantilism revolves; hence it becomes pertinent to consider the environment in which it operates. Business as we know is an economic activity of income generation through buying and selling, manufacturing and rendering auxiliary services to trade. Thus, business in a system is made up of all environments which require the business to adopt new strategy. Macroeconomic exposures of business constitute the business environment and conditions which businesses are associated with. According to Weimer (2011) business environment is the condition or set of conditions- i.e., economic, social, legal, technology and political situations in which business activities are conducted.

No doubt, mercantilism is a period characterized by journeys of exploration. It is the age of the geniuses of exploration throughout the world (Tamuno, 2006). A handful of literature (Tamuno, 2006; Blang, 1986, Akpakpan, 1991, and 1999; Laundreth and Colander, (1989) has shown and written extensively on how the sincere application of economic thought and adoption of its doctrine and method have contributed to the development of several economies, especially in the European world. This could perhaps account for why Mercantilism emerged in Europe. In line with this, Akpakpan (1991) observes that merchant-capitalists emerged in England, France, Spain, and other European countries. In a similar manner, Business Standard (2012) points out that between the 16th and 18th centuries, the strength of a nation was often judged by the amount of gold and silver (economic, resources)that it possessed. Thus, this gave support to the reason why Mercantilists encouraged policies to acquire gold and silver by maximizing exports and minimizing imports.

From all indications, it is obvious that the Nigerian economy, unlike the economy of some European countries that adopted the method, contributions and doctrine of Mercantilism, is not occupying a prominent position in the International trade; this could be attributed to the poor performance of the real sector and the unconducive business environment in the economy over the years. Consequently the Nigerian external reserve is dwindling because of the insignificant contributions of the business world and harsh business environment to the growth and development of the economy. This impotency so found in business could be as a result of the macroeconomic conditions that the business activities are exposed to.

In order to address the problem it is the intention of this paper to specifically examine the relevance of the contributions of Mercantilism to macroeconomic exposure of business in Nigeria, by discriminately considering income tax, company income tax, money supply; interest rate, import rate, export rate, balance of trade, unemployment rate, GDP per capita, per capita income, money leading rate, and per capita income. In view of such intention, the following questions are to be addressed in the paper. What are the impact and relationship of macroeconomic exposures (tax, GDP per capita income and per capita income, money supply, interest rate, unemployment rate, import rate, export rate, balance of trade and money landing rate) on business activities? This forms the threshold of this paper.

LITERATURE REVIEW

The study of mercantilism by historians of economic theory demonstrates that from about 1660 to 1776 the quantity and quality of economic analysis increased. The improvement in the quality of economic analysis during the later part of the Mercantilistic era was so pronounced that the period has been characterized as a transitional time containing the origins of scientific economics (Landreth and Colander, 1989). Many Mercantilists saw a highly mechanical causality in the economy and believed that if one understood the rules of this causality, one could control the economy. It followed that legislation, if wisely enacted, could positively influence the course of economic events and that economic analysis would indicate what forms of government intervention would affect a given end. Mercantilists realized, however, that government interference must not be haphazard or complicate basic economic truths such as the law of supply and demand which correctly deduced, for example, that price ceilings set below equilibrium prices lead to excess demand and shortages in supply. By lending support to this, pages of history reveals that, mercantilists frequently applied the concepts of economic man and the profit motive in stimulating economic activity. Therefore, Governments, they said, cannot change the basic nature of human beings, particularly their egoistic drives. This conforms to why; the politician takes these factors as given and attempts to create a set of laws and institutions that will channel these drives so as to increase the power and prosperity of the nation.

From the above revelation, many of the later mercantilists became aware of the serious analytical errors of their predecessors. They recognized, for example, that it was not possible for all nations to have a favorable balance of trade, that no one country could maintain a favorable balance of trade over the long run, that trade can be mutually beneficial to nations, and that advantages will accrue to nations that practice specialization and division of labour and that is why an increasing number of writers recommended a reduction in the amount of government intervention; hence the literature included statements of incipient classical liberalism.

Another theory upon which this study is anchored is a central feature of mercantilist literature in its conviction that monetary factors, rather than real factors, are the chief determinants of economic activity and growth. This theory maintains that an adequate supply of money is particularly essential to the growth of trade, both domestic and international positive changes in the quantity of money is believed to generate changes in the level of real output. In view of this, however, the advent of Adam Smith and classical economists contend that the level of economic activity and its rate of growth depend a number of real factors, therefore, the quantity of labour, natural resources, capital goods, and the institutional structure. Therefore, any changes in the quantity of money, classical economists averred, would influence the level of neither output nor growth, but only the general level of prices.

Diverse literatures have directed attentions towards the relevance of history of economic thought, by looking at how its importance has made or marred the present global economy. Emphasis has been on the different ideologies of these schools of thought. Anchoring on that, Landreth and Colander (1989) points out that Mercantilism is the name given to some 250 years of economic literature and practice between 1500 and 1750. The times were characterized by an increase in economic activity; feudalism with its economically, socially, and politically self-sufficient manor, was giving way to increasing trade, the growth of cities outside the manor, and the growth of the nation state and individual activity was less controlled by the custom and tradition of the feudal society and by authority of the church.

Tamuno (2006) argues that Mercantilism is not a theory *per se* but rather an economic thought with the assumptions that total wealth was fixed so that ones profit is another's loss. In line with this standpoint, the profit or loss profile of a country lies on the weight of term of trade. Therefore, the importance of the terms of trade, which hold that wealth can only be measured in national terms, and methods of increasing national wealth were obviously that of: increasing production, increasing export, decreasing domestic consumptions, and payment of low wages so as to reduce cost of production with a view to enjoying comparative advantage. Abraham (2009) puts forwards that mercantilism is the economic philosophy of merchants with the object of minimizing imports that cost the object of minimizing imports and maximizing exports and other trade activities that brought money into the nation. This implies that to accomplish the goal of mercantilism in a nation, a favourable balance of trade is desired. As a searchlight on this, Adoghor (2004) advances that certain factors are responsible for the emergence of mercantilism. They include economic, political, religious cultural and scientific factors. And this is why the school of thought sets out to achieve a strong nation (country), favourable balance of trade and exploitation of natural resources of the nation.

Several literatures have revealed that China has indeed followed a policy of promoting exports which is in conformity with the underlying philosophy of Mercantilism. This year, China may have already overtaken Germany to become the world's biggest exporter. In the first six months of 2009, China exported goods worth $521.7 billion, while Germany chalked up $521.6 billion. Export-led growth has been the cornerstone of the economic policy of many countries in the past, most notably Germany and Japan after the World War and the

East Asian Tigers (Hong Kong, Singapore, Taiwan, South Korea) in more recent times. But, some China observers argue, what needs focus is whether China is minimising imports. Tariff barriers have been low in China, especially in the post-WTO accession period since December 11, 2001. It took almost a decade-and- a-half for China to gain accession to WTO. In this long accession period, China was asked to take on a host of trade reforms and commitments as a precondition for admission to WTO. These included substantial tariff reductions and dismantling of most non-tariff barriers.

There were, however, apprehensions about the impact of WTO accession on the Chinese economy. Gains from such accession would accrue mostly to foreigners, Chinese workers would lose their jobs and angry mobs of displaced workers would destabilize the regime in Beijing, some observers argued. But defying all such doomsday predictions, China emerged stronger from the WTO accession! Trade as well as current account balances improved, and soon there were allegations of a mercantilist China snatching jobs from other countries, most notably the USA.

The second concern about mercantilism in China has been its exchange rate policy. For example, the Fair Currency Coalition in the US, an industry-agriculture-worker alliance to support the US economy against currency misalignment by any trading partner, has been consistently complaining about the undervalued renminbi. According to one estimate, the Chinese renminbi was undervalued to the extent of an average of 35 per cent relative to the US dollar between September 2006 and February 2008. The renminbi, per US dollar, according to this view, should be valued at around RMB 5 rather than RMB 6.82. Under Section 301 of the Trade Act of 1974, the Fair Currency Coalition in the US has been petitioning the US Trade Representative (USTR) about China's predatory currency undervaluation and manipulation which constitutes an illegal export subsidy violating WTO rules and discouraging imports into China. The USTR has rejected the petition several times in the past.

Arising from the above, it would be deduced that Mercantilism as a school of thought has the characteristics of wealth, foreign trade, commerce and industry populations, natural resources, wages and rent, interest and taxation. It also follows that the mercantilism paved the way for many western nations for their transformation from commercial capitalism to industrial capitalism as it is evidenced in the case of China.

As a follow up, Adoghor (2004) observes that the Mercantilism favoured a low wage rate policy as it reduces cost and prices; and encouraged demands in the foreign markets, monetary phenomenon of rate of interest determination by natural forces, and achievement of full employment through functional transmission mechanism and increase in labour force. Similarly, Alzheimer (2009) observes that the crux of the matter in balance of trade mechanism is that a country should encourage exports and discourage imports by means of tariffs, quotas, subsidies, taxes, and the like, in order to achieve a favourable balance of trade. Production should be stimulated by government interference in the domestic economy through money supply and by the regulation of foreign trade. Also, protective duties should be placed on manufactured goods from abroad; and the importation of cheap raw-materials, to be used in manufacturing goods for export, should be encouraged.

The Concept of Macroeconomic Exposures of Business

No business operates in isolation of its environment. Begg and Ward (2009) opine that macroeconomic exposures are the external economic forces that contribute to the success or failure of business. This in a nutshell includes consideration of the impact of government intervention in both the market and in the macro economy in both the short and long run. Macroeconomic exposure of business examines the forces which determine demand and supply and their dynamic interaction in market equilibrium. Further they put forward that, macroeconomic exposures of business has to do with all the forces that prevail on the environment upon which any business operates. Such exposures, in the macroeconomic context, are considered as policy intervention of government. In this direction, Gemini Geek (2012) defines macroeconomics exposures as a set of conditions-social, legal, economical, political or institutional that is uncontrollable in nature and affects the functioning of organization. Business environment has two components; internal and external. The internal environment includes variables that are within the control of business, they are the 5Ms - man, money, materials, machinery and management, while the external environment includes those variables factors that are beyond the control of the business. These factors are government factors and legal factors geo-physical factors, political factors, socio-cultural factors, demo-graphical factors, economic factors, etc.

It is important to mention that in this study emphasis is on government economic factors, and demographical factors such as tax, money supply, interest rate, import rate export rate, balance of trade, unemployment rate, GDP per capita income, money lending rate and per capita income which have inherent association with Nigerian business environment.

The Concept of Macroeconomic Analysis

Macroeconomics is a special branch of economics which studies large component of the economy such as national income, consumption and investment and the national economy. Gbosi (2008) puts it that macroeconomics studies how an economy's total output (goods and services) and employment of resources are determined and what causes aggregate to fluctuate overtime, therefore, its policy is concerned with how the agencies responsible for the conduct of economic policy manipulates a set of macroeconomic variables in order to achieve some desired objectives of the policy. Jhingan (2009) notes that macroeconomics studies the character of the forest, independently of the trees which compose it. In the monetary sphere, it studies the effect of the total quantity of money on the general price level. In international trade, the problems of balance of payments and foreign aid fall within the preview of macro-economic analysis. It could be observed from the foregoing that macroeconomics concerns itself with the determination of total income of country.

This therefore implies that it is the responsibility of the central government to initiate policies that will help its major macroeconomic objectives to be achieved. These objectives include full employment, domestic price stability, sustained economic growth and balance of payments equilibrium. However, it is worthy of mention that these objectives, accordingly have opposing factors such as unemployment, inflation, sluggish economic growth and balance of payments deficit. Therefore, it is only when these objectives are fulfilled that we can say that macroeconomic stability has been realized, because macroeconomic stability is usually associated with the process of attaining the desired objectives of economic policy, which are full employment, domestic price stability, rapid economic growth, balance of payment equilibrium, and efficient use of economic resources.

It is observed from the foregoing that the central government, through is monetary authorities, plays a central role in macroeconomic spheres of the country. For macroeconomic objectives to be effectively achieved there must be a functional transmission mechanism and monetary and fiscal policy should complement each other. This implies that there must be some link(s) between monetary variables and macroeconomic variables, fiscal variables. Transmission mechanism is therefore seen as the way in which monetary changes affect the real economy.

Nigeria's Uncertain Macroeconomic Environment

Oluba (2012) observes that in the past few years, particularly between 2009 and 2011, policy changes expected to orchestrate prosperity have clearly not materialized in spite of several policy fine-tuning. Cumulatively and regrettably so, they rather constituted into vendors of additional adverse risks and uncertainties that affect corporate competitiveness. In 2011 for instance, entrepreneurs woke up to new realities which saw so-called "stability in economic prices" and aggregate real output growth moving side-by-side with unprecedented levels of economic inactivity, massive credit defaults and heightened unemployment levels. Many more businesses shut down. Regardless of all these, the entrepreneurial landscape keeps evolving even in the face of the fuel subsidy removal and the attendant days of nation-wide industrial action that greeted the economy; in spite of the looming 100% VAT increase. The question is whether the landscape is going to change in favour of a particular business-type.

Analytical Evaluation of Mercantilists' Contributions and Macroeconomic Exposures

Essentially, all the economic thoughts that the discipline of economics is founded on are expected to contribute to the growth and development of the global economy which Nigeria is an integral part. This paper is anchored on the relevance of the contributions of mercantilism to the economic growth and development of Nigeria at this present time. In doing this, the contributions are considered side by side with the relevant macroeconomic variables. The table below is an empirical evidence of how relevant the contributions are to the macroeconomic exposures of business in Nigeria.

The contributions of Mercantilism to Macroeconomics Exposure to business in Nigeria include:

1) There should be purposeful government regulation of certain aspects of the economy: In line with the first contribution, government regulations were proximated as personal income tax, company income tax, GDP per capita, and per capital income (proxy for wages/salaries). In the table, business being central idea of mercantilism is considered to be Gross Domestic Product (GDP). The table revealed that there is increase in GDP, personal income tax, company income tax, GDP per capita and per capital income. This implies that the first contribution is relevant to Nigerian economy because it is centred on positive effect of a purposeful government regulation.

2)The role of increased quantity of money in lowering interest rate thereby stimulating business activities**:** Stimulated business activities should be seen in sustained economic growth. From the table above, the data presented under money supply reveals that there is an increased trend and interest rate was decreasing while unemployment rate was increasing. In a functional transmission mechanism, it is expected that increase in money supply will lower interest rate, increase marginal propensity to invest, stimulate demand and increase employment rate (reduction in unemployment rate). By implication, this second contribution is relevant in terms of money supply and interest rate but relevant or applicable to unemployment rate.

3) The favourable attitude to business and the growth of business enterprises: Under this, the favourable attitudes of business are considered as the external sector of the Nigerian economy which consists of export and import. From the table, there is an increase in the rate of export while rate of import recorded fluctuations. Meanwhile a favourable attitude of business is subsumed to be a favourable term of trade. Since, export rate outweighs the rate of import; it therefore implies that there is a favourable balance of trade, though characterized by fluctuations. The increase in the rate of export is also transmitted into increase in prices of domestic product. Arising from the foregoing, the third contribution of mercantilism is grossly relevant to the macroeconomic exposures (export, import and balance of trade).

4) The medieval attitude towards the condemnation of money lending because it involves usury: Money lending in this context is considered as lending rate which was presented in the table. It is evidenced from the table that the thinking of the mercantilist on the condemnation money lending is seen in its decreasing rate. The economic sense behind the condemnation of money lending is that its increase discourages borrowing which in the long run will also affect the propensity to invest. In line with this, Tamuno (2006) maintains that usury is concerned with money lending with interest. However, Aquinas cited in Tamuno (2006) argues that usury is good if it increases the production of goods, which are used to satisfy human needs. It can therefore be adjudged that the contribution on money lending is relevant, applicable and favourable to macroeconomic exposures though at a decreasing rate.

SUMMARY AND CONCLUDING REMARKS

This work has considerably looked at mercantilism and macroeconomic exposures to business in Nigeria; implications for economic policy. An attempt was made to discuss in details the economic methods, doctrine, philosophy thought pattern and contributions of Mercantilism to the development of Nigerian economy. Also discussed, was an abridged version of the philosophers that propagates Mercantilism. A synthesis of theoretical contributions, and literature was presented as well as the actual effects of macroeconomic exposures on business which by implication is GDP.

Clearly, the ability to measure the degree of impact of perceived macroeconomic exposures points to how knowledgeable and capable the business world is in a risky environment. This should be consistent with the already stated economic thought of Mercantilism (business centred) and in line with the quantitative and analytical evaluation of the perceived macroeconomic exposures. There is a deliberate consideration of the relevance of Mercantilism to the Nigerian business world. It can be inferred from the analysis that macroeconomic exposures such as personal income and company taxes, GDP per capita and per capita income, money supply, rate of interest, export and import rates, balance of trade rate and lending rate positively influence business activities while unemployment is not in the same direction with business in Nigeria. By implication Gross Domestic Product (GDP) has positive relationship with other variables but negatively related with unemployment. It is therefore concluded that the contributions of the mercantilist are highly relevant to the present day economies, especially the Nigerian economy.

RECOMMENDATIONS FOR ECONOMIC POLICY ACTIONC

The Mercantilist policy position was that the government should regulate domestic and foreign trade in order to achieve balance of payment surplus. It is therefore recommended that government should initiate economic policy that would guarantee sectoral protectionism which implies international cartelization, particularly in high-technology and service industries. This policy, if well implemented, will guarantee increase in export and of course a favourable balance of trade. Mercantilism advocates increase in money supply which through a functional transmission mechanism will lower interest rate and unemployment. It is therefore pertinent that the Nigeria government through its monetary authorities should use expansionary monetary policy to increase the volume of money in circulation.

In order to encourage investment, the Central Bank of Nigeria through the Deposit Money Banks should initiate economic policy that could lower the rate of lending in order to encourage borrowing, and investment. There should be a purposeful government regulation of certain aspects of the economy, especially regulation of wages. For this to be achieved there should be a unified salary structure for those who have the same qualification and skill as required by labour.

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Table-1. Gross Domestic Product and Macroeconomic exposures

Year	GDP (N-M)	Personal Income Tax (n-M)	Company Income Tax (N-M)	GDP per capita	Per Capita Income	Money Supply (N-M)	Interest Rate	Unemployment Rate	Export Rate (B-USD)	Import Rate (B-USD)	Balance of Trade Rate	Lending Rate (Maximum)
2002	433203.5	1794.3	89100	374.17	58.99	1599494.6	20.7	3.2	1.36	0.69	0.67	30.19
2003	477533	4218.3	114800	370.81	72.43	1985191.8	16.6	3.6	1.8	1.17	0.63	22.88
2004	527576	4217.4	130000	399.06	97.39	2263587.9	14.99	4.1	2.89	0.91	1.98	20.82
2005	561931.4	4312.3	170200	430.58	124.37	2814846.1	14.12	4.8	3.76	1.03	2.73	19.49
2006	595821.6	4742.2	240700	442.72	158.44	4027901.7	14.12	5.3	4.54	1.71	2.83	18.7
2007	634251.1	4904	332100	458.64	176.3	5809826.5	13.35	5.8	4.13	2.58	1.55	18.36
2008	672202.6	5074.2	420600	476.22	207.36	9166835.3	12.73	11.8	6.42	2.15	4.27	18.7
2009	716949.7	5296.2	650600	492.32	211.61	10767378	6.64	19.7	3.59	2.49	1.1	18.76
2010	778960	5547.1	666060	513.77	194.35	11747678	5.56	21.1	6.3	3.47	2.82	22.9
2011	780590.9	5605.4	517340	540.38	197.41	119478689	5.47	23.9	8.89	5.15	3.74	23.04

Source: CBN Statistical Bulletin (2010)