

Twitter Thread by Noah Smith



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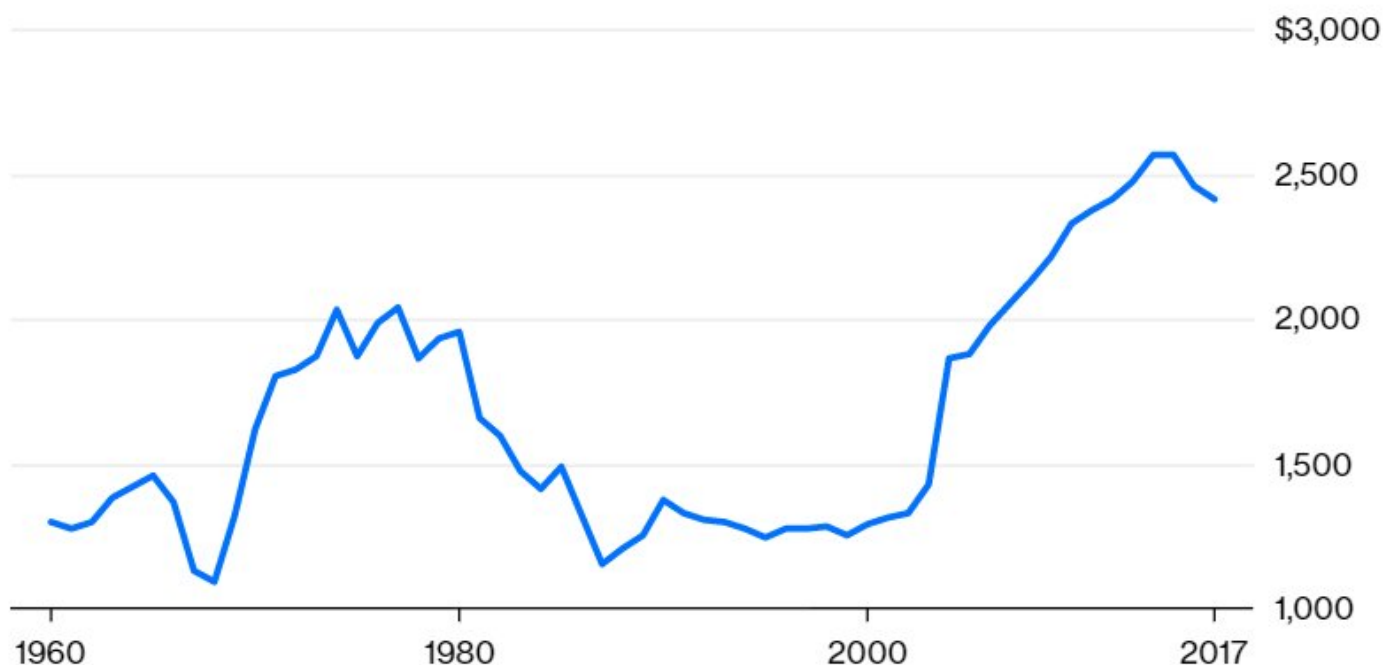
Today's [@bopinion](#) post is about Nigeria. I expect its conclusions will not come as a surprise to most Nigerians, but it's good for Americans to be thinking about Nigeria and its problems.

Nigeria is very dependent on oil, for its government revenues and for its foreign exchange earnings.

When oil prices fall, Nigeria's people suffer.

The Cost of Falling Oil Prices

Nigeria constant per-capita gross domestic product*



Source: Federal Reserve Bank of St. Louis

* 2010 U.S. dollars

And like many oil-rich countries, the government tries to cushion the blow by subsidizing fuel (this is more expensive than you might think, since Nigeria can't refine all of its own oil).

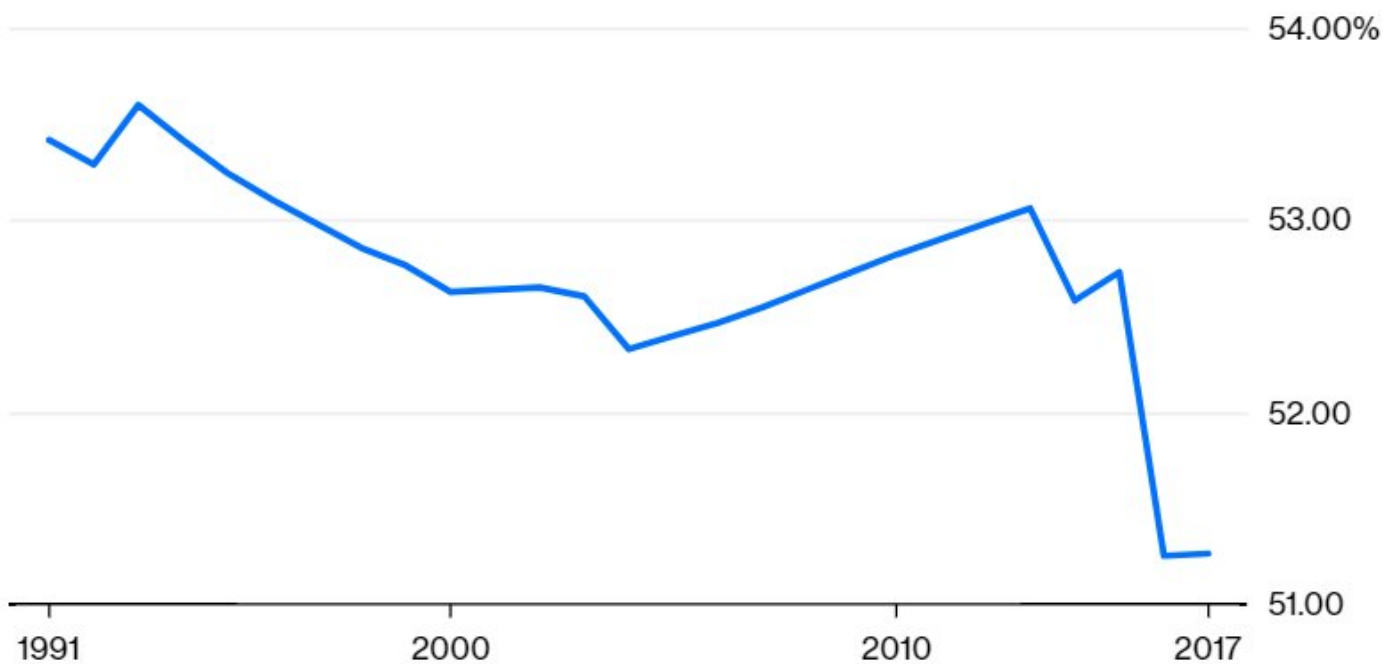
When oil prices rise again, this puts a strain on govt. budgets.

Now, oil prices are rising again, which will take some pressure off of the economy, but which could present its own set of problems. Nigeria heavily subsidizes fuel for consumers, as a way of maintaining social stability -- a common policy in countries afflicted by the resource curse. With prices rising, those subsidies are the government costing more.

Meanwhile, fewer and fewer Nigerians have jobs, which could portend a rise in social instability.

Recession's Toll

Nigeria employment-to-population ratio



Source: Federal Reserve Bank of St. Louis

To escape the doom spiral of the Resource Curse, Nigeria should look to a country that seems to have beaten the curse: Botswana.

<https://t.co/oHrWaCO1Iq>

Botswana's approach is basically:

1. Pour resource revenues into a Sovereign Wealth Fund

2. Depreciate the currency
3. Use SWF to stabilize the budget
4. Invest a bunch in education, health and infrastructure

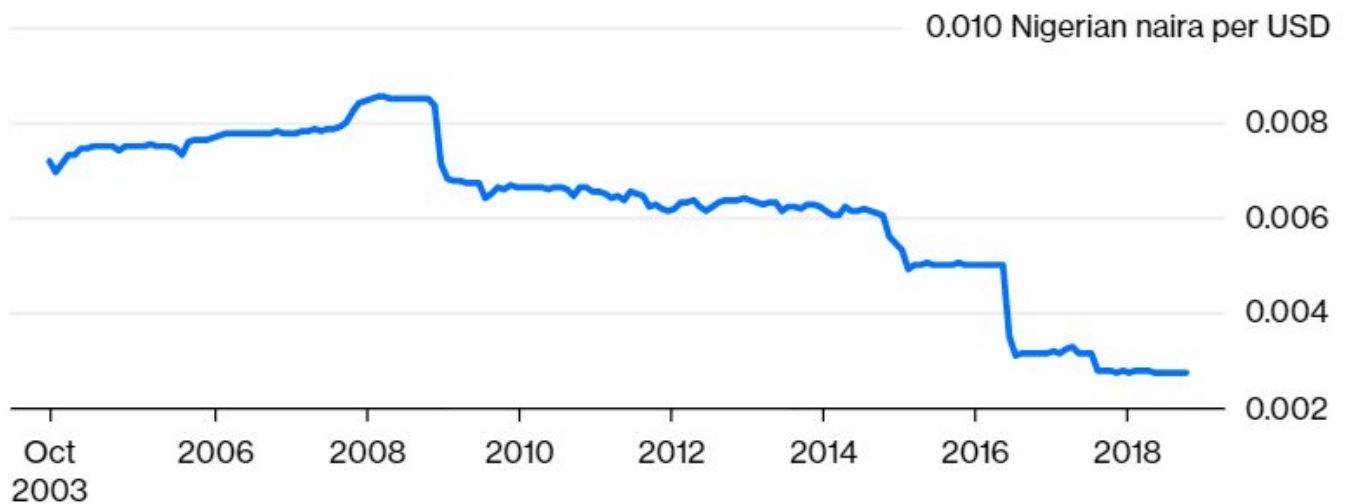
Botswana is about as dependent on diamond mining as Nigeria is on oil. But the country has taken several steps to fend off the typical problems. To prevent its currency from gyrating, and its other exports from losing competitiveness, it accumulated foreign-exchange reserves. The stable, low exchange rate allowed the country to diversify its economy into manufacturing and services. To prevent instability in its government budgets, it ran surpluses in good times and deficits in bad, basing spending on long-term revenue projections instead of short-term revenue collection and avoiding splurging on big projects when times were good. The government also invested in health and education.

Nigeria is already taking some of these steps, which is great.

Nigeria has been trying to take a page from Botswana's book. Its sovereign-wealth fund, the Nigerian Sovereign Investment Authority, has funds for budget stabilization and infrastructure. Its currency has depreciated, which -- if the drop is sustained -- will be good for economic diversification.

Depreciating Currency

A cheap naira could help Nigeria's economy diversify



Source: Bloomberg

Note: Data are monthly.

But Nigeria is missing one big piece: Investment in education.

(It could also stand to invest more in health.)

<https://t.co/3m1mSbRbE6>

Instead of subsidizing fuel, Nigeria needs to subsidize education (which doubles as child care) and health. This will provide jobs, relieve poverty, and - most importantly - build human capital.

(end)

forward for Nigeria. The NSIA should create another fund specifically for education and health, and the government should direct as much tax money toward this fund as politically feasible. If possible, money should be diverted from fuel subsidies and other consumption supports toward these long-term investments. Some people will be upset, but since education will act as a form of child care for Nigeria's large families, this will should offset popular anger.

An educated, healthier populace will form the base for economic diversification, since service and manufacturing industries depend on a having a reservoir of able, literate workers. Along with a stable currency and budget, diversification will help insulate Nigeria against the vagaries of the oil market. Escaping the resource curse is hard, but it can be done.