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Combating Recession in Contemporary Times: Islamic Fiscal Policy and Nigeria's Economic Recession

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ABSTRACT

Recession is a major decline in fiscal activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales. Today, Nigeria is experiencing economic recessions because of a significant decline of Gross Domestic Product (GDP). Although the steady decline in goods and services is said to be steadily been reversed to normal, notwithstanding, people are taking the news of Nigeria's economy steady exit from recession with a pinch of salt. This is because for a large portion of the population the costs of living still remain so oppressive. The study adopts historical, phenomenological, descriptive and remedial approach, leading to the fact that Nigeria as a nation can achieve economic success through Islamic fiscal policy in order to attain economic stability, growth, and an acceptable distribution of wealth which are embodied in Islamic teachings. The study, therefore, concludes that the Islamic fiscal policy can guide Nigerian government in its spending and taxation in order to positively influence the economy.

Introduction

This paper examines the breadth of Islam in its peculiar attitude to economic development which is an important issue in our contemporary world. Also, it identifies how such a relationship on the peripheries of both can be better apprehended in our contemporary times. At the heart of this discourse is economic recession. Indeed, the Qur'an and other Islamic materials do not readily yield an explicit reference to economic recession in the way that such a notion is found among the economic and the finance experts of today. This is not to say that economic or financial issues are altogether absent from Islamic religion since some Qur'anic chapters or verses allude to economic as well as business transactions (e.g. *Suratul Mutaffifin*, *Suratul Baqarah*:282).

Islamic response to economic recession basically aims at securing the widest and most beneficent distribution of wealth through institutions set up by it as well as through ethical exhortation. The Qur'an, for instance, states that "(Some part is due) to the indigent Muhājirs, those who were expelled from their homes and their property, while seeking Grace from Allah and (His) Good Pleasure, and aiding Allah and His Messenger: Such are indeed the truthful" (Suratul Hashr: 8). In another verse, it is stated that

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"What Allah has bestowed on His Messenger (and taken away) from the people of the townships, belongs to Allah, to His Messenger, and to kindred and orphans, the needy, the wayfarer; In order that it may not (merely) make a circuit between the wealthy among you…" (Suratul Hashr: 7). This indicates that wealth must remain in constant circulation among all sections of the community and should not become the monopoly of the rich.

That the conception of Islamic fiscal policy is drawn primarily from the Qur'an and *Sunnah* is undisputed. Islamic fiscal policy makes it imperative that an economic system should be structured to provide for all members of society through a fair measure of equality of opportunity for securing a decent livelihood as well as sharing honourably in the national wealth through honest labour and sincere achievement. Although, Nigeria's economy is said to be out of recession, the fact that it experienced its worst economic recession in 30 years shows that this can happen again. Especially because the reasons it faced such economic challenge has not been totally eradicated. At a time when the country was seen as exiting the recession, the Vice President, Yemi Osinbajo, was reported to have said:

> The Buhari presidency will continue to work diligently on the economy and engage with all stakeholders to ensure that beneficial policy initiatives are actively pursued and the dividends delivered to the Nigerian people (Tobi Soniyi, 2016).

Also, in another reaction to the problem, the Special Adviser to the President on Economic Matters, Adeyemi Dipeolu said that:

> A close look at the data shows that this outcome was mostly due to a sharp contraction in the oil sector, due to huge losses of crude oil production as a result of vandalisation and sabotage. However, the rest of the Q2 data is beginning to tell a different story. There was growth in the agricultural and solid minerals sectors, which are the areas in which the Federal Government has placed particular priority (Premium Times, 2016).

This article examines the Islamic fiscal policy as a way of addressing economic recession in Nigeria. The approaches to the issues will both be historical as well as descriptive, with attention paid to the primary sources in Islam. Our aim is to offer a definitive standpoint on how to permanently take Nigeria out of economic recession and how the country can avoid getting into it again through the Islamic panacea. Moreover, the specific aim of this work is to examine and sort through how Islamic fiscal policy can be used to manage economic recession in a non-Islamic economy. For instance, there are substantial differences between Islamic and non-Islamic economies in respect of the role and management of public debt, especially since loans in Islam are interest-free; therefore, much government spending is financed either from the proceeds of taxes and dues or (in case of productive projects) on a profit-sharing basis.

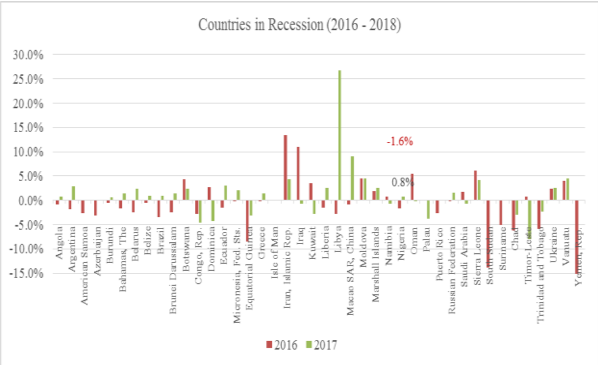
Recession in Various Parts of the World

Recession is a significant decline in economic activity spread across the economy, lasting more than a few months. A popular definition in the business-cycle literature is that of Julius Shiskin in 1974, *New York Times*. According to Shiskin, a recession refers to "a decline in the seasonally and calendar adjusted real gross domestic product (GDP) in at least two successive quarters" (Achuthan & Banerji, 2008). Over the past half-century, the global economy experienced a recession every decade (in 1975, 1982, 1991, and 2009). This record suggests that it is possible that the global economy is due for another recession over the next 10 years (The World Bank, 2018).

Economic recessions are often triggered by a financial crisis caused by the extreme quest for short-term profit. In 1975, there was a surge in oil prices that coincided with recessions in major advanced economies and at the same period, debt crises in some emerging market and developing economies (EMDEs). About a decade later, around 1982, there was a trend of monetary policy tightening in these advanced countries which further precipitated the debt crises in EMDEs causing another economic slowdown. In 1991 there was an abrupt tightening of credit in the United States and that coincided with banking and currency crises in many European countries. And in 2007-09, there were particularly deep financial crises in major advanced economies (Kose & Terrones, 2015; The World Bank, 2018). In addition to these four global recessions, the global economy experienced two major slowdowns: during 1997-98, the Asian Crisis was followed by the Russian crisis and, in 2001, the U.S. stock market corrected in the dot-com crash (Kose & Terrones, 2015).

Another reason attributed to the frequency of financial crises in contemporary times is the short economic memories of people, which results in failure to learn from past mistakes. In the last global recession episode, financial indiscipline was highlighted as a major cause. To facilitate economic prosperity in their jurisdictions, governments provide support for the expansion of the financial markets. But individual market players turned a blind eye to the basic issues of business ethics and circumvented market regulations. Figure 1 below summarizes the list of countries that had experienced a recession since 2016. Also, see **Error! Reference source not found.** for the list of countries that have experienced a recession since the great recession of 2009.

Figure 1: Countries in Recession (2016 - 2018)



Source: The World Bank (2018)

In Figure 1 above, about 26 countries including Nigeria experienced a recession in 2016. A number of them for the first and only time since the Global Financial Crisis (GFC) of 2009, as at the end of 2017, about half of that number (12 countries) remained in recession from Sub Sahara Africa (SSA), Latin America and the Caribbean (LAC) and Asia. Data also suggest a possibility of new recession entrants in the years to come. The pertinent question in such situation is why? Are there no lasting solutions to the problem of recession?

Responding to the question above is of importance to the development of the afflicted countries and especially well-being of the citizens. When recession strikes the economies of the world were often struck sharply, suddenly and simultaneously. Even developing countries that are far removed from the troubled banks and crashing house prices of developed countries suffer an increase in unemployment rates, inflation rates, sovereign indebtedness, and falling investment levels as consequences of the recession. The extent to which developing economies were hit by recession varies sometimes because of problems that existed before the recession. Recession often made its way to developing countries through a slowdown in global trade especially in terms of imports to OECD countries. This is because consumers in OECD countries reduced their level of consumption as well as reduced businesses output. They are also affected by having a hard time accessing trade credits for importers and exported which is a credit that is been used when waiting for good to be delivered or being paid for. Also, there is often substantial drop in financial flow in the foreign direct investment (FDI). This is because governments in developed countries are always under pressure at that time to solve their own problems. Another way developing countries are indirectly hit by the recession is the significant drop in remittances of the money sent back home by emigrants. The money sent back home is used to take care of a number of basic necessities that are most times lacking in developing countries such as food, housing, small-scale businesses. In other words, during recession development aids to developing countries often fall as a result of developed countries preoccupation with fixing their own economies and reduce spending. This results in major setbacks in the already hard-hit developing countries.

Causes of Recession

One of the reasons is that the global economy is not as stable as often been suggested. This is because a majority of the worlds poor cannot be said to have benefited sufficiently from stronger economic growth. In addition, in the contemporary financial sector, among the challenges that can easily trigger recession are loose monetary policy, global imbalances, misperception of risk and lax financial regulation.

Kornai (1994) when discussing the common features of recession in post-socialist countries using Hungarian economy as a case study highlighted the general reasons for recession as the shift from a sellers' to a buyers' market; the transformation of the real structure of the economy; the disturbances in the coordination mechanisms; the macroeconomic consequences of the hardening of financial discipline; and the backwardness of the financial system. All these can be said to have led to the dwindling propensity to invest which invariably affects the economy. Koo (2013) also discussed the causes of recession in Japan and the United States. Koo noted in both countries a large portion of the private sector was actually minimizing debt instead of maximizing profits following the bursting of a nation-wide asset price bubble. It was further observed that when a debt-financed bubble bursts, asset prices collapse while liabilities remain which invariably affects millions of private sector balance sheets. This led the private sector businesses to resort to increasing savings or paying down debt in order to regain their financial health and credit ratings.

Sometimes recession can be as a result of the undesirable unintended consequences of government intervention (Horwitz, 2012). He based his argument on both expansionary monetary policy and misguided attempts to bolster the housing market by the United States' government. He further suggested that more can be achieved if the government gets out of banking in order to put an end to the disastrous boom and bust cycles that have characterised the last century and a half.

Beyond economic collapse and reasons for recession, the impact of the crisis can be said to be rather diverse, reflecting differences in initial conditions, transmission channels and vulnerabilities of economies, along with the role of government policy in mitigating the problem. In addition, the summary which can be drawn from the causes of recession is that there are significant risks pertaining in particular to the challenges of dealing with public debt and continuing global imbalances. Also, there are good reasons for placing the tasks of emerging from the recession at the top of the list of economic-policy priorities, but it is important to do so without permitting an acceleration of inflation or an increase in indebtedness.

Recession in Nigeria

As indicated by the CBN Governor Mr. Godwin Emefiele, the primary indications of the recession began in 2009 with the home loan crisis in the USA. It impacted portion of the economies of the world. The economic recession in Nigeria began in 2014 when a few international and domestic issues happened together. Nigeria did not confront the issue at the time, and this only exacerbated the situation. Figure 2 below shows Nigeria's quarterly GDP growth rate since 2011 through to 2018, revealing the growth trend prior to, during and post the recession period.

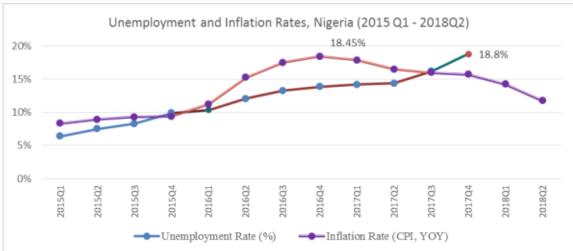
Figure 2: Quarterly Growth in GDP, Nigeria (2011 - 2018)

Source: (National Bureau of Statistics Nigeria, 2018)

Figure 2 above shows Nigeria's economic recession as indicated by the significant decline in GDP growth below zero (0) for 6 consecutive quarters (a year and half) from the first quarter of 2016(Q1) to the second quarter of 2017 (Q2). GDP growth declined from 2.1% in 2016Q4 to -0.67% in the first quarter of 2016 and remained negative up until 2017Q3 where a positive growth in GDP of 0.72%. Although financial crisis can occur abruptly regardless of the Gross Domestic Product reports, the trend observed in the figures can provide useful indicators and signals for the heedful nation.

In a recession, firms' production falls and workers are laid off, thus adding to the growing rate of unemployment. This situation is usually accompanied by a drop in general price level due to a fall in demand as a result of lower income levels. A combination of these would put a downward pressure on inflation, but the Nigerian economy experienced an upward inflationary trend during its recession. A combination of increasing unemployment levels with rising inflation users in stagflation, which is a serious concern for policymakers. More so, during recession, stagflation complicates policymaking since measures designed to lower inflation may worsen economic growth and vice versa.

Figure 3: Unemployment and Inflation Rates, Nigeria (2015 Q1 - 2018Q2)



Source: CEIC, 2018; Central Bank of Nigeria, 2018; National Bureau of Statistics Nigeria, 2018

Indeed, in the historical backdrop of recession in Nigeria, the worldwide factor assumed a noteworthy part. As shown in

Figure 3, Nigeria's inflation rate (measured in CPI) was at its all-time high in the mid-recession period (18.5%). This was a cost-push inflation from the supply-side factors as a result of the rising costs of important goods or services with no suitable alternative such as fuel, electricity, transportation, food and imported items.

Nigeria as a nation is exceedingly subject to oil production. Consequently, a new Cold War amongst Russia and USA incited the decrease in oil costs. Likewise, the Federal Government of Nigeria also assumed a noteworthy part in the recession. The Government made the move to boycott the importation of some agricultural items in 2014. Also, the Federal Government removed the oil subsidy which turned into an extra factor leading to the recession. Hence, the costs for farming produce increased exponentially. The high-interest charge of 27% continues terrifying financial investors all around the globe. Also, there is the expanded tax collection rate in Nigeria which does not help a private company (large and small) to develop. Another issue is that of corruption which has prompted a ton of issues for Nigerians.

However, Nigeria was able to find its way out of economic recession (within six quarters). By the second quarter of 2017, the GDP of Nigeria indicated positive growth and the inflation has been well managed to a low of 11.7% as at second quarter 2018. However, unemployment level is still on the rise and exchange rate is still weak, suggesting a need for a lasting solution that requires a combination of monetary and fiscal measures aimed at managing supply-side constraints.

Nigerian Government Efforts at Addressing the Economic Recession

This section discusses efforts government has made and is making in addressing the economic recession in the country. Among the efforts made by the Federal government came through the Monetary Policy Committee (MPC) which is saddled with the responsibility of reviewing monetary policy in the light of the downturn in economic activities. The Committee attempted to stabilise prices by making sure the nominal interest rate is more than the level of inflation. It, therefore, jerked up the Monetary Policy Rate (MPR) from 11 percent to 12 percent as well as the CRR from 20 percent to 22.5 percent in response to the uptick in headline inflation from 9.6 percent to 11.4 percent in one month. In spite of this, inflationary pressure refused to abate with headline inflation rising from 12.8 percent to 17.1 percent in four months. The aim of the MPC for tightening monetary policy and increase the MPR by 200 basis points from 12 per cent to 14 per cent was that an upward adjustment in interest rates would "strongly signal not only the Bank's commitment to price stability but also its desire to gradually achieve positive real interest rates" as well as provide the "impetus for improving the liquidity of the foreign exchange market" (Uwalek, 2016).

However, this has not stopped the recession confronting the economy and the prospects of negative growth. This has made financial expert call for a rethink of monetary policy thrust so that the emphasis is on restarting inclusive economic growth and promoting employment creation while keeping an eye on price stability. Specifically, the MPC has been advised on voting to lower significantly the MPR as well as reduce the CRR from the current 22.5 percent to say 20 percent especially in view of the fact that the drivers of the current pressure on consumer prices are beyond the direct influence of monetary policy. Also, the CBN should spare no effort in ensuring its attempt at easing liquidity into the system is directed at employment generating activities in the economy such as the SMEs, infrastructure, and agriculture (Uwalek, 2016).

In addition, the Nigerian government has also proposed "asset divestment, stable oil production, and expansion of economic infrastructure" as parts of the strategic plans it intends to haul the troubled economy out of recession and restore growth. Also, the government proposed to reflate the economy through spending in strategic sectors, like infrastructure, agriculture, solid minerals in order to galvanise economic activities and empower the people. Such efforts by the government have also been concentrated on increasing revenue generation to meet the challenges of the economy. This was why the government has been giving attention to the challenges of the Niger Delta region.

Specifically, the government has come out with a set of plans to head off the economic challenges. In 2016 Budget, the federal government proposed the Strategic Implementation Plan (SIP). This was a short-term plan aimed to keep the economy from further recession by avoiding austerity measures and maintaining growth while articulating sector strategies that would form the basis of a medium-term development plan. This was followed by the Economic Recovery and Growth Plan (ERGP), a Medium Term Plan for 2017 – 2020 which builds on the SIP and is developed for the purpose of restoring economic growth while leveraging the ingenuity and resilience of the Nigerian people. It is also articulated with the understanding that the role of government in the 21st century must evolve from that of being an omnibus provider of citizens' needs into a force for eliminating bottlenecks that impeded innovations and market-based solutions.

As a way of supporting the plan, 59 Strategies have been developed for implementation to achieve the major objectives of the ERGP. Out of that number, 12 have been prioritized based on their importance to the success of the plan; they are: Restoring oil production to 2.2mbpd and reach 2.5mbpd by 2020, Privatizing selected assets, Accelerating non-oil revenue generation, Drastically cutting costs, Aligning monetary, trade and fiscal policies, Expanding Infrastructure especially Power, Roads and Rail, Revamping the four existing refineries, Improving Ease of Doing Business, Expanding social investment programmes, Delivering on agricultural transformation, Accelerating implementation of National Industrial Revolution Plan using Special Economic Zones, Focusing on priority sectors in order to generate jobs, promote exports, boost growth and upgrade skills, Resuscitation of the Export Expansion Grant geared towards providing export policy orientation for foreign exchange earnings diversification and global competitiveness, Strengthening the Presidential Enabling Business Environment Committee (PEBEC) to facilitate the improvement of the country's business environment, Leveraging ICT to improve global competitiveness of the country Establishment of an ICT Ecosystem, Expansion of Broadband coverage and establishment of "Innovations and Experience" centres and ICT clusters, Enhancing support to Micro, Small and Medium Enterprises to maximise their contribution to growth, employment and export earnings, Promoting the policy of Made-in-Nigeria.

Islamic fiscal policy

Islamic fiscal policy aims at attaining socioeconomic goals through effective allocation of resources and guaranteeing an equitable distribution of wealth based on the teachings of the Qur'an, the traditions of Prophet Muhammad, and to some extent the practices of the early Muslims. It is different from conventional non-Islamic fiscal policy in terms of objectives, role, mechanism, and measures. For instance, the role of money in an Islamic fiscal system is very limited when compared with a non-Islamic free-market economy. This is because interest and gambling are prohibited in Islam since they are not encouraged, there would be the absence of speculative demand for money. This, in addition to the non-existence of interest, imply that the bond market will not play an important role in Islamic economies (Metwally, 1983).

Further, in an Islamic economy, the government must ensure that the Zakah (a poor rate) is collected from every wealthy Muslim whose capital exceeds a specific minimum value and the incomes are used for the purposes specified in Qur'an 9 verse 60. Also, Islamic fiscal policy in respect to the management of public debt (all loans in Islam are interest-free) financed a large portion of the government spending through the earnings from taxes and dues or (in case of productive projects) on a profit-sharing basis. This often reduces the amount of public debt unlike in non-Islamic economies.

Islamic fiscal policy has among its aims economic stability, growth and equitable distribution of wealth. One of the ways it ensures economic equality is that wealth should in no way be allowed to flow amongst the wealthy only.

The Qur'an clearly states:

> What Allah has bestowed on His Messenger (and taken away) from the people of the townships, belongs to Allah, to His Messenger, and to kindred and orphans, the needy and the wayfarer; in order that it may not (merely) make a circuit between the wealthy among you. So take what the Messenger gives you, and refrain from what he prohibits you (Q59:7).

The Quranic verse above is one of the ways Islam ensures that the Islamic financial system is such that provide for all members of society as well as supports equal opportunity for a decent livelihood. Thus, government expenditure will be devoted to the welfare of the populace.

In Islamic fiscal policy, certain measures are also put in place to which forms an integral part of the Islamic economic system. These measures are Zakah and other economic dues such as *ghanima*, *jizya*, *kharaj*, *ushoor* and *fay*. These dues were collected in the early period of Islam in Arabia and some may not be applicable in contemporary Nigeria.

Zakah, which is one of the instruments in an Islamic fiscal system, also, it can be regarded as one of the cornerstones of Islam. It should be collected by Muslim authorities at all times whatever the economic situation may be. In addition, although the ratio of Zakah has not been stated in the Qur'an, ratios can be found in the traditions of the Prophet on different types of incomes and assets. Not only are the ratios fixed but the purposes for which the proceeds of the tax can be used are quite explicit. In Qur'an 9 verse 60, the incomes from Zakah are allocated to the poor, the needy, the officials over them, those whose hearts are made to incline (to truth), the (ransoming of) captives, those in debt, those in the way of God, and the wayfarer.

Furthermore, in each wealth that Zakat can be deducted from there is a minimum exemption called *Nisab*. Zakah is not due to the necessities of life such as dwelling houses, articles of clothing or household furniture. Zakah is imposed at a levy of 2.5 percent (or 1/40th portion) on assets which are capable of growing (including cash in hand, idle deposits with banks, silver, gold, and other jewellery) Zakah has an extremely strong impact on the major economic variables in an Islamic economy.

Other dues such as *ghanima* (spoils of war), *fai* (booty surrendered without actual fighting), *jizya* (non-Muslim tax) and *kharaj* (Land tax) supported by Islam can be seen in the early Islamic period due to a considerable expansion in the territorial boundaries of the first Islamic state. It is essential to state here that jizya was not collected on ladies, kids, the old, the sick, and the priests. This demonstrates it was just required on those fit for bearing arms and was in lieu of exception of non-Muslims from obligatory military administration. The last mentioned, *kharaj*, was a duty on farming area situated outside the Arabian promontory in nations vanquished by Muslims. Among the elements considered in exacting *kharaj* are nature of land, type of produce harvested, strategy for water system of land. No *kharaj* was charged if the whole yield was pulverized by factors outside the control of the cultivator of land (Ahmad, 1989).

It can be seen from the points noted above that the Islamic financial strategy is an open and adaptable framework. In the early Islamic period, charges were for the most part required on resources and wage gathering from particular resources however there is nothing to keep the state from imposing duties on some other base. The framework was of various taxes (both direct and indirect). A portion of the charges was reserved for particular purposes, with the objective of destitution easing and social welfare being the most unmistakable of such purposes. Furthermore, amelioration of the inconsistencies of income and wealth was additionally one of the targets of the framework. Moreover, the capacity to pay basis was kept in mind as regards all charges imposed. Tax rates were by and large low and most duties were gathered at advantageous period interims. The historical backdrop of the early Islamic period additionally demonstrates that tax authorities were always reminded to be altruistic and well-mannered in the matter of tax collection. Tax gathering authorities were requested to approach citizens with deference and to keep away from any provocation. Installment of duty was overlooked if there should be an occurrence of genuine hardship. Every one of these contemplations prompts the conclusion that the income arrangement of Nigeria can be guided by Islamic teachings in order to overcome economic recession through basic qualities of equity and justice. (Ahmad, 1989).

Islamic fiscal policy and economic recession in Nigeria

The analysis in previous sections was an attempt to emphasize the issue of recession and what Islamic fiscal policy is all about. The authors identified the major reasons for the economic recession with a focus on Nigeria. In this section, few suggestions are rendered to bring about a lasting solution to the problem in Nigeria through Islamic fiscal policy. However, the authors would like to caution that the multi-religious nature of Nigeria makes the situation a bit complex. Therefore, any reform effort will need both political will as well as public support. This in essence requires that Nigerians are convinced of the need to make the sacrifices that they are asked to make. Islamic fiscal policy suggests a need to overhaul fiscal systems in Nigeria and to pattern public expenditure along the line of equitable diffusion of wealth. While fiscal reforms are being introduced all over the world with little successes, it is high time that Nigeria starts to formulate its policies in the light of Islamic teachings which call for justice and equity. In this section, the author shall examine the mix of fiscal tools available in an Islamic economy to avoid poor economic planning, high inflation rates, high-interest rate, high taxation, poor income distribution, accumulation of debt and policy conflict in order to accelerate economic growth. The paper shall also consider the issue of public debt. In so doing, the paper shall concentrate on the transformation of the real structure of the economy and leave aside those aspects which are of private sector concern.

Use of Islamic fiscal policy to address global imbalance

The primary objective of fiscal and monetary policies is economic stabilization, that is, to maintain a full employment level of income and to curtail the rate of inflation as far as possible. Fiscal policy refers to the set of strategies taken by a government with regards to tax and expenditure structure of the economy. It is designed to achieve certain objectives and it is implemented through the budget.

Budget surpluses and deficits themselves are not problematic, and may well be beneficial to an economy under certain circumstances. For example, young and fast-growing economies need to invest to grow, so they often tap external resources by importing more than they export and borrowing to cover the implied deficit. In contrast, rich and aging countries may need to save to prepare for when workers retire so they run surpluses and lend to deficit countries. However, current account balances can become ***excessive*** to invoke imbalances when it is larger than warranted by the economy's fundamentals. Without appropriate economic policies, current account imbalances pose risks for an individual country economy, and for the global economy. To address such imbalance, an Islamic economy would use its fiscal tools differently as compared to the conventional economies.

During the recession period, accelerating growth is the foremost policy objective. To achieve such objective, the government aims to attain a state of full employment, to curb inflation to the barest minimum and mobilize savings for investment. Reaching full employment and curbing inflation at the same time is an enduring problem, for which the conventional economic system has been unable to solve. During the recession period, conventional economies embark on expansionary fiscal policy, which for the most part is offset by interest rates so that the increase in aggregate demand, as a result, will be modest. But this has not yielded the desired result for the problem. This is because of a fundamental principle of interest (riba) that is deeply entrenched in the system. This also marks a significant difference with the Islamic economic system as we would see in what follows.

Islamic Approach to Unemployment during Recession

In any economy, unemployment exists along with idle physical and technological resources as the finance to mobilize these resources is not available. The scarcity of finance is, however, not natural but artificial. The finance is there but it does not become available except at a certain rate of interest. Until that rate of interest is committed, the finance remains idle in the treasury of the banks and finance houses.

Meanwhile, there are always some investment proposals which cannot generate sufficient return that would meet the contractual obligation of interest if they were to be financed with interest-bearing loans. As a result, these investment proposals which could otherwise employ people and physical resources remain unfulfilled. Hence, Interest becomes the foremost deterrent to investment and exacerbates unemployment.

This cannot be the case in an Islamic economic system where at the interest is prohibited. More so, the institution of zakat as a levy on the wealth of the rich segments of the society in order to empower the poor segments also plays a significant role in battling the recession in this respect. Zakat serves as an indirect due on idle assets. With Zakat in place and interest on loans abolished, there is no incentive to keep idle assets. In fact, economic incentives are directed toward investments, which will automatically spur employment level and stimulate aggregate demand. The government may consider an expansionary fiscal policy in addition, but the use of dues on idle assets in the economy solves problems of unemployment during the recession more effectively than the use of expansionary fiscal policy within an interest-based economic framework (Yasin & Khan, 2016).

Unlike the conventional interest-based framework, that pursues an increase in government expenditure to solve the problem of unemployment. This often results in an increase in the price level, which would cause the real money supply to decrease. This also depends on how such government expenditures are financed, but a decrease in money supply typically causes the rate of interest to rise and by so doing, causes investment to fall. The net expansionary effect of the increase in government spending will, therefore, be reduced. Clearly, such an adverse effect on investment does not occur when there is a due on idle asset and no interest incentive approach is used to achieve full employment in Islamic economies.

The Keynesian economics has established the negative relationship of interest and investment (and classical economists did not disagree). According to this school of economics, the higher the rate of interest the lower will be the level of investment and thus of employment. Unemployment can be reduced to the bare minimum of frictional level if the rate of interest is reduced to zero. At this level of interest, all the productive resources of the society will be employed (Khan, 1994).

The real-life evidence for this phenomenon is the miraculous economic development case of the Japanese economy. Since 1950, Japan's average rate of interest on capital for investment has been on the decline and now significantly closer to zero. Yet, Japan is the third largest economy by nominal GDP and fourth largest by purchasing power today. The low cost of capital is the only factor which explains Japan's success. It is neither 'culture ' nor 'structure ' which people often invoke that explain Japanese wonderful performance through the decade (Khan, 1996). In contrast to Japan, the cost of capital in the USA and European countries has been between 10% - 2%. This explains the rate of unemployment in these countries been much higher than the rate of unemployment in Japan.

In application to the Nigerian case, Zakat as an Islamic fiscal policy tool would serve as a stimulant for sustaining private investment and encouraging consumption during recession. This is so because Zakat is not only levied on gains or net returns but also on idle assets, which discourages unproductive use of assets and encourages investments. The alternative would be costly to the capital owner due to the levy on idle assets. Consequently, such economic stimulation would increase employment and raise consumption levels in the country during recession. More so, as a result of the increase in revenue from Zakat levy that will be passed down to the poor and needy in the form of transfer payments, the average and the marginal propensities to consume would be higher and the investment gap at each level of income would be smaller. Thus, Nigeria’s unemployment during recession would be addressed using Islamic Fiscal policy instrument.

Islamic Approach to Inflation during Recession

Conventional economics maintains that there is an inverse relationship between interest and inflation. The neoclassical economists emphasise the need to raise interest to control inflation However, there is ample evidence which shows that price level and Interest move in the same direction as was the case in Nigeria during the 2016-2017 recession period. Interest is not only related to the price level, but it is also a cause of inflation. In an interest-based economy, interest enters into the prices through the cost of production. Therefore, any increase in the rate of interest is reflected in the price of goods and services. More so, in a subtle manner, an increase in interest rate leads to a decline in investment (as fewer funds are available for investment ventures), which in turn contracts the economy (Khan, 1996).

Another way that interest contributes to inflation is the incentive to induce an exploitative rate of rents, profits, and wages leading to a general rise in price level. This can be explained in a simple manner. Suppose a person has N 500,000, which he can earn interest at 15% on it. But instead, he buys a property of the same worth and offers it for hiring. A rational economic agent will not accept rent less than the 15% which he would have earned if he had deposited it in a bank to earn interest returns effortlessly. In fact, the rent must be substantially higher than 15% to persuade him to buy the property and rent it out. The same phenomenon applies in the case of profits. A person who decides to invest his capital would prefer a return that is higher than the interest which he can earn effortlessly. Again, interest does not permit the profit or rent level to fall below the interest level.

These two variables lead to an increase in the general price level which in turn leads to a demand for higher wages. Once wages are increased, a new cycle of higher prices sets in, however, in an Islamic framework where interest does not exist in the economy, a person who wants to earn a return would either work to earn it or at least take some risk. Otherwise, his cash will be unproductive and may be subjected to Zakat due. In such an economy, the rents and profits will not be determined with reference to interest. There will be no benchmark for the rates of rents and profits as they will be determined by their nature flows of supply and demand. This spurs greater competition, which lowers price level and keeps inflation in check.

Use of Islamic fiscal policy to address the issue of public debt

In general, the Islamic approach to public finance favours a balanced budget, guided by the principle of moderation. The sources of revenues available to an Islamic economy are Zakat & Ushr, voluntary contributions, income from minerals, taxes, user charge, fees, and other non-tax revenues. The principal tax of zakah which sets the trend for other taxation is simple to administer, with low rates and wide coverage. Its incidence is in proportion to one's wealth so that people with greater means pay more than people with smaller means. In addition, Islamic scholars are of the opinion that an Islamic economy may impose additional taxes (over and above Zakat) to fulfil its obligations towards Allah as well as towards its citizens (Yasin & Khan, 2016).

Unlike the case with a conventional economy, the problem of creating effective demand through government intervention is not relevant in the context of Islamic economy. It is especially so, because of the prohibition of interest which is a major impediment to full employment. However, the government in an Islamic economy may choose to pursue an expansionary fiscal strategy when the fund is available and it is justified. Resorting to non-interest debt to finance the deficit in the economy is alien to Islamic principles, except for the case of non-interest debt which is rare in today's world. Evidence of non-interest-bearing loan for the economy can be traced back to the time of the Prophet (pbuh) when he borrowed 50,000 dirhams from Safwan b. Umayyah and 40,000 dirhams each from Abdulah b. Abi Rabi'a and Huwaitib b. Abi Balta'a for the battle of Hunain. It is to be noted, however, that these loans were taken to face a real emergency only (Khan, 1994, 1996).

From an Islamic point of view, it has been argued that *maslahah* (the underlying rationale of welfare) and *Fard Kifayah* (general but essential responsibility) provide the additional justification for development expenditure. Islamic economic approach supports the need to provide a number of public goods categorized as development expenditure for the benefit of society at large. This includes the provision of infrastructure in the form of rails and roads, communication and information services, generation and distribution of energy (electricity and gas etc.), which are essential for the development of an economy. The provision of these goods can be rationalized on the grounds of indivisibility and lumpiness of investment beyond the scope of private enterprises, longer gestation period, higher risk and low profitability etc. More so, they involve heavy initial investment that cannot be financed through the usual tax resources and other revenue sources. Nevertheless, development is a gradual process and over-enthusiastic approach may not be appropriate.

In application to the case of Nigeria, in place of the on-going interest in debt-finance to address the country's large infrastructure deficit, the alternative strategies of BOT (build and Operate and transfer) mechanism and Islamic bonds (*sukuk*) can be applied using Islamic risk sharing contracts such as Musharakha and Mudharabah.

Conclusion

This paper examines Nigeria's economic recession within the framework of Islamic fiscal policy. It scrutinizes the causes of a recession in parts of the world and in Nigeria in particular. The paper also identified efforts made by the Nigerian government at addressing it and highlight how Islamic fiscal policy can address specific problems often experienced in the recession period.

Therefore, the message of this paper is that Islamic fiscal policy contains variables that can help in addressing the issues faced by the country in the time of recession. Hence, global imbalance, unemployment, inflation, and public debt currently besetting the nation can be tackled through Islamic fiscal policy. In sum, in order for the Nigerian government to deal appropriately with the problem of recession and its multi-facet consequences, there is an alternative approach in Islamic fiscal policy which can complement the government efforts as well as nip the problem of the recession in the bud.

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Appendix

S/N	Country Name	2010	2011	2012	2013	2014	2015	2016	2017	Worst Growth
1	Angola	3.5	3.9	5.2	6.8	4.7	3.0	-0.8	0.7	-0.8
2	Andorra	-5.4	-4.6	-1.6	0.4	2.3	0.8	1.9	1.9	-5.4
3	Argentina	10.1	6.0	-1.0	2.4	-2.5	2.7	-1.8	2.9	-2.5
4	American Samoa	0.4	0.3	-4.4	-2.8	0.9	1.2	-2.6		-4.4
5	Antigua and Barbuda	-7.2	-2.1	3.5	-0.1	5.1	4.1	5.3	3.3	-7.2
6	Azerbaijan	4.9	0.1	2.2	5.8	2.0	1.1	-3.1	0.1	-3.1
7	Burundi	3.8	4.2	4.0	4.6	4.7	-3.9	-0.6	0.5	-3.9
8	Bahamas, The	1.5	0.6	3.1	-0.4	-0.1	1.0	-1.7	1.4	-1.7
9	Bosnia and Herzegovina	0.9	1.0	-0.8	2.3	1.1	3.1	3.1	3.0	-0.8
10	Belarus	7.8	5.5	1.7	1.0	1.7	-3.8	-2.5	2.4	-3.8
11	Belize	3.3	2.1	3.8	0.7	4.0	3.8	-0.5	0.9	-0.5
12	Bermuda	-2.1	-3.3	-4.8	-2.5					-4.8
13	Brazil	7.5	4.0	1.9	3.0	0.5	-3.5	-3.5	1.0	-3.5
14	Brunei Darussalam	2.6	3.7	0.9	-2.1	-2.3	-0.6	-2.5	1.3	-2.5
15	Botswana	8.6	6.0	4.5	11.3	4.1	-1.7	4.3	2.4	-1.7
16	Central African Republic	3.0	3.3	4.1	-36.7	1.0	4.8	4.5	4.3	-36.7
17	Cote d'Ivoire	2.0	-4.4	10.7	8.9	8.8	8.8	8.3	7.8	-4.4
18	Congo, Rep.	8.8	3.4	3.8	3.4	6.8	2.6	-2.8	-4.6	-4.6
19	Cyprus	1.3	0.3	-3.1	-5.9	-1.4	2.0	3.4	3.9	-5.9
20	Czech Republic	2.3	1.8	-0.8	-0.5	2.7	5.3	2.6	4.3	-0.8
21	Dominica	0.7	-0.2	-1.1	-0.6	4.4	-2.5	2.6	-4.2	-4.2
22	Ecuador	3.5	7.9	5.6	4.9	3.8	0.1	-1.6	3.0	-1.6
23	Spain	0.0	-1.0	-2.9	-1.7	1.4	3.4	3.3	3.1	-2.9
24	Finland	3.0	2.6	-1.4	-0.8	-0.6	0.1	2.1	2.6	-1.4
25	Micronesia, Fed. Sts.	2.0	3.3	-2.0	-3.9	-2.2	4.9	-0.1	2.0	-3.9
26	Gambia, The	6.5	-4.3	5.6	4.8	0.9	4.3	2.2	3.5	-4.3
27	Guinea-Bissau	4.6	8.1	-1.7	3.3	1.0	6.1	6.3	5.9	-1.7
28	Equatorial Guinea	-8.9	6.5	8.3	-4.1	0.4	-9.1	-8.6	-3.2	-9.1
29	Greece	-5.5	-9.1	-7.3	-3.2	0.7	-0.3	-0.2	1.4	-9.1
30	Grenada	-0.5	0.8	-1.2	2.4	7.3	6.4	3.7	3.7	-1.2
31	Greenland	1.7	-0.5	1.4	-1.7	5.3	0.3	7.7		-1.7
32	Croatia	-1.4	-0.3	-2.2	-0.6	-0.1	2.3	3.2	2.8	-2.2
33	Haiti	-5.5	5.5	2.9	4.2	2.8	1.2	1.5	1.2	-5.5
34	Hungary	0.7	1.7	-1.6	2.1	4.2	3.4	2.2	4.0	-1.6
35	Isle of Man	9.4	4.8	6.2	4.5	5.0	-3.4			-3.4
36	Iran, Islamic Rep.	5.8	2.6	-7.4	-0.2	4.6	-1.3	13.4	4.3	-7.4
37	Iraq	6.4	7.5	13.9	7.6	0.7	4.8	11.0	-0.8	-0.8
38	Iceland	-3.6	2.0	1.3	4.3	2.2	4.3	7.5	3.6	-3.6
39	Italy	1.7	0.6	-2.8	-1.7	0.1	1.0	0.9	1.5	-2.8
40	Jamaica	-1.5	1.7	-0.6	0.5	0.7	0.9	1.4	0.5	-1.5
41	Japan	4.2	-0.1	1.5	2.0	0.4	1.4	0.9	1.7	-0.1
42	Kyrgyz Republic	-0.5	6.0	-0.1	10.9	4.0	3.9	4.3	4.6	-0.5
43	Kiribati	-1.6	0.5	5.2	5.8	0.9	10.3	1.1	3.1	-1.6
44	St. Kitts and Nevis	-2.2	2.4	-0.6	6.2	6.0	4.0	2.2	1.7	-2.2
45	Kuwait	-2.4	9.6	6.6	1.1	0.5	0.6	3.5	-2.9	-2.9
46	Liberia	6.1	8.2	8.0	8.7	0.7	0.0	-1.6	2.5	-1.6
47	Libya	5.0	-62.1	####	-13.6	-24.0	-8.9	-2.8	26.7	-62.1
48	St. Lucia	-1.6	0.6	0.2	3.4	-0.2	2.0	1.7	2.7	-1.6

49	Luxembourg	4.9	2.5	-0.4	3.7	5.8	2.9	3.1	2.3	-0.4
50	Latvia	-3.9	6.4	4.0	2.4	1.9	3.0	2.2	4.5	-3.9
51	Macao SAR, China	25.3	21.7	9.2	11.2	-1.2	-21.6	-0.9	9.1	-21.6
52	Moldova	7.1	6.8	-0.7	9.4	4.8	-0.4	4.5	4.5	-0.7
53	Marshall Islands	6.5	1.2	3.5	2.9	-0.8	-0.4	1.9	2.5	-0.8
54	Macedonia, FYR	3.4	2.3	-0.5	2.9	3.6	3.8	2.9	0.0	-0.5
55	Mali	5.4	3.2	-0.8	2.3	7.0	6.0	5.8	5.3	-0.8
56	Montenegro	2.7	3.2	-2.7	3.5	1.8	3.4	2.9	4.3	-2.7
57	Northern Mariana Islands	1.4	-7.7	0.5	2.7	3.5	3.8	28.6		-7.7
58	Namibia	6.0	5.1	5.1	5.6	6.4	6.1	0.7	-0.8	-0.8
59	**Nigeria**	**7.8**	**4.9**	**4.3**	**5.4**	**6.3**	**2.7**	**-1.6**	**0.8**	**-1.6**
60	Netherlands	1.4	1.7	-1.1	-0.2	1.4	2.3	2.2	3.2	-1.1
61	Oman	4.8	-1.1	9.3	4.4	2.8	4.7	5.4	-0.3	-1.1
62	Palau	-0.9	6.3	4.0	-1.5	2.7	10.1	0.1	-3.7	-3.7
63	Puerto Rico	-0.4	-0.4	0.0	-0.3	-1.2	-1.1	-2.6		-2.6
64	Portugal	1.9	-1.8	-4.0	-1.1	0.9	1.8	1.6	2.7	-4.0
65	Paraguay	13.1	4.3	-1.2	14.0	4.7	3.0	4.0	0.8	-1.2
66	West Bank and Gaza	8.1	12.4	6.3	2.2	-0.2	3.4	4.7	3.1	-0.2
67	Romania	-2.8	2.0	1.2	3.5	3.1	4.0	4.8	6.9	-2.8
68	Russian Federation	4.5	5.3	3.7	1.8	0.7	-2.8	-0.2	1.5	-2.8
69	Saudi Arabia	5.0	10.0	5.4	2.7	3.7	4.1	1.7	-0.7	-0.7
70	Sudan	3.5	-2.0	0.5	4.4	2.7	4.9	4.7	4.3	-2.0
71	Sierra Leone	5.3	6.3	15.2	20.7	4.6	-20.6	6.1	4.2	-20.6
72	San Marino	-4.7	-9.4	-7.5	-3.0	-0.9	0.5	1.0	1.2	-9.4
73	Serbia	0.6	1.4	-1.0	2.6	-1.8	0.8	2.8	1.9	-1.8
74	South Sudan			-52.4	29.3	2.9	-0.2	-13.8		-52
75	Suriname	5.2	5.8	2.7	2.9	0.3	-2.6	-5.1	0.1	-5.1
76	Slovenia	1.2	0.6	-2.7	-1.1	3.0	2.3	3.1	5.0	-2.7
77	Sweden	6.0	2.7	-0.3	1.2	2.6	4.5	3.2	2.3	-0.3
78	Chad	13.6	0.1	8.9	5.7	6.9	2.8	-6.3	-3.0	-6.3
79	Timor-Leste	-1.2	11.8	5.0	-11.0	-26.0	20.9	0.8	-8.0	-26.0
80	Tonga	3.6	2.8	0.9	-3.1	2.1	3.7	3.4	2.7	-3.1
81	Trinidad and Tobago	3.3	-0.3	1.3	1.0	-0.3	1.5	-6.0	-2.3	-6.0
82	Tunisia	3.5	-1.9	4.0	2.9	3.0	1.2	1.1	2.0	-1.9
83	Tuvalu	-2.7	7.5	-3.8	4.6	1.3	9.1	3.0	3.2	-3.8
84	Ukraine	4.2	5.5	0.2	0.0	-6.6	-9.8	2.3	2.5	-9.8
85	St. Vincent and the Grenadines	-3.4	-0.4	1.4	1.8	1.0	1.8	1.3	1.6	-3.4
86	Venezuela, RB	-1	4	6	1	-4				-4
87	Virgin Islands (U.S.)	1	-8	-15	-6	-1	0			-15
88	Vanuatu	2	1	2	2	2	-1	4	5	-1
89	Samoa	0	6	0	-2	1	2	7	3	-2
90	Yemen, Rep.	8	-13	2	5	0	-37	-34		-37