THE AGRICULTURAL SECTOR AND THE INFLATIONARY PRESSURE IN NIGERIA, 1960-1989

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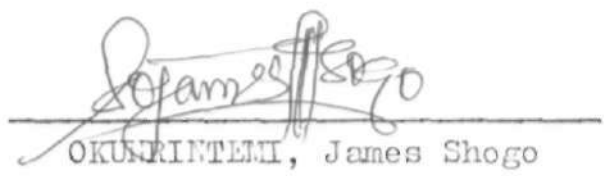
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A Thesis submitted to the Post-Graduate School, Ahmadu Bello University, in Partial Fulfilment of the requirements for the Award of Degree of Master of Science (M.Sc)Economics) Department of Economics, Faculty of Arts and Social Sciences, Ahmadu Bello University, Zaria.

OCTOBER, 1991

DECLARATION

I hereby declare that this Thesis is a product of my own Research. It has not been accepted anywhere for the purpose of awarding a higher degree. All references have been acknowledged by way of bibliography at the end of the Thesis.



OKUNRINTEMI, James Shogo

CERTIFICATION

This Thesis entitled "The Agricultural Sector and the Inflationary Pressure in Nigeria, 1960-1989" by OKUNRINTEMI, JAMES SHOGO meets the regulations governing the Award of the Degree of MASTER OF SCIENCE of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

This work is dedicated to the Families of OBANOYE and OKUNRINTEMI.

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ABSTRACT

The inflationary process which with much persistence and severity has been afflicting most countries of the world, the Third World countries especially, has generated lively controversy about its genesis and solutions.

There are differing opinions among economists about the causes of inflation. Gome economists emphasize the demand-side of the goods factor and asset markets and some the supply side. Still, some others stress the combinations of the two - the so-called mixed inflation.

This thesis looked at the causes of inflation from the supply side by employing the structuralist approach. There are different explanations of structural inflation. . Gome economists stress the lagging growth of agricultural sector, others stress the wide flunctuations in the export receipts of primary producers. In this thesis, we hove employed the method of critical descriptive analysis of observable reality in order to show the extent to which agricultural supply shortages contributed to the inflationary pressure in Nigeria.

We have thus demonstrated that the inflationary process in ITigeria has its genesis in structural rigidities of the economy especially lagging growth of agricultural sector. This thesis has also revealed that since the authorities in Nigeria have always picked on monetary factor for the control of inflation (demand - management strategy) which had always been abortive, efforts should henceforth be at

maintaining near to equilibrium supply and demand via the expansion of productive capacity of the economy. In this regard, we have shown that special attention should be laid on domestic production or of consumers goods.

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CHAPTER ONE

1.0. INTRODUCTION

There are as many multi-dimensional definitions of inflation as its causes. Many of these definitions however embody the description of the process by which the underlying causes of inflation reveal themselves[1]. For instance, the Chambers Twentieth Century Dictionary defines inflation as "undue increase in the quantity of money in proportion to buying power ..." The Keynesians believe in the excess of aggregate demand over aggregate supply at full employment as the cause of inflation. To Parkin (1977) "inflation is a process of continuously rising prices or equivalently, of a continously falling value of money".

The general and perhaps accepted definition of inflation is a "situation in which there is a persistent upward movement in the general price level" (Hagger, 1977). In this sense, a sporadic rise or an imperceptible rise in prices cannot be considered as inflation. Thus, an economy is said to be bedevilled with pressure of inflation if such an economy is "experiencing a period of persistent and sustained rise in the general price level" (AWOSIKA, 1980).

One of the most traumatic events that accompany the bid to develop in the World over, especially the Developing countries is the problem of inflationary pressure. Nigeria is currently plagued with many economic woes, one of which is this problem of inflation. As reflected by the composite consumer price index (CPI) Nigeria has been undergoing periods

of inflationary pressure. The rate of inflation which was 6.1% in 1961 rose to 33.8% in 1975, which further jumped to as high a level as 40.9% in 1989.

The rate of increase in price level has been of considerable concern to policy-makers, especially since 1974, since "the fear of a continued upward trend in prices poses a strong challenge for the future" (AWOSIKA, 1980). To minimize the long-run shocks of inflation on the economy of Nigeria various anti-inflationary measures have been put in place. One of the aims of the 1970-74 plan is to maintain reasonable economic and price stability in the face of inherent inflationary pressure. In line with this the following fiscal and monetary policies were adopted:

i) "Reduction in government expenditure,

ii) Reduction in internal borrowing,

iii) Custom duties on a variety of imported raw materials used by domestic industries were abolished to serve as incentive for the expansion of output,

iv) Central Bank credit guidelines of 1970 specify that at the end of each month, each bank's outstanding loans and advances to the private sector were not to exceed the year earlier level by more than 8.4%" (AWOSIKA, 1980).

Painfully, however, the package of anti-inflationary measures of the 1970s have by and large failed to achieve the desired objectives - that is curtail the rate of inflation to a level conducive to the healthy development of the economy.

In the 1980s attempt at inflationary reduction continued and thus the 1987 budget "aimed at reduction of monetary expansion via a cut in government spending by roughly 0.5% of the 1986 level; it thus restricted the overall credit expansion within the economy to 4.4% as against the 7.6% level in 1986. The expansion of credit to the government sector which stood at 74% in 1986 budget was restricted to 1.5% in 1987" (Ayodele, 1988).

Inspite of all efforts to reduce its threatening effects on the economy it has remained a monster. One tends to ascribe therefore, the failure of these policies in reducing the shocks of inflation on the economy from lack of proper acknowledgement of the underlying causes of inflation in the Nigerian economy. That is, the failure of these policies could be due to difficulties in identification and removal of the causes[2].

1.2. RATIONALE AND STATEMENT OF PROBLEM

> "Inflation, which today confronts the policy-makers throughout the world in the form of dominant economic problem is by no means a new phenomenon because from the earliest days of recorded history mankind has been puzzled and discomfitted by rising prices" (Vaish, 1981).

It is the devastating effects of such rising prices that have made inflation dreadful. As such, many theories have come up to explain its origin from either the Demand-side or Supply-side or some combination of both. In consonance with this Bronfenbrenner and Holzman (1963) said:

> "One key issue is the identification of the fundamental source or sources of inflationary pressure. Does inflation arise from the demand side of the goods, factor and asset markets, from the supply side or from some combinations of the two - the so called mixed inflation?. Does the answer differ in the short and the long-run, in developed and under-developed economies with differences in countries economic structures ..."

Much emphasis, it should be noted, however, has been laid on the monetarist/Expenditure theories of inflation than the structuralist/social theory. Hence, policies are formulated in that direction and the application of such policies. These policies have proved impotent in alleviating the inflationary trend in the Third World in general and Nigeria in particular. One tends to argue, therefore, that inflation has remained stubborn - refusing to be cured - perhaps, for lack of sound theoretical premise on which the causes could be solidly laid. That is, the inability to intellectually grip the inflationary trend and prevent it from further run-away progress can be situated in lack of an inkling of its sources.

Therefore, the recurrent failures of economic policies to curb the inflationary trend should be attributed not to conventional economic explanation, but to lack of proper under-standing of the underlying causes of inflation in Nigeria.

At this point, the proble.. that confronts us is that of ascertaining the underlying and initiating factors (autonomous factors) in the inflationary process in an under developed economy like Nigeria. In this regard a special attention would be focused on the role of the structural - elements in initiating inflationary process in Nigeria.

The fact that inflation has remained a pervasive and persistent problem in the Nigerian economy, and in as much as no fool-proof solution to it has been discovered calls for more research in this field.

1.3. AIM OF THE STUDY

All efforts at arresting the rate of growth of inflation in Nigeria have proved abortive because such efforts tend to favour the monetarists/Expenditure argument of inflation. The causes of inflation, it should be noted, in any given period are by no means exhaustive. However, the underlying factor remain the same.

The inflationary sequence of chile, Brazil or Argentina, for example, makes it next to impossible to deny the elements of truth at the heart of the structuralist explanation. Therefore, in an analysis like this, one has to go beyond the monetary veil. "It is impossible to understand fully the chronic inflation in some Latin American countries of one attends only to the monetary end of the system, be it money supply or outlay, as

in demand inflation hypotheses or the money prices of labour, as in the cost inflation theories. To a significant degree the changes of such magnitudes have not been truly initiating factors. They have not been autonomous in character, but induced by other economic variations. It is essential, therefore, to search beneath the monetary surface, into the underlying region of physical flows, real prices and sectional disequilibria" (Olivera, 1964).

It is in the light of this, the objective of this study is to review the major theories of inflation in an attempt to explain the inflationary trend in Nigeria and to offer appropriate policy recommendations aimed at minimizing its negative effects on the economy.

1.4. METHODOLOGY AND SCOPE

It will be erronous treating an underdeveloped economy as if it were developed, especially in the analysis of economic phenomenon like this. One would be making great mistake when one applies global monetarist method of analysis to the explanation of inflationary process in an underdeveloped economy like that of Nigeria. "The causes of inflation in any period are by no means exhaustive" (Aosika, 1980). However, the underlying factors remain the same.

Thus, we would not be doing ourselves any good by occupying ourselves with hypothetical method of analysis which proves inconclusive in an economy (under-developed) like ours. To debunk the magnitude of mistake made in the application of such methods whose inferences are inappropriate

with reality Keneth Boulding (1971) said:

> "The anti-historical method leads to a development of slick technicians who know how to use computers, run massive regressions, but who have very little sense of any reality beyond their data ... whose main preoccupation consists of analysing data they have not collected and who have no interest whatsoever in what might be called a data - reality functions, that is to what extent a set of data corresponds to any significant reality in the world"[3].

The regression method is actually academically sound and regaling but it creates doubts when it comes to the issues of social relevance and policy-recommendations[4]. As well, there are risks of interpretation, such as spurious correlation. Thus one might get a good fit for incidence of car accidents as a function of corn production, but one would hesitate to infer a direct casual correlation. Such are the econometric studies of Adejugbe (1982), Korteweg (1983) Ojameruaye (1988) and Herberger (1978) that ascribe the role of cause of inflation to increase in money stock. Inflation, it should be noted, has to be understood as a whole process. And the fact that answers to questions raised in section 1.2 are not only academic, but have important implications for Nigeria in particular implies that one has to use an analytical method that sees inflation and answers such questions within the third world content.

The difficulty with the quantification of the relevant structuralist variable would render the use of regression analysis methodologically inadequate due to the fact that "the structuralist approach offers a less guidance with respect to quantitative links between the determinants of inflation and inflation itself" (Levacic, 1982).

To, therefore, use regression analysis and/or test of hypothesis in which the structural factors are not significant (not considered as influencing inflation) would be inappropriate. In this regard, to achieve the stated aims descriptive but critical analysis of these factors would be carried out in explaining the inflationary process in the Nigerian economy. That is, method of critical descriptive analysis of observable reality will be used.

This study will cover the period 1960-1989. This period transcends the major historical developments in the economy history of Nigeria, and this is a period considered enough for any statistical and descriptive analysis.

This study, also, seeks to concentrate on the structuralist approach to the explanation of inflation. There are various bottlenecks identified in the structuralist paradigm, for instance, shortage of food supply, foreign exchange bottleneck's, domestic financial imuprightness and so on. However, our main focus would be on the agricultural supply shortage. This is becausé of the role increase in prices of agricultural products played in the rate of inflation in Nigeria[5].

1.5. SOURCES AND DATA LIMITATIONS

The sources of information would be from official publication (secondary in nature), mainly from articles published in various journals, magazines and texts. Data would be collected from Annual and Monthly Report, Annual

Abstract of Statistics, Economic and Financial Review, (all of Central Bank of Nigeria). National Account of Nigeria and Digest of Federal Office of Statistics.

It is well acknowledged that the most common impediment to any research work is the availability and realiability of statistical data. This study is not such - problem - free. Therefore, the realiability of statistical data in this study is dependent upon the limited realiability of secondary data.

1.6. ORGANIZATION OF WORK

This work is divided into five chapters. Chapter one will be the introduction. Chapter two will be on the review of related literature and model to be used. Chapter three will highlight the trend of the inflationary process in Nigeria and policies put in place. at reducing inflation would be reviewed to see variables (autonomous or propagation) they are directed at.

We would be looking at the characteristics of Nigeria's agricultural sector in chapter four in order to identify the structural distortions. Summary and conclusions, and recommendations will come up in chapter five.

FOOTNOTES

1. Vaish M.C.(1981) Macroeconomic theory, Revised and enlarged edition.

2. Adewumi, M.C. and Awosika, K. (1982) "Conceptual and statistical problems in measurement of inflation" in Inflation in Nigeria Ozitiri and Awosika (eds) NISER.

3. See Garba A.G. (1990) "Understanding the Nigerian inflationary process. The case for an inquiry" paper presented at the National Conference on the Financial System and Economic Recovery, A.B.U., Zaria, Department of Economics.

4. 1 bid.

5. See Chapter 4 for details.

CHAPTER TWO

2.0. LITERATURE REVIEW

2.1. INTRODUCTION

It has become one of the objectives of development programmes of most countries to at least reduce the rate of price increases, bearing in mind the socio-economic and political effects of such inflationary trend. Policies are thus designed to achieve this, based on the perception of the country's policy - makers with respect to the underlying causes of inflation. "In this regard, there are many theories in the literature that attempt to explain the process of inflation"[1]. These theories can otherwise be classified into "two groups ... as either monetary/expenditure theories or as structural/social theories" (Dudley and Turner, 1975). However, "inflation generating mechanisms could be at work simultaneously, but one could be dominant at different times or in different countries" (Devacic 1989). The causes of inflation even within a country at a specific point in time may be different from what obtains in some other periods. In what follows the theories of inflation are examined.

2.2. MONETARY/EXPENDITURE THEORIES

To the above theories inflation means too much money chasing too few goods. The first attempt at making inflation a monetary phenomenon was done by Jean Bodin (1530-1596) whose work was built upon by David Hume (1711-1776) and which established the dominance of the quantity theory of money.[2]

Jean Bodin ascribed high prices to growth of money supply when he said:

> "I say that the high prices we see today are due to some four or five causes. The principal and almost the only one (which no one has referred untill now) is the abundance of gold and silver, which is today too much greater in this kingdom than it was 400 years ago to go no further back ..." (Bhatia; 1981).

Bodin sees addition to gold and silver (monetary expansion) as the major cause of inflation. Other factors are secondary. He made this point clearer when he said:

> "prices had not risen on account of debasement of the coins, but on account of additional money supply" (Bhatia, 1981).

Also, in the monetarist argument of David Hume's essay "Of money" he argued that "an increase in the amount of gold and silver in a country will ... eventually lead to a rise in prices" (Dudley and Turner, 1975). The arguments of Jean Bodin and David Hume served as the theoretical framework within which the quantity theorists and/or monetarist's position could be sought.

2.2.1. <u>THE QUANTITY THEORISTS/MONETARISTS</u>

The explanation of the inflationary trend within the context of quantity theory of money has been ascribed to Fisherian equation of exchange written thus:

$$MV = PY$$

i.e. total money spent on output is equal to value of transactions.

M = money stock taken to be exogenous; influenced by the decision of the central authority.

V = Velocity of money which is assumed constant; since it depends on the spending pattern which is, at least, stable over time.

P = Price level

Y = Total output of goods and services which is assumed constant since there is full employment of the economic resources.

These assumptions are made in order to ease empirical studies and to make it (above identity) an equation. Thus, from the assumptions made, the price level can be written as a function of money stock.

$$P = F(Ms) \quad \ldots\ldots \text{ii}$$

And P becomes, from i

$$P = \beta M^S \quad \ldots\ldots \quad \text{iii where } \beta = v/Y.$$

The rate of inflation can thus be written as

$$dp/dt.1/p = dm/dt.1/m + dv/dt.1/v - dY/dt.1/Y$$

β in iii implies that an increase in money stock (M^S) will lead to proportionate increase in price level (P). That is "for any given value of money stock there is one and only one value of price which makes the statement true and any change in money stock will be accompanied by a proportionately equal change in price level." (Habeeb 1985).

What should agitate one's mind now is through what mechanism is the increase in money supply transmitted to increase in prices, because in the classical price theory, prices are determined by the interaction of supply and demand forces?. The mechanism can be illustrated thus, an increase in money supply changes asset holdings which produces portfolio adjustment. That is, it produces a direct change in spending on goods and services[3]. If then the economy is fully employed, the competition for the available supply of the given output will result in an increase in prices, equal (in percentage terms) to the increase in the money supply[4].

That means, an increase in the monetary flow without a corresponding increase in the flow of real output (because a state of full employment has been reached) would produce an "inflationary gap" between the flows which would be filled by rises in prices" (Dudley and Turner, 1975).

2.2.2. THE CAMBRIDGE APPROACH

"The cambridge school of thought, under the leadership of Marshal and Pigou, advanced another view" (Venieris, 1977) According to them, it is necessary to pay attention to the fraction of income that could be in cash. It is in this regard that this approach is called the cash-balance approach or cambridge demand for money.

They started from Fisherian equation of exchange

$MV = PQ$ i

to get

$M = \mu PQ$ iii

Where :

μ = 1/V and it is a fraction of income held in cash. The cambridge equation thus equates money supply to its demand, which can conviniently be written as this:

$$M^S = M^D = P_i \&_Y B \quad \text{..... iii}$$

i.e. in equilibrium situation demand for money will equal to supply of money. Money demand in real terms is $M^D/P = l^{\&_Y B}$ and in Nominal terms it becomes $M^D = P_i \&_Y B$ iv

from iii the rate of inflation can be got thus:

$$dp/dt.1/P = dM^S/dt.1/M^S - B \frac{dY}{dt}.1/Y$$

i.e. "the rate of inflation (in continous time) $dp/dt.1/P$, is equal to the rate of growth of the money supply minus the rate of growth of the demand for money balances that is due to the growth in real income" (Levacic, 1989). This means that "if money supply increases, may be due to Central Bank action, people will accumulate excess cash balances, this will lead to more spending and could only result in a rise in prices, as output cannot be raised beyond full employment"[5].

Analytically, what emerges is; the effect of changes in money supply will be identical, no matter whether one follows the basic equation of Fisher or the Cambridge demand - for-money theory[6]. Increases in money supply is an exclusive determinant of inflation. "An increase in money supply will lead to an equiproportionate increase in the price level. Thus, any price increase must have at its back previous rise in money supply" (Wachtel 1985). That means that in the monetarist's view inflation is exclusively as

a result of changes (increases) in money supply. Even, within the analytical framework of Fisher's Quantity theory of money inflation is made directly proportional to money supply. To butress his argument Fisher (1911) has this to say:

> "Money supply is seen as the important casual factor of inflation ... the nominal effects of an increase in the quantity of money is an exactly proportional increase in the general level of prices".

It is this key concept of monetarist school of inflation that has been summarized by M. Frieman (1956) in his propositions thus:

> "Inflation is always and everywhere a monetary phenomenon in the sense that it is produced only by a more rapid increase in the quantity of money than in output".

The same propositions, Killick (1983) has refined like this, "the consequence of an increase in the supply of money greater than an increase in the demand for money will be a rise in the demand for products. With an economy approaching full capacity operation, this will result in demand inflation".

Even in studies done by Parkin (1986), he came out with conclusion that substantiates the monetarists' argument. He said: "Price and output movements are not the consequence of institutional rigidites. Rather the market institutions of the economy and the comovements in output and prices each depend on the characteristics of the money supply growth process".

What we are saying here is that either within the usually used framework of Fisherian equation of exchange or the Cambridge demand for money, increases in money supply are seen as the casual factor in inflationary pressure.

Control of this type of inflation lies in the extent to which the Central Authority can briddle its expansionary monetary policy or "To keep the price level constant the nominal money supply must grow at a rate equal to the income elasticity of demand for money, B. times the rate of growth of real income" (Levacic, 1969). To, in this way, understand the behaviour of inflation, one has to understand the behaviour of demand for and supply of money. The supply of money; "according to the monetarist's argument is assumed to be under the control of the state, in which case the authorities only need to predict the demand for money in order to achieve a balance between demand and supply" (Killick, 1973).

The extent to which the monetarist's argument will explain the inflationary pressure in Nigeria will be greatly dependent upon the degree of applicability with reality of the underlying assumptions. The assumption of full capacity operation is at polar opposite with what obtains in Nigeria. It is in this light that Palmer and Fasholan (1982) said that price rises when there is substantial excess capacity would be excluded from the definition of inflation.

Also, the assumed constant velocity of money has been quarried by the situations of the 1930s due to sharp changes in the velocity of money which the Quantity theorists have held, at least, near constant.[7] Evidence in Nigeria also proves contrary the constant velocity of circulation. In Nigeria, money income velocity declines with time (Table 2.1).

Factors that are seen to influence velocity of circulation are summed up by Adejugbe (1982) thus, "it can be influenced by expectations of behaviour of price prticularly in a situations of hyper inflation. It has also been discovered that velocity is also influenced by the stage of a country's growth". With this, assuming velocity of circulation to be constant is not theoretically sound.

However, according to Warburton (1951) even with continual change in velocity of money, increase in money supply still leads to inflation. Changes in velocity, according to him, can be ascribed to changes in money supply. We should bear it in mind that with changes in velocity, the line of causation, within the analytical framework of Quantity theory of money, becomes indeterminate.

The assumed stable demand for money in the Cambridge version has been disputed both empiracally and at theoretical level, "given the micro-foundations of such a function" (Stewart, 1984). Empirically, it has been found out by Radcliffe committee (1959) that for economies with sophisticated financial systems in which there exists a

Table 2.1

MONEY, INCOME VELOCITY IN NIGERIA, 1960-1990

YEAR	MONEY SUPPLY	GNP	VELOCITY
1960	216.92	2247.4	10.36
1961	219.30	2359.6	10.76
1962	217.02	2597.6	11.97
1963	230.98	2745.9	11.89
1964	251.71	2894.4	11.50
1965	284.22	3110.0	10.94
1966	306.28	3374.8	11.02
1967	290.46	2752.3	9.48
1968	381.18	2656.2	9.45
1969	378.00	3504.0	9.27
1970	548.90	4178.4	7.02
1971	602.28	4928.2	7.19
1972	700.2	7187.5	10.26
1973	827.2	10990.7	13.29
1974	1178.4	18298.3	15.52
1975	204411	20957.7	10.25
1976	3293.0	26655.6	8.09
1977	4794.4	31283.4	6.52
1978	5089.7	34002.2	6.68
1979	6146.6	41974.7	6.82
1980	9226.8	48538.6	5.20
1981	9744.9	50658.3	5.20
1982	10048.5	53859.4	5.36
1983	11282.4	53347.2	4.73

Table 2.1 contd

YEAR	MONEY SUPPLY	GNP	VELOCITY
1984	12204.1	55249.2	4.53
1985	13267.8	78775.8	5.94
1986	13103.0	79740.4	6.08
1987	14905.9	79270.0	5.32
1988	21148.6	82530.0	3.90
1989	25697.6	81800.0	3.18
1990	37233.7	86100.0	2.31

Sources:

(1) CBN, Annual Report and Statement of Accounts; Various issues.

(2) CBN, Economic and Financial Review Various Issues.

wide spectrum of assets of varying degree of liquidity, the demand for money function will be much less stable. Also, studies by Friedman and Schwartz (1963), Cagan (1965) Kald or (1980) and; Ayayi and Ojo (1981) on exogeneity of money supply showed that supply of money responds to demand for money.

Studies by Harberger (1978) on the relationship (equiproportional) between rate of increase in money supply and rate of increase in the rate of inflation showed that rate of increase in money supply tends to be more than the rate of increase in the rate of inflation (Table 2.2).

Table 2.2

AVERAGE ANNUAL RATES OF INCREASE IN MONEY SUPPLY AND PRICES FOR SOME SELECTED COUNTRIES AND YEARS

COUNTRY	PERIOD	AVERAGE ANNUAL RATES OF INCREASE: %	
		IN CONSUMER PRICE	IN MONEY SUPPLY
Argentina	1949-74	27	29
Brazil	1957-76	35	42
Chile	1952-70	32	38
Uruguay	1950-65	26	34
Nigeria	1969-74	16.4	23.6
Nigeria	1975-79	20.2	39

Sources:

(i) Harberger A.C. (1978) "A primer on inflation" Journal of Money Credit and Banking 10[7]

(ii) CBN, Economic and Financial Review Various issues.

In Nigeria, we could notice that between 1969-74 and 1975-79 the rates of money supply increase were more than the average growth rate of inflation. Between 1969-74, average annual rate of increase (%) in CPI was 16.4 while that of money supply was 23.6%. Between 1975-79, the rates were 20.2% and 39.0% respectively. This is an abberation of quantity theory of money inference, which has it that there is equal and proportionate rate of change between money supply and price level. The fact that the rate of increase in money supply is more than the rate of inflation means that the difference in

the two rates must have been absorbed by some other variables; either V or Y or both. Moreover, Keynes querried the theoretical underpinnings of the Quantity theory of money because to him inflation could arise without increase in money supply.

2.3. DEMAND-ORIENTED EXPLANATIONS

Keynes sees inflationary process resulting mainly from excessive demand. There is one argument that emerges from here; - increase in demand should not be inflationary. This is, because increase in demand (demand - pull - inflation) should be noted, within the analysis of classical theorizing would raise price level, thus lowering real wage rate, which in turn increase demand for labour - increase employment, To counteract this argument there is one assumption behind the demand - pull explanation which is brought forth by Ojameruaye (1988) when he said, "demand - pull inflation occurs when aggregate demand for goods and services is greater than the aggregate supply and the resultant excess can not be satisfied by running down on existing stocks, by increasing imports, post- Penang demand or diverting supplies from export market to the domestic market".

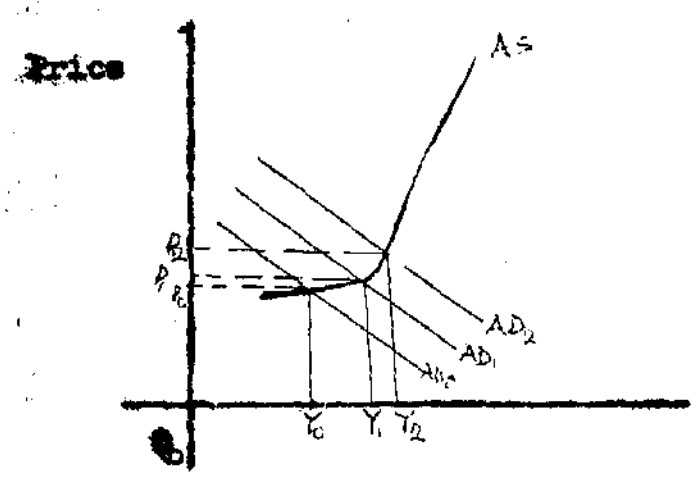
Inflation in the opinion of this school of thought depends on the price elasticity of supply. High elasticity of supply makes the inflationary impact of excess aggregate demand over aggregate supply slight. Elasticity of supply in the short-run will in turn depend on excess productive

capacity and availability of foreign exchange. In this way, the "possibility of demand pull inflation is greater the nearer the economy is to being on its productive - possibility frontier" (Stewart, 1984).

This explanation can be illustrated by this diagram.

Figure 1

RESPONSIVENESS OF PRICE TO CHANGE IN AGGREGATE DEMAND



AS = Aggregate supply

AD = Aggregate demand

The shift in AD from AD_0 to AD_1 increases prices slightly because of high elasticity of AS compared to shift in AD from AD_1 to AD_2 where the elasticity of supply is close to zero (a situation of near full employment).

At this juncture, we should ask, how might an economy get into a siatuation of demand-pull-inflation? This calls for a monetarist analysis which Killick (1983) in a refined version of the key concept of the monetarist school answers thus; "the consequence of an increase in the supply of money greater than an increase in the demand for money will be a rise

in the demand for products. With an economy approaching full capacity operation, this will result in demand inflation".

This means that an excess supply of money causes a larger demand for commodities thus tending to pull prices up[8]. The major contention of demand - side explanations to inflation is that inflation is a reflection of pressures of demand "of either a fiscal or a monetary origin" (Stewant, 1984).

The inflationary pressure in Nigeria cannot be adequately captured within the Keynes' analysis of excessive aggregate demand. "Keynesian type of inflation would occur when full capacity has been reached"[9], which is at variance with what obtains in Nigeria. What we could say to have happened in Nigeria is that inflations of 1970s partially arose from demand pull explanation. "The oil boom, the salary awards and the credit policies of bank led to a substantial increase in aggregate demand without a corresponding increase in the productive capacity of the economy" (Ojameruaye, 1988). In this regard, inflation of 1970s arose from the deficiency in supply. That is, inflation arose because the productive capacity of the economy did not keep pace with the increase in money supply during the periods.[10]

and cost plus pricing policies of firm typically selling in monopolistic or oligoppoistic markets, whose prices are determined by production costs rather than by state of demand" (Killick, 1983).

The seperation of cost-push inflation from demand-pull is academically regaling, and mainly for anaytical purposes. The two are, practically interdependently witnessed in an inflationary process "In practice, it is extremely, difficult to seperate demand pull from cost-push inflation. If we choose a wage increase as the initial departure from equilibrium, then the subsequent inflation may be labelled cost-push. But if a price increase is taken as the initial departure the inflation is demand-pull" (Branson, 1981).

This implies that if an inflationary process is set in motion by excess demand even though without visible cost-push forces, it can also pull up in the process the forces of those things regards as cost. That is, "once inflation gets underway demand explanations and supply explanations are not mutually exclusive" (Killick, 1983).

2.5 STRUCTURALIST EXPLANATION OF INFLATION

The inflationary process which with much persistance and serverity has been afflicting most countries of the world, the third world countries especially, has generated lively controversy about its genesis and solutions.
To the structuralists such perturbations have no linkage with monetary changes, rather they should be ascribed to non-monetary imbalances partly due to flaws in the economic and social organisation of these countries. Reliance on

monetary variables for its solutions is therefore unjustified" (Olivera, 1983). This group is otherwise referred to as the "development - group". Inflation, to this group, is not caused by anything as straight-forward as excess demand-caused by monetary expansion but rather by structural imbalances. In this light Harberger (1978) argues:

> But while we can assert with great confidence that monetary expansion is in a sense the proximate cause of inflation, we should not be too smug about it, for it only pushes the explanation one step back".

To make his point clearer he says

> "the car rolls down the hill when somebody takes the brake off, but who does that?"

The structuralists never deny the role played by money supply in accentuating inflationary process. However, money supply is seen in a "permissive manner, so as to avoid any monetary brake on development, rather than as an actively initiating cause of inflation" (Killick, 1983). To bring to limelight such contention Kreuter (1982) has this to say:

> "Monetary impluses are not always the final and the most interesting causes of inflation. An increase in the amount of money in circulation is usually caused by deficit in the state buaget... An increase in the amount of money can also be the consequences of a balance of payments surplus and an increase in the currency reserves of a country which stimulates and forces an expansive inflation which prima-facie appears to be entirely monetary policy. Finally causes of this type of monetary phenomenon can lie entirely outside the monetary sphere - perhaps in the factual problems which have caused the budget to carry a deficit; the rates of interest on the money market to have a tendancy to grow or the balance of payments to have a surplus,... To limit ourselves merely to the monetary side or to merely overestimating its importance can ... only serve to divert attention from the more profound, more significant and more indicative sources of inflation, which only act through monetary categories".

In essence, an increase in money supply to the structuralists is a permissive factor which allows the inflationary spiral to manifest itself and become cumulative. It is a sign of the structural rigidities, which give rise to the inflationary pressure rather than the cause of the inflation itself. Thus, the structuralists distinquish between autonomous (initiating causes) elements and propagation elements in inflation "Autonomous elements represent shocks that impinge on the system, initiating an inflation while propagation elements represent the ways in which the system responds to or accommodates the shocks" (Argy, 1970). The propagation elements are, for instance, wage-price spiral induced budget deficits and exchange rate changes provoked by the inflation and in turn accentuating the inflation. The initiating (autonomous) elements will be discussed later.

There are many different explanations of structural inflation. "Some economists stress the lagging growth of the agricultural sector, others stress the wide flunctuations in the export receipts of primary producers" (Cochrane, 1972). To Schatz (1957) "inflation occurs when the members of the economy among them try to acquire more output or resources than the economy can make available at a given time". That means, inflation plagues a backward economy attempting to develop because the level of capital - formation required for such is difficult to come by. By implication, inflation is inevitable in an attempt to achieve rapid economic growth constrained by structural bottlenecks[13].

The major contention of this school of thought is that inflation arises due to "some imbalances in the economic, institutional or social structure, if not in some corbination of the three. Such imbalances are scarcities of particular key things such as food, foreign exchange, tax-receipts or structural, quasi-monopolistic factors such as delibrate restrictions on the supply of labour or commodities ... and inequality in the ownership of capital and land" (Dudley and Turner, 1975). Long run inflationary tendency, is explained in terms of certain structural regidities, market imperfections and social tensions. The basic rigidities indenfied in the vulnerability of an economy to inflation are discussed below:

2.5.1. SHORTAGES OF FOOD SUPPLY

Inelasticity of food supply "due to largely defective pattern of land tenure which decrease the responsiveness of production to price stimuli" (Meier, 1970). There could be structural problems of supply in output in one important sector suddenly starts to grow much more slowly or stops growing altogether. Lag in the output of agriculture is an obvious one which could lead "directly to wage increases because of the importance of food to wage - earner and could lead to imports of commodities concerned which in themselves lead to shortage of foreign exchange and unsatisfied demand in internal market, thus leading to rising prices" (Seers 1962). To Edel (1969) "inadequate food production meant more inflation, relative rises in food prices, more food imports and slower growth in other sectors of the economy".

Such shortages of food supply according to the monetarists is "not structural in nature, rather it is a distortion induced by administrative controls"[14]. However, evidence showed that inadequate food supply is a structural problem which, for example, exert upward pressure on wages and prices in Chile[15]. In Tanzania, a less developed country, the inflationary process there was found to have been initiated majorly by the poor performance of food production growth during the second five year plan period, though it was propagated by monetary and financial force[16].

The effect of lagging supplies in some sectors other than agriculture, for instance, energy and transport is inflationary. For instance, "the electricity shortages in Greater Buenos Aires in the latter half of the 1950s acted as an evident brake on industrial expansion and played a big role in the Argentinian inflationary process. So did the delays in rail freight services and slowness in developing petroleum resources" (Seers, 1962).

2.5.2. FOREIGN EXCHANGE BOTTLENECK

The structuralists maintain that inflation could arise in a country due to foreign exchange bottlenecks which often manifest in inelastic of exports because of primariness of the country's products. (Low income elasticity of demand for her primary products, high income elasticity of demand for imports, Balance of payments difficulties)[17].

The foreign exchange bottleneck arises "because the rate of growth of total foreign exchange receipts (earnings from exports and capital flows) is not sufficient to meet rapidly rising import demands generated by accelerated development

efforts, rapid population growth and attempt to industrialize which take place within the environment of imperfect factor mobility, technological limitations and structural imbalances" (Kirkpatrick, 1978).

Foreign exchange constraint is inflationary in the sense that instability of export - proceeds, leads to a reduction in government revenues, the government is forced to resort to deficit financing to maintain relatively inflexible levels of expenditure.

2.5.3. INADEQUATE DOMESTIC FINANCIAL RESOURCES

Inadequate internal financial resources coupled with the foreign exchange constraint tend to aggravate an inflationary process. The high rate of urbanization and such accompanied development (industrialization) effort have widened the spectrum of government activities in area of social and physical infrastructures, in the face of inelastic government revenue. This gives room for deficit financing (inflationary mode of finance).

The increment to money supply is not exogenous in this regard because it is being generated by the desire to increase rate of growth. That is, "the public sector deficit thus represents ... the existence of a number of structural problems which preclude the realization of balanced budget policy, and the propagation mechanism of the public sector inflationary pressures consists of ... the financing of the deficit by loans from the banking system, issuing bonds to the social security institutions, revaluation of monetary reserves and other measures related to the money supply" (Seers, 1962).

2.5.4. INFLATION INDUCED BY IMPORT SUBSTITUTION INDUSTRIALIZATION STRATEGY

Import substitution industrialization strategy could compound the inflationary problem generated by foreign exchange and internal finance bottlenecks. This has been recognised as a structural problem in accentuating the inflationary pressure. That is, there are structural causes of inflation during the process of import substitution since import substitution is a continuing process, "each year a start is made on new industries, involving fresh requirement of imported capital goods, and progress in substitution means entering into types of production which are more and more capital intensive" (Seers, 1962).

As industrialization makes a head-way, more demands for electric power, internal transport, communication, water supply etc are needed, which raise the requirements for imported capital goods. The difficulties in obtaining labour, capital and enterprise for the new industries make factor costs per unit of output very exhorbitant. The monopolistic system of organisation, that usually becomes imminent of import substitution, whereby new industries are branches of existing monopolies or protected by them makes the scale of output relatively small which would have given room for full utilization of those equipment.

Domestic import substitution process entails demand shifts which accentutate the inflationary situation. The import substitution industrialization with a shift towards industry creates inflationary tendencies, when it is undertaken at the expense of agriculture and expanding food supplies.[18]

If the increase in Sector II's putput came via capital good increases, total output in the economy has actually risen, which means increase in total real income. A non-corresponding rise in saving from such 'marginal' increment of income will lead to excess demand for consumer goods, prices of which will thus increase.

Assumption V could also lead to increase in both capital and consumers goods. If this happens and there is no increase in saving equivalent to increase in investment from the increase in real income, general excess demand will be generated, effect of which is increase in prices.

The cogent point being made here is that "if development in an under-developed country is taking an unbalanced form with industrial development out-stripping that of agriculture to such an extent that a shortage of food and agricultural raw materials develops, then it is most likely to be accompained by severe inflationary pressure" (Maynard, 1973).

FOOTNOTES

1. Habeeb. Y.A. (1985) The inflationary factor in the Economic Growth of Nigeria: 1960-83: An unpublished. M.Sc Thesis, ABU, Zaria.

2. See Laidler, D.E.W. & Parkin, J.M.(1973) "Inflation A Survey" Economic Journal (Dec.)

3. See Denburg & McDougall (1980) Macroeconomics, McGraw Hill.

4. Venieris Y.P. and Sebold F.D. (1977) Macroeconomic Models and Policy. John Wiley and Sons. Levacic R. & A Reibman (1989) Macro-economics, ELBS.

5. Ghatak S. (1983) Monetary Economics in Developing Countries, ELBS.

6. 1 bid, See also Ajayi and Ojo (1981) Money and Banking Analysis and Policy in the Nigerian Context: George Allen and Unwin.

7. Bronfenbrenner. M. & F.D. Holzman (1963) "Survey of Inflation Theory" AER (Sept.).

8. See Dernburg & McDougall (1980) Op. cit.

9. Stewart. F. (1982) "Inflation and recovery" Journal of Development Planning No.14.

10. See Ajayi and Ojo (1982) Op.cit Ojameruaye (1986) "An analysis of the determiants of the general price level in Nigeria NISER Research and Development 5 (1 & 2).

11. See Stewart F. (1983) Op. cit, Killick T. (1983) Policy Economics, ELBS.

12. See Kreuter, Josef (1982) Towards a consistent Theory of inflation and growth of prices under capitalism" Czechoslavak Economic Papers, Academic/prague.

13. See Killick T. (1983) Op. cit.

14. Kirkpatrick S. & F.I. Nixson (1978) "The origins of inflation in less developed countries: A selective reviews" in I Livingstone, Development Economics and Policy Readings, George Allen & Unwin.

15. See Seers D. (9162) "A theory of inflation and growth in underdeveloped economics based on the Experience of Latin America" Oxford Economic Papers (June).

16. See Delphin, R.( ) "Inflation and economic development some lessons from the Tanzanian Experience" in African development.

17. See Argy, Victor (1970) "Structural inflation in developing countries" Oxford Economic Papers, (March). Also see Ojamernaye (1986) Op. Cit.

18. See Maynard G. (9173) Economic Development and the price level, Macmillan, London.

CHAPTER THREE

3.0. THE INFLATIONARY TREND IN NIGERIA

Inflation is a world-wide phenomenon. It is a rapid, persistent and sustained rise in the general price level. In developing countries in general and Nigeria in particular the degree of the inflationary pressure has posed serious threat to the healthy growth of the economy.

In Nigeria, the domestic sector was insulated from inflationary pressures upto 1965 (Teriba and Ajayi, 1982 Pp 299). The Nigerian economy came (seriously) under the yoke of high pressures of inflation in 1969 when the rate of inflation rose to 10.0% from 6.4% in 1961. The inflationary trend seems to be alarming inspite of sets of both monetary and fiscal policy packages put in place to curb its threatening effects[1]

The composite consumer price index (CPI) indicates that inflationary trend has been on the increase, continously at least, since 1960 except for 1963, 1967 and 1968 periods when the rate was -2.8%, -3.7% and -0.4% respectively. "The bulk of the increases in price level occured in four periods: 1961-62, 1964-65, 1969-71 and 1972 to date" (Teriba and Ajayi, 1982 Pp 300). The period, 1972 to date is marked by both upward and downward trend in the cost of living.

The inflationary trend in Nigeria since 1960 can be divided into sub-periods as 1960-64, 1965-69, 1970-74, 1975-79, 1980-84 and 1985-89 (See Table 3.1). The essence of this sub-periodization is to bring to limelight the trend in inflationary pressures in Nigeria. Each of these periods is characterised by different annual average rates of inflation, except for 1975-1979 and 1980-1984 periods when the annual average rate of inflation was 20.3%. While the average annual rate of inflation was 3.2% in 1960-64, it was 39%, 10.2%, 20.3%, 21.3% for 1965-69 1970-74, 1975-84 and 1985-89 periods respectively.

A further look at Table 3.1 shows that the 1960s was characterised by single-digit average annual rates of inflation. That is, period of moderate inflation. The 1970s and 1980s on the other hand were characterised by double-digit average annual rates of inflation.

The inflation currently ranging in Nigeria began sometime during the civil war, around 1969 when the consumer price index left upward to 10%. In 1970 the increase came to 13.8% which jumped to 16% in 1971, 33.8% in 1975 39.5% in 1984 and 40.9% in 1989.

The general inflationary trend discussed above is a reflection of the inflationary process from various components of the composite consumer price index (CPI). Of all these components food and accommodation are weighted higher than others; for they attract greater percentage of consumer's take home pay (Lower and Middle income earners especially).

TABLE 3.1

COMPOSITE CONSUMER PRICE INDEX (CPI) RATE OF INFLATION (ROI) AND AVERAGE RATE OF INFLATION, 1960-1989 (1960 = 100)

Year	CPI	ROI	AV. ROI	YEAR	CPI	ROI	AV. ROI
1960	100	-		1980	585.1	9.9	
1961	106	6.4		1981	707.1	20.9	
1962	112	5.3	3.2	1982	761.4	7.7	20.3
1963	108.9	-2.8		1983	938.5	23.2	
1964	110.1	1.1		1984	1309.6	39.5	
1965	114.4	3.9		1985	1382.0	5.5	
1966	125.5	9.7		1986	1456.2	5.4	
1967	120.8	-3.7	3.9	1987	1602.8	10.1	21.2
1968	120.3	-0.4		1988	2218.5	38.4	
1969	132.3	10.0		1989	3125.3	40.9	
1970	150.6	13.8					
1971	174.7	16.0					
1972	179.6	2.8	10.2				
1973	189.6	5.6					
1974	213.6	12.7					
1975	285.7	33.8					
1976	354.0	24.0					
1977	411.1	16.1	20.3				
1978	476.3	15.9					
1979	532.3	11.8					

Source: CBN: Economic and Financial Review Various Issues.

It is against this background that the trend in the changes in the relative price of food need to be discussed.

It is evident from Table 3.2 that of greater importance is the relative contribution of food component to the inflationary spiral in 1961 and 1962, when 9.93% and 7.36% were recorded respectively. Food prices were moderate from 1963 to 1969, although the 1966 rise in the consumer price index (CPI) is attributed to food shortages.

The annual change in the food prices in 1970 was a spectacular one. "In the case of the composite consumer price index, the food component rose by 23.5% accounting for ₹7.5% of the increase in the overall index" (CBN, 1970 pp. 8). This was the result of the civil war. Domestic food production suffered as a result of the crisis - time, dislocation of farm labour and the consequent rising cost of such labour.

The massive importation of food - items moderated the changes in food prices in 1972 and 1973. But, the highly liquid economy of 1970 to 1975, due to oil-boom and post war reconstruction effort made prices of food - items to rise from 15.22% in 1974 to 42.05% in 1975. "On the whole, for the period 1970-75 average prices of food rose by 15.4% per year" (Habeeb Y.A., 1985). The 16.6% rise in the consumer price index in 1978 partly arose out of the high prices of food - items. In both rural and urban areas, the food component contributed substantially to the overall increase.

TABLE 3.2

PERCENTAGE GROWTH RATES IN THE COMPOSITE CONSUMER PRICE INDICES (1960-1989)

Year	All items	Food	Drinks	Tobacco and Kola	Accomm-odation Light and Fule	Household Goods and other purchases	Clothing	Transport	Other Services
1960	-	-	-	-	-	-	-	-	-
1961	6.27	9.93	7.81	-0.23	6.30	0.79	4.10	1.17	2.72
1962	5.36	7.36	5.84	-0.44	3.63	1.84	4.72	1.62	4.14
1963	-2.80	-9.66	0.00	1.10	7.01	1.80	7.77	2.73	8.66
1964	7.33	-4.83	10.15	18.18	-7.07	19.24	-13.49	0.44	14.95
1965	4.15	-11.59	3.65	6.14	6.86	7.76	11.83	2.42	13.01
1966	6.56	-0.41	-1.17	2.07	2.08	4.13	14.90	2.80	2.05
1967	-1.98	4.12	0.40	0.25	2.21	0.40	-7.11	1.46	1.00
1968	-5.38	-4.35	5.72	1.01	3.00	3.98	-7.43	13.81	-19.87
1969	9.95	3.71	1.87	1.34	2.91	7.68	19.22	4.53	0.16
1970	13.79	78.09	1.83	-24.44	8.01	2.14	20.00	6.41	3.63
1971	16.10	28.64	4.32	1.79	5.23	8.73	3.91	0.32	1.07
1972	2.77	2.43	3.97	3.96	-6.91	2.57	0.33	3.73	2.86
1973	6.19	3.74	19.24	-2.96	14.09	-0.63	15.33	14.87	9.37
1974	12.56	15.22	0.56	6.22	2.86	15.28	17.40	25.07	7.10
1975	32.80	42.05	38.31	6.67	26.42	36.61	20.48	8.93	25.00
1976	23.90	22.00	31.80	42.7	8.60	20.90	28.10	16.10	18.00
1977	15.42	19.61	6.30	28.31	17.22	13.23	10.38	21.53	22.88
1978	16.57	17.63	9.92	1.58	3.22	7.45	24.27	12.26	7.37
1979	11.76	8.03	14.16	9.08	27.02	6.05	23.32	23.42	14.13
1980	9.93	7.55	6.93	12.96	6.23	16.35	16.10	0.92	32.36
1981	20.85	25.16	2.66	15.53	-2.31	7.22	6.66	2.33	20.20
1982	7.68	8.87	7.62	4.87	3.92	9.66	18.80	10.90	4.74
1983	23.23	23.20	13.48	14.66	33.05	53.75	40.80	21.13	20.67
1984	39.50	42.90	23.10	36.90	12.80	12.80	9.00	16.40	38.90
1985	5.50	3.90	30.90	25.80	-4.50	-4.50	15.40	13.10	23.30
1986	5.30	0.14	10.90	22.60	40.6	40.60	11.9	18.10	36.30
1987	10.20	8.60	8.60	14.10	4.30	4.30	10.6	13.20	21.80
1988	38.20	52.70	4.90	8.10	-5.50	3.30	10.60	11.50	7.40
1989	40.90	39.10	46.70	30.00	40.40	69.50	46.10	36.00	11.70

Source: CBN Economic and Financial Review Various Issues.

For example, the food indices in the rural and urban areas increased by 16.4% and 26.5% respectively, resulting in a combined increase of 16.4%. Also, sharp increases in food prices largely accounted for the deterioration in the cost of living in 1981.

The rate of price increase of food - items was 25.2% in 1981. This rate of price increase of food - items rose to about 42.9% in 1984 due to the low domestic output witnessed throughout that year (CBN, Dec., 1985). The 52.7% rate of increase of food - item in 1988 was due to "inadequate supply arising largely from the spill-over effects of poor harvest of the previous year ... The increase in transport costs (as a result of hike in prices of fuel, vehicles and spare-parts) had an all pervading effect on all commodities" (CBN, 1988).

The average annual rates of inflation of 20.3% in 1975-1984 and 21.2% in 1985-1989 compare with an average rate of inflation of 2.4% between 1960 and 1968 or of 13.2% between 1969 and 1971 is really frightening and considered a major threat to the healthy growth and thus development of the Nigerian economy. That is the rate of increase in price level has been of considerable concern to policy -makers, since the fear of a continued upward trend in prices poses a strong challenge for the future. Thus, to minimize the long-run shocks of inflation on the economy of Nigeria, various anti-inflationary measures, both monetary and fiscal, have been put in place.

3.1.0. NIGERIA'S ANTI-INFLATIONARY MEASURE

3.1.1. ANTI-INFLATIONARY POLICIES OF THE 1960s

The Nigerian economy did not come seriously under the yoke of inflationary pressure untill 1969 - sometime during the civil war - when the rate of inflation came to as high a level as 10.0%. This is not to mean policies aimed at inflationary reduction were not put in place before this time. Policies aimed at price stability have always been in place since 1960.

The Federal Minister of Finance, Chief, the Hon. F.S. Okotie - Eboh, C.M.G., M.P. in his budget speech of the 4th April, 1960 maintained that one of the objectives of the budget is to "maintain confidence in the value of the Nigerian currency and to maintain reasonable stability in prices". He further maintained that reasonable stability of prices and the maintenance of the purchasing power of the National Currency are basic elements in the promotion of an orderly and reasonably rapid growth in production" (CBN, Dec., 1960 Pp 14).

However, concretized attempt at curbing the inflationary pressures was first adopted in 1964. That is, the first restrictive monetary policy in Nigeria was made in October - December, 1964. The objective of which was to maintain stability in the value of the national currency. In line with this a 15% ceiling was placed on the rate of expansion of banks' aggregate loans and advances. Also, the minimum rediscount rate was raised from 4% to 5% in December 1964 so as to make borrowing costlier.

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The Nigerian economy did not come seriously under the yoke of inflationary pressure untill 1969 - sometime during the civil war - when the rate of inflation came to as high a level as 10.0%. This is not to mean policies aimed at inflationary reduction were not put in place before this time. Policies aimed at price stability have always been in place since 1960.

The Federal Minister of Finance, Chief, the Hon. F.S. Okotie - Eboh, C.M.G., M.P. in his budget speech of the 4th April, 1960 maintained that one of the objectives of the budget is to "maintain confidence in the value of the Nigerian currency and to maintain reasonable stability in prices". He further maintained that reasonable stability of prices and the maintenance of the purchasing power of the National Currency are basic elements in the promotion of an orderly and reasonably rapid growth in production" (CBN, Dec., 1960 Pp 14).

However, concretized attempt at curbing the inflationary pressures was first adopted in 1964. That is, the first restrictive monetary policy in Nigeria was made in October - December, 1964. The objective of which was to maintain stability in the value of the national currency. In line with this a 15% ceiling was placed on the rate of expansion of banks' aggregate loans and advances. Also, the minimum rediscount rate was raised from 4% to 5% in December 1964 so as to make borrowing costlier.

By 1965, there was the belief that the high rates of monetary expansion in the years prior to 1965 had been inflationary and thus the policy of credit restraint was adopted in that year - 1965. Total credit to the economy in 1965 changed by 9.7% over the preceding year as against 44.2% in 1964. This picture is explicitly shown in Table 3.3. This policy of credit restraint continued in 1966. Thus, in 1966, "a ceiling of 13% annual rate of growth was set for commercial bank credit. The hope was that the Central Bank's rate of credit expansion would not exceed 17.6% in the year. This gave the banking system a credit expansion potential of about 14%" (Enuenwosu, 1980). In 1968 still, there was the abolition of commercial external liquid assets as eligible for the calculation of the liquidity ratio.

Policy-makers have, however, by this time forgotten the role of credit restraint. That is, its dampening or recessional influences on the economy. These influences metamorphosized by tight monetary policy came to fore, seriously felt and confirmed in early October, 1966. Hence, on 24th November, 1966, therefore, the bank announced the removal of credit quidelines. The bank also removed the specific selective credit restraints.

Inspite of the credit retraint of 1965 and 1966 the cost of living index has been edging steadily upward. The 1966 rise was even spectacular. Such rise was accounted for partly by food shortages and partly by the uncertainties created by the political developments in the country.

TABLE 3.3

CREDIT EXPANSION TO THE NIGERIAN ECONOMY,
SELECTED YEARS

Items	Percentage Change Over Preceeding Year														
	1962	1964	1966	1968	1970	1972	1974	1976	1978	1980	1982	1984	1986	1988	199
Credit to Domestic Economy (Net)	36.8	33.0	23.4	31.6	38.1	13.1	129.0	435.7	45.8	21.7	34.7	10.5	12.7	26.1	17.
Credit to Private Sector	47.4	33.7	13.7	0.3	40.7	20.9	28.6	36.6	37.2	23.8	17.8	4.8	20.7	21.6	18.
Credit to Government(Net)	6.2	30.4	73.5	87.4	32.7	2.3	393.7	115.6	59.9	4.4	59.3	15.8	60.3	30.0	14.
Money Supply	3.9	18.2	8.8	4.7	42.5	11.3	42.5	61.1	5.2	20.1	3.1	8.2	4.1	43.9	44.

Sources: CBN, Annual Report and Statement of Accounts - Various issues.

"The revision upwards of custom and excise duties on certain categories of consumer goods early in the year provided added impetus to the upward thrust in the cost of living" (CBN, December, 1966).

Relative ease monetary policy adopted since November, 1966 was precipitated by civil war of middle 1967. There was thus a rise of 31.5% in bank credit outstanding at the end of 1967. In conjunction with this, rstrictive policy of imports was pursued, which had the contracting effects on the supply of most of the other consumer goods. As such, there was a rise in the prices of drinks, transport, other purchases, clothing and residential accommodation.

3.1.2. THE 1969-1979 ANTI-INFLATIONARY MEASURES

Between 1966 and 1968, the rate of inflation has been on the decline. But, serious inflationary pressure became mounted as from 1969. The cost of living measured by the rate of inflation has risen from 3.9% in 1965 to 10.0% in 1969 inspite of these restrictive policy packages. The genesis of this period was characterized by shortage arising from war, coupled with the war-induced liquidity and the consequent peut-up demand after the war. That is, by the end of 1969 and early 1970, "domestic food production suffered as a result of the crisis-time, dislocation of farm labour, and the consequent rising cost of such labour ..." (CBN, December, 1970).

The major problem from 1969 became that of controlling inflation caused by shortages of food items and propagated by creation of liquidity. The creation of liquidity at this time, was not exogenous because it was demand - for - credit - influenced. In this regard, in July 1969 banks were requested to increase aggregate loans and advances by 10%. The allocation of these credits was preference - oriented (Agriculture - favoured).

The 1970-74 plan had it as one of its aims to maintain reasonable economic and price stability in the face of inherent inflationary pressure. In consonance with the objective of maintaining price stability the following fiscal measures were adopted.

i. Reduction in government's expenditure and internal borrowing
ii. Tarrif reduction on imports connected with agriculture.
iii. Subsidy of £₦5 million was also granted to agricultural production.

In a nutshell, the fiscal measures adopted were "reductions in taxes, tarrifs, removal of war - time restrictions on importation of machinery and spare-parts" (Awosika, 1980). Thus, "imports were placed on open general licence" (CBN, December 1971) to pave way for bulk importation for the domestic market of some essential consumer goods.

3.1.2.1. MONETARY AND CREDIT POLICIES

In addition to the above set of fiscal measures adopted, a number of monetary and credit policies were also put in place. To achieve the objective of a further moderation of inflation, most of the monetary measures of the 1970s were aimed at restricting bank credit and to squeeze bank liquidity.

"The monetary policy circular No. 3 of 30th March 1971 set out that each bank's outstanding loans and advances to private sector were not to exceed the year earlier level by more than 8.4%" (Enuenwosu, 1980). In June 1971, as well, central bank called for special deposit from the banks. This made the liquidity ratio of bank to fall from 92% at the end of May to 69.6% at the end of July 1971. Interest rates were also increased in order to induce more savings. This is a policy at moderation of public liquidity, "interest rates were raised further, generally, in order to promote private financial savings and thereby check inflationary pressure" (CBN, December 1978 pp. 5). To, also reduce aggregate demand in the economy permissible ceiling on the rate of credit expansion by commercial and Merchant Banks was reduced from 40% for 1977/78 to 30% for 1978/79.

3.1.2.2. PRICING AND INCOME POLICY

Government set up price control Board saddled with the onus of fixing the prices of certain commodities. This is conceived, will prevent the exhorbitant Hike in prices. The policy of restraint on wage and salary increases

in both the public and private sectors was introduced in 1975. This continued in 1978. The wage frezes are demand - management policy meant to curtail the level of excess demand over aggregate supply. It is a policy meant at reducing the level of money supply in the economy.

3.1.2.3. STRUCTURAL POLICY

As a structural policy, National Accelerated Food PRoduction Programme (NAFPP), Operation feed the Nation (OFN), River Basin Development Authorities, Green Revolution were programmes pursued, to achieve rural development with medium-term anti-inflation implications. These are programmes aimed at stimulating self-sufficiency in food supply, remove constraints to food production. In addition to these, some sets of infrastructural fillips were provided to stimulate agricultural production under the aegis of Intergrated Rural Development (IRD). Some of these are provision of:

i. Transport facilities
ii. Fertiliter at 75% subsidy
iii. Farm inputs
iv. Agricultural research and extension services
v. Road and agricultural credit facilities.

3.1.3. THE ANTI-INFLATIONARY MEASURES OF 1980-1989

Despite the various anti-inflationary policies embarked upon by the government the "inflationary pressures continued unabated in 1978 with the composite consumer price index rising by 16.6% compared with the 15.9% in 1977. In both the rural and urban areas, the food component contributed

substantially to the overall increase. For example, the food indices in the rural and urban areas increased by 16.4% and 26.5% respectively, resulting in a combined increase of 16.4% (CBN, December, 1978).

In view of the inflation rate of 11.8% in 1979 one of the objectives of economic policy of the 1980s was the reduction in the rate of price inflation.

3.1.3.1. MONETARY AND CREDIT POLICY

The 1980 percentage limits set for bank credit expansion were the same in both 1980 and 1981. That is, commercial and merchant banks were required to maintain an aggregate credit expansion ceiling of 30%" (CBN, December, 1980). The prescribed structure for interest rates for 1980 was also retained for 1981. The 1981 directive for deregulating the bank liquidity in terms of both cash and liquid assets holdings were also retained in 1982. "Thus the 25% minimum liquidity ratio was retained" (CBN, Dec., 1982).

In 1983, the major objective of monetary policy was that of reducing aggregate demand in the economy. Hence, the permissible rates of credit expansion in 1983 "for big and small banks which had been fixed at 30% and 40% since 1978/79 were reduced to 25% and 35% respectively. There was also the reduction from 12.5% in 1984 to 7.0% in 1985 of permissible rate of increase in commercial and merchant bank's loans and advances. Besides, "the 1987 budget restricted the overall credit expansion within the economy to 4.4% in 1987 against the 7.6% level in 1986 ... the budget reduced government budget deficit to

3.5% of the GDP in 1987 as against the 1986 level of 4%" (Ayodele, S.A. 1988).

Convinced by the fact that interest rate serves as a demand - management device in inflationary system, with excessive monetary expansion, the government decided to deregulate it (interest - rate). This is a policy aimed at tightening the "money supply which will reduce aggregate demand and logically also reduce the rate of inflation" (Ayodele, S.A. 1988).

3.1.3.2. INCOME POLICY

Since 1976/77, one of the main objectives of incomes policy is to achieve domestic price stability. In 1981, therefore, all existing policy measures were retained with little modifications here and there. In 1982, fiscal year no revision of fringe benefits or introduction of new ones was allowed, except with the express approval of the Minister of Employment, Labour and Productivity. Also, arrears arising from agreement should not normally be back-dated and where it is necessary to do so, it should not go beyond the beginning of the current financial year.

Besides, 15-month Economic Relief Emergency Measure was declared in October 1985 in which some percentage of worker's wages and salaries and companies profits were compulsorily paid to the government.[2]

3.1.3.3. FISCAL MEASURES

In collaboration with the monetary policy these sets of fiscal policy were adopted:

The 1980 restrictions on imports were retained for 1981. Government also stopped the issue of import licences to individuals for importation of rice. In 1983, there was the re-introduction of pre-shipment inspection for spare-parts, raw - materials and books, and the introduction of pre-shipment inspection for frozen and canned fish "under the economic stabilization measures. Under the same Economic Stabilization Act of 1982, excise duty ranging from 59% to 45% were imposed on a number of commodities" (Olarewaju,1990).

The 1985 Fiscal policy measures include

i. "suspension of foreign exchange allowance for business travels.

ii. reduction of the amount of local currency which may be carried by persons travelling in and out of Nigeria from ₦50 to ₦20.

iii. increase in the rate of tax deductible at source in respect of rents, dividends, royalties and airport levy of ₦100 was imposed on persons travelling to places outside Africa - plus an airport tax of ₦5.00.

In the 1988 budget the President announced the removal of subsidies on agriculture and petroleum.[3]

3.2. APPRAISAL OF THE ANTI-INFLATION MEASURES: 1960 TO DATE

> "Policies - automatic or not - which appear to be properly designed may well turn out to aggravate flunctuations. Miscalculations on delicate questions of timing or magnetudes can be crucial and these matters may well be out of the range of competance of the good judgement and experience of most of the practical men who determine or advise on our monetary and fiscal policies" (Surrey 1977).

These are the short-comings of policy packages properly designed, let alone those designed without inkling of the appropriate underlying causes of problems to be tackled.

Solutions are inherently sought in the problems they are to tackle. This however requires the policy formulators or designers the knowledge of the initiating factors.

The Nigeria's anti-inflationary policies so far have been a demand - management package, except for the NAFPP, OFN, River Basin Development Authorities, Green Revolution Programmes, though rural development oriented, have medium term anti-inflation implications. All efforts at moderating the rate of inflation have strong faith in the excess of aggregate demand over aggregate supply - induced by increased money supply as the cause of inflation. Therefore, all attempts are aimed at cutailing aggregate demand.

The package of anti-inflation measures have by and large failed to achieve the desired objectives - that is to curtail the rate of inflation to a level conducive to the healthy development of the economy. These policies could not make an outstanding result as regard the reduction on the rate of inflation or achieving domestic price stability. The rate of inflation shot up from 6.4% in 1962 to 10.0% in 1969, 13.8% in 1970, 33.8% in 1975 39.5% in 1984 and 40.5% in 1989. This could be due mainly to the inappropriate

of the policy-measures - curtailment of aggregate demand (because of the belief in excess aggregate demand over aggregate supply as the cause of inflation).

The negative rate of inflation recorded in some years should be attributed not to the appropriateness of the policy but the increase witnessed in the supply of food whose weight is heaviest in the computation of the consumer price index. The increase in prices of food and other non-food items in 1970 was primarily a reflection of increased demand pressures and shortages caused by the war. For example, the rate of price increase of food item was 8.9% in 1982 compared to 25.2% in 1981. Also, the increased domestic supplies of both food items and manufactured products reduced the rate of inflation sharply from 39.6% in 1984 to as small as 5.5% in 1985. That is, "the relative stability in prices reflected a significant improvement in the domestic supply situation, especially the availability of food - items. The increase in food production was, however, complemented by the rise in domestic production of manufactured goods" (CBN, December, 1985).

Some of these anti-inflationary policies produced conflciting results. For example, import restriction worsened the inflationary pressures of 1970. Such are the policies aimed at monetary/credit reduction which are operated at a time wages and salaries awards of various forms were being implemented.

The agricultural policy of the 1970s meant at increasing food supply did not improve to any significant degree the low productivity of Nigerian agricultural food sub-sector. The period was characterized by steady and rapid rises in food prices. This has made it a herculean task, inspite of the power given to the price control Board, to control the price of food, an item that is heavily weighted in the CPI (See CBN, December, 1970, pp.39).

It is evident from the above that all efforts at reducing inflation are demand management - oriented, and little (If any) have been geared towards "supply - inducing" measures. Supply-inducing management as against demand-management, seeks to channel bank credit to the productive sectors of the economy with the objective of increasing the volume of output and thereby containing inflationary pressures (See Emenwosu 9100, Pp.260).

It can therefore be said that as much as possible, government should minimize policies that tend to be inflationary "while attention should be paid to the supply side of the economy by putting in place policies that would expand the productive. Capacities of the economy. The emphasis had been on demand management policies which are not achieving the desired objectives"(T.A. Clarewaju, 1990).

FOOTNOTES

1. See Section 3.2 and Awosika K.(1980) Nigeria's Anti-Inflationary Policies in the 1970s". The Nigerian Economy Under the Military, ...

2. See Aliyusode, A.S. (1980) "Nigeria's financial system and economic recovery" A keynote Address delivered at the National Confer Conference on Nigeria's financial system and economic recovery organised by the Economics Department, Ahmadu Bello University, Zaria, (5th - 6th February).

   (This 10% compulsory levy was later paid back to the wokers).

3. See 1980 Budget speech and Ayodele - S.A. (1983) Reflectin a Depressed Nigerian Economy Ahmadu Bello University Social Science Monograph Series No. 1.

CHAPTER FOUR

4.0. NIGERIA'S AGRICULTURAL SECTOR AND INFLATIONARY PRESSURE

4.1. INTRODUCTION

Inflation to the structuralists, has its origin in the structural bottlenecks of the economy. The identification of the structural distortions in the Nigeria agricultural sector would mean looking at the nature of its capacity underutilization, because at the nucleus of distortion in an economy is the sectoral capacity. There is said to be distortions when the character of a system is put out of shape thus giving misrepresentation of the real system.[1]

According to Aikoye (1987) "Distortion in economics refers to a state of disequilibrium in a system, or a situation whereby certain things like prices and programmes are disorganised and pushed out of order by certain forces in the economy". The existence of distortions in an economy is usually attributed to faulty planning, some inappropriate macroeconomic policies or unreadiness to implement the plans judiciously on the part of the policy-makers or a combination of some of them or all.

The identification of the structural distortions is very important because of the effects they have on the structure of the economy. "When a sector of the economy is distorted, it transmits wrong signals to other sectors of the economy. If such distorted signals are translated into action by the economic agents, such

other sectors are distorted in sympathy or in reaction" (Odama J.S. 1987).

Capacity underutilization in the various sectors of the economy, should be recognised, is a distortion. And the identification of the extent of capacity underutilization and other related distortions in the Nigeria's agricultural sector would require a look at the pattern and structure of the sector (Agriculture).

4.2. THE AGRICULTURAL PRODUCTIVITY

Before and in the 1960s the importance of agriculture cannot be over-emphasised. Agriculture was the single most important sector of the economy accounting for more than one half of the Gross Domestic Product (GDP) and for more than three - quarter of export earnings. The agricultural sector "accounted for 78%, 69.8% of total gainful employment in 1952 and 1970 respectively" (Aigbokhan, 1988). It also accounted for 64.4%, 62.2% of the Gross Domestic Product (GDP) in 1958/59 and 1961/62 fiscal years respectively.

In 1962, agriculture with its subsectors contributed more than 61% of the Gross Domestic Product, and in 1984 the contribution of this same sector to GDP dropped to about 22%. Before the mid-70s, agriculture constituted the mainstay of the economy, accounting for about 70% of total labour force. Between 1965 and 1973 agriculture recorded a growth rate of 2.8% and a negative growth rate of -0.05% between 1973 and 1984 (Appendix A).

A drastic decline is witnessed over the years in its (agriculture) contribution to exports . Agriculture which constituted about 80% of the total value of exports of the economy in 1960, only accounted for less than 42% of the total export earnings in 1970 and about 3% in 1984 (Appendix B). Besides, the production of food has been gradually abandoned to such an extent that Nigeria moved from "self-sufficiency in basic food stuffs to a heavy dependence on food imports. For example, the food import bill soared from ₦88 million in 1971 to about ₦1,000 million in 1978" (Odejide 1987, pp 2) (Appendix C).

In brief, there was the dominance of agricultural activity in the economy of Nigeria over the periods 1958/59 to 1973/74; though there has been gradual decline over time in the share of agriculture in the GDP: At 1958/59, the share was 69.4% while in 1973/74 it came down to 34.1%. "Till 1968/69 53% of the GDP originated in agriculture. After 1968/69, the downward trend in total contribution continued and by 1974/75 only 23.4% originated in agriculture. Mining and Quarrying have taken the lead" (Ajayi, 1978).

4.3. OIL PRODUCTION AND THE DECLINING AGRICULTURAL PRODUCTIVITY

The dwindling nature of agricultural share in GDP is partly explained by the phenomenan growth of the mining and industrial sectors. "The discovery of oil in Nigeria and the consequent economic boom created a situation of irony, whereby instead of being a source of real economic growth and development, oil boom led to distortions in the economy" (Sada 1987, pp. 1). This and explosion of such

opportunities generate myriads of other demands. Such demand include the demand for labour both skilled and unskilled, which could only be met by migration of labour from agriculture and rural areas, and the consequent decline in agricultural production.

A positive relationship would have been expected to exist between oil and agricultural production. Oil production and its boom is expected, at least, to affect other sectors in terms of fund availability and allocations. However, "From available statistics, the obvious inference is that there has been negative relationship between oil and agricultural production" (Sada, 1987) (See section on public investment allocation).

4.4 FACTORS OF AGRICULTURAL PRODUCTION AND THEIR ATTENDANT DISTORTIONS

The distortions in Nigeria's agricultural sector have to do with the dependent pattern of production that has, for long, characterized the Nigerian economy. "Nigerian agriculture was traditionally broken into two seperate components - the export - oriented agriculture that was highly commercial but with no forward linkages to the rest of the economy and the subsistence or the domestic subsector which, though a major producer of domestic food and supplier of raw - materials to industries was nevertheless mostly neglected and characterised by limited access to commercial inputs and low levels of technology" (Ekpenyong, 1987).

the sector. This shows that migration of labour from agriculture has reduced the supply of labour to this sector and since the marginal productivity of labour is so small out-put in agricultural sector has consequently declined.

It would have been expected that capital would serve as a close-substitute to labour which can be used to boost agricultural production. Nigeria's agricultural production techniques, as said earlier, shows that simple and crude implements are used. Also lack of capital or access to it has constituted a significant problem to agricultural production. In this way Aigbokhan (1988) said "conventional financial markets rarely assist in funding agriculture particularly peasant agriculture (which is dominant in Nigeria). This has tended to be the case in Nigeria, where little or no securities are floated on agriculture, and the Central Bank's credit guidelines, which require commercial banks to allocate a set of proportion of their total credit annually to the respective sectors, have also not been effective in attracting credit to agriculture. Rather than meeting the set guidelines on agriculture, commercial banks have often fallen short on the agricultural sector while exceeding on manufacturing commerce sectors".

4.5. PUBLIC INVESTMENT ALLOCATION AND AGRICULTURAL PRODUCTIVITY

Appendix D and Appendix E show that the bulk of the expenditure was in General Administration, internal security and defence. "Agriculture was noticeably disregarded. Under current expenses, the allocation

to agriculture was less than one percent in the period 1975 to 1980, whereas the allocation to general administration etc was 22% in 1975, 18.5% in 1976, 16.6% in 1977, 17.6% in 1978 and 11.9% in 1980" (Sada, 1987). Only as meagre as 6% was allocated to agriculture in 1975 under the capital expenditure, compared with 21.2% for general administration etc. The structural distortion of this allocation created is obviously and explicitly seen in the structural development process.

Appendix A also suggests that Nigeria's Oil economy resulted in a bias in its investment decisions, such that agriculture was adversely affected while the industies and services were favoured. "The issue is not that much investment was diverted to industries and services, but much more importantly, the issue is that of the nature of industries and services favoured, which were not conducive to ensureing a take-off in economic development, at least near self-sufficiency in the basic needs". Appendix A shows, as well, that agriculture in both qualitative and quantitative terms has suffered neglect. The average annual growth of food production was only1.7% between 1969/71 and 1977/79.

It is against this background that we are arguing that oil economy has introduced major distortions in agricultural production in Nigeria. The simple correlation studies done by Sada (1987) between oil production and agricultural production suggests that the boom in oil economy attracts production resources from agricultural sector, which inherently, as a result of response, experienced some decline.

> "In the early fifties and sixties when export crops were in high demand in the world market almost every government effort was directed at improving the export crop sub-sector to the neglect of food crop and livestock sector. Inspite of the new found wealth (proceeds of petroleum products in the seventies) commensurate allocations were not made for the increased performance of the food crop and the livestock sector". (Ighen 1982).

As shown by Appendix F the per capita allocation to agriculture was considerably lower than that of manufacturing.[3] Taking the productivity of labour as a function of cooperant factors, (Capital in this case) one could see that it is very unlikely that agricultural output will increase based on the per capita allocation. This type of annual allocation to the agricultural sector in general and food and livestock sub-sectors in particular is grossly not enough for any meaningful attainment of increased agricultural production, given, even the multiplicity of staple food crops and livestock.

The various growth rates recorded by the agricultural sector in 1973-77 show that the pattern of public investment allocation and worse still, the sahelian drought of 1972-73 must have accounted for that. This is so with drought because it is uneconomic factor which affect greatly agricultural production and over which agriculturalists have no control. In 1972 and 1973 the agricultural output suffered greatly due to the drought that came up in the sahelian region of Africa. As a result of the drought "groundnut output fell by about 43% and cocoa by 25% of anticipated production. Food production was also affected

and this forced up food prices" (Kwanashie, 1990).

However, the 1976-80 were drought-free years. Therefore, it shows that the negative and declining pattern of such growth rates has much of its explanation in the pattern of investment allocation.

4.6 IMPORT SUBSTITUTION INDUSTRIALIZATION STRATEGY AND THE NEGLECT OF THE AGRICULTURAL SECTOR :

In virtually all developing countries, industrialization has been seen as the shortest and surest way to development and for this reason, development strategies that favour and promote industrialization to the neglect of agriculture have been used.[4]

Since late 1960s and early 1970s industrialization has been the major focus of Nigeria.[5] The major approach that has been adopted, in this way, is the import substitution industrialsation strategy, which, replaces some or all of the imported goods with domestically produced goods in order to achieve the objective of self-reliance, conserve foreign exchange (through the reduction of import bills)etc.

In line with the above, Nigeria provided some sets of incentives (the protection of manufacturing sector) which include free import duty licence, which encourages the use of more capital than labour; thus contributing to labour unemployment in the economy - a situation which explains the existence of distortions in Nigeria's factor today. There was also the quantitative restrictions on the importation of goods that could be produced domestically under the import substitution arrangement, in order to boost market for goods domestically produced.

substitution arrangement, in order to boost market for goods domestically produced.

> "Consequent to under-pricing of capital and over protection of the manufacturing activities inherent in the import substitution strategy are distortions ... the costs of import - substitution strategy of industrialization had been apparent and evident These costs include, high capital intensity, low-value added at the international prices, excess capacity, under - utilization of economies of scale, encouragement of production of luxury goods, behind trade barriers etc" (Aikoye 1987).

Besides, the industrialization technique has been predicated on Lewis growth model of dual - economy, with the assumption that the unlimited and reduant labour supply in the subsistence sector can be withdrawn from farm to some other growth - oriented sector without loss of output.[6] This has, as a result, led to the underpricing of agricultural products among developing countries and the virtual neglect of the sector (agriculture). "Specific policies in this area include taxation of agriculture, compulsory procurement of low prices or the subsidization of the sale of agricultural products via government channels of marketing and distribution" (Aikoye, 1987).

In Nigeria this policy of under-pricing continued in the 1970s with the result of inadequate food supply for domestic consumption and slow-down in agricultural export.

4.7. NIGERIA'S POPULATION GROWTH AND THE DEMAND FOR FOOD ITEMS

Coupled with the distortions enumerated above is the gap between food production and the growth in population. Nigeria has been witnessing a high rate of population growth

ever since the 1950s. Between 1952/53 and 1963 Nigeria's population grew at about 5.9% "One implication of this is that a high rate of population growth is bound to affect the size of the labour. And, as the size of the labour force expands, high rate of natural increase will also increase the burden of young dependency as more children are added to the population than the number of youths 'entering the labour market" (Arowolo, 1982). Appendix G explicitly explains this situation.

The growth rate of food supply has lagged behind that of population. Index of population growth is put at an annual compound rate of 5.2% between 1960 and 1974, while that of food is just 2.5% for the same period. "And after the oil boom in the mid1970s the agricultural growth rate in Nigeria has been close to zero up to 1980" (Olowo, 1984).

It is evident that all food crops deficits of 5.538 million metric tons and 6.758 million metric tonnes in 1982 and 1975 respeictively were recorded in Nigeria. Thus, high rate of pupulation growth in the face of agricultural supply shortages to meet the high demand resulting from such population tend to increases in prices.

FOOTNOTES

1. See Odawa J.S. (1987) "Concep s, Measure ent and Analysis of Distortions in the industrial sector of an economy" in Distortions in the Nigeria Economy: The Nigerian Economic Society Annual Conference, Calabar, May 12 - 16.

2. For details see Ojowu, J. Ode (1984) The search for technological transformation in Nigeria agriculture: An analysis of conceptual framework and practical experience: Department of Economics, Ahmadu Bello University Occassional Papers, Vol.1 and Vol. II.

   Oluwasanmi, H.A. (1966) Agriculture and Nigeria Economic Development (O.U.P. Ibadan).

   F.A.O. (1966) Agricultural Development in Nigeria 1965 - 1980, Rome.

3. Manufacturing sector is taken as sector II in this case because agricultural and manufacturing sectors are the two main sectors of the economy which have strong implications for overall diversification of the economy and employment, and towards which government actions are directed.

4. See Hirschman, O.A. (1964) The Strategy of Economic Development, Yale University Press.

5. See Lotun, Philips (1986) Restructuring of Nigeria's industrial Sector, Research Department, NIPSS.

6. Ibid.

CHAPTER FIVE

5.0. SUMMARY AND CONCLUSIONS

5.1. SUMMARY

It has been shown that prior to 1965, agriculture has been the mainstay of the Nigerian economy. It contributed over 56% of the country's GDP and over 80% of foreign exchange in 1965-66. The number of gainfully employed males and females in agriculture were 80% and 60% respectively during the same period.

It has also been shown that the advent of oil industry has since changed the degree of contribution of agriculture to the economy and there has, as a result, been an imbalance between food production and demand for it. The oil boom of 1970s and its exploitation in commerical quantity changed the pattern of things, oil accounting for 90% of export-earnings and government revenue. And there was lacuna in the decision of the policy-makers somewhere. "The principal aim of the Nigerian decision-makers over the period was to convert the growing oil revenue into investment in social, physical and economic infrastructures. While progress was made in a number of sectors. .. the decision makers did not succeed in utilising the oil revenue to transform the Nigerian economy into a truly independent economy. The agricultural sector suffered ..."[1]

This inability to transform the Nigerian economy into an independent one makes the nation to be ill-prepared, ill-armed to face the collapse of the world oil market. This forms the basis of the domestic financial inuprightness and foreign exchange of the country.

We can therefore see the effect of dominant oil sector as that of being exposed to viscissitudes of world oil. "Whether more express ways and bridges get constructed in Nigeria depends on how much and how fast we can sell oil"[2]. That is, "during most of the oil-boom period in Nigeria, agriculture was totally neglected. The most telling effect of the neglect was the decline in local food production ..."[3].

We have also demonstrated that one reason for the high rate of inflation in Nigeria seems, therefore, obvious since the rate of growth in agriculture in real terms is about a third of the rate of growth of population. "According to the 1974 Federal Ministry of Agriculture's estimates, the population growth index increased at annual compound rate of 5.?% between 1960 and 1974, while that of food production showed a growth rate of 2.5% during the same period"[4]. In Nigeria, rapid population growth coupled with a division of the land, has led to fragmentation of holdings and to underemployment of the land-tillers. "The inevitable consequences are the shortage of food supply in sufficient quantity and quality to meet the need of the rapidly growing population"[5].

The distortion in the Nigerian economy (structural imbalances) identified in this study, can be summarized in this way; that the increase in output of the modern sector (Sector II) is purchased by a decrease output in the agricultural sector (Sector I) and the main structural distortions in the Nigerian, agricultural sector have been prominently responsible for Nigeria's food crisis and the consequent inflation.

Factors that are reponsible for the above distortions have also been identified in this study as

i) the structural dependence of the agricultural sector on the raw - material needs of industrialized nations, and hence openness of the economy to vagaries of the world market and the fever curve of international price movements.

ii) the inward looking strategy of import-substitution through generous protection to industry which has the proclivity of increasing the prices of industrial input substitutes relative to the prices of agriculture import substitutes and exports. "By lowering output prices relative to industry and by increasing the cost of modern inputs, inward-looking strategy implicitly tax agriculture"[6]

It is lack of knowledge of these structural imbalances in the Nigerian economy as the major causes of inflation that had always led to the failure of virtually all policies aimed at inflationary reduction. We have in this way, argued that the "emphasis had been on demand management policies, which are not achieving the desired objectives"[7].

5.2. RECOMMENDATIONS

For the present, it is sufficient to state that if as we believe to be the case, inflation in Nigeria derives from long-run sectoral bottlenecks and imbalances in the economy, the reduction of inflation will, therefore, necessitate the adoption of policies aimed at changing the fundamental structure of the economy; in the following ways:

i. In as much as the purpose of anti-inflationary measures is not the elimination of inflation itself or demand, but rather the maintenance of near to equilibrium of supply and demand via the expansion of productive capacity of the economy, policy's efforts should not be geared towards curtail of money supply, since such policies hamper investment and productive demand.

ii. Also, as much as possible, government should minimize policies, that tend to be inflationary while more attention should be paid to the supply-side of the economy by putting in place policies that would expand the productive capacities of the economy.

iii. In this regard, as well, government and its agencies should stop seeing the role of oil as a substitute. Oil's role should be seen as complementary rather than a substitute because poor agriculture means oil revenue is used to import food items.

iv. The solution to inflation, in the long-run, is to increase the domestic production of consumers - goods. Efforts should be geared towards increased production of consumers goods. In essence vigerous attempts should be made to boost agricultural production. Real output has to be domestically increased and this requires increases in labour productivity and optimum use of mechineries and capital equipment. The existing excess capacities in Nigerian industries are undesirable, so the bottlenecks in the way of full utilization have to be removed. The quick pace of infrastructural development is in the right direction and should be doubled.[8]

v. Besides, the import substitution industrialisation strategy should be accompanied by Judicous and concrete policy of local soureing of raw-materials, intermediate goods and components so as to increase the local content of these domestic products and; thus strenghten the inter-industry linkages of the producing industry. That is, there should be coordination of policy to make the producing industry less import-dependent . This is equally a long-run solution which will go along way in reducing inflationary pressures that are import oriented.

FOOTNOTES

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APPENDIX 'A'

SHARE OF AGRICULTURE, MINIGAND QUARRYING AND MANUFACTURING IN TOTAL GDP,-CURRENT FACTOR COST 1962/63-1990

(₦ MILLION)

YEAR	TOTAL	AGRIC.	PERCENT	MINIGAND QUARRYING	(%)	MANUF-ACTURE	(%)
1962/63	2597.6	1293.8	50.0	54.0	2.1	146.4	5.
1963/64	2755.8	1350.4	49.	54.8	2.0	173.0	6.
1964/65	2894.4	1319.6	45.6	73.2	2.5	173.6	6.
1965/66	3110.0	1308.0	42.	143.0	4.6	214.6	6.
1966/67	3373.8	1452.4	43	163.0	4.8	233.0	6.
1967/68	2752.6	1205.8	43	103.6	3.8	194.2	7.
1968/69	2656.2	1094.2	41.2	71.6	2.7	198.6	7.
1969/70	3549.3	1356.6	38.2	265.4	7.5	281.8	7.
1970/71	5281.1	1973.0	37.5	534.1	10.1	378.4	7.
1971/72	6650.9	2350.7	35.3	1006.5	15.1	415.8	6.
1972/73	7187.5	2257.7	31.4	1219.6	17.0	511.1	7.
1973/74	10990.7	2227.0	20.3	2020.6	18.4	496.9	4.
1974/75	18298.3	3321.5	18.2	6087.3	33.3	661.2	3.
1975/76	20957.7	3713.5	17.7	4668.4	22.3	1170.4	5.
1976/77	26655.6	4113.2	15.4	6797.3	25.5	1464.3	5.
1977/78	31283.4	5096.7	16.3	7905.0	25.3	1555.0	5.
1978/79	34002.2	5033.4	14.8	8387.5	24.7	2377.9	6.
1979/80	41974.7	5547.5	13.2	11549.6	27.5	3815.6	9.
1980	48538.6	6607.3	13.6	15012.4	30.9	4068.4	8.
1981	50658.3	6467.0	12.8	13330.7	26.3	4934.5	9.
1982.	53859.4	8438.8	16.9	11251.4	20.9	6129.2	11.
1983	53347.2	9036.4	16.9	9923.5	18.6	5951.8	11.
1984	55249.2	10970.9	19.9	11284.0	20.4	5016.7	9.
1985	78775.8	19729.0	25	12978.3	16.5	8427.0	10.
1986	79440.4	20442.0	25.6	9598.3	12.0	9116.0	11.
*1987	79270.0	2392.0	30,18	410.0	0.52	7660.0	9.
*1988	82530.0	2524.0	30.6	450.0	0.55	8080.0	9.
*1989	81800.0	26100.0	31.9	300.0	0.3	6800.0	8.
*1990	86100.0	27200.0	31.6	300.0	0.3	7300.0	8.

*These figures are in 1984 factor cost.

Source: i. FOS: Annual Abstract of Statistics; various issues
ii. CBN: Economic and Financial Review; various issues.

SHARE OF AGRICULTURE AND OIL IN NIGERIA'S TOTAL EXPORTS 1970-1989

Year.	Total Exports (₦ Mill.)	Percentage Change	Total Oil Export (₦ Mill.)	Percentage Change	Total Non Oil Exports (₦ Mill.)	Percentage Change	Agriculture (₦ Mil)	Percentage Change	Proportion of Oil Total Export
1970	885.6	-	509.6	-	376.0	-	286.8	-	57.6
1971	1293.4	46.0	953.0	87.0	340.4	9.5	265.5	7.4	73.7
1972	1434.2	10.9	1176.2	23.4	258.0	24.2	190.2	28.4	82.0
1973	2277.4	58.8	1893.5	61.0	383.9	28.8	288.7	51.8	83.1
1974	5794.8	154.4	5365.7	183.4	422.1	11.8	307.7	6.6	92.6
1975	4925.5	15.0	4629.9	13.7	295.6	31.1	256.5	16.6	94.0
1976	6751.1	37.1	6196.2	33.7	554.9	87.7	261.5	1.9	91.8
1977	7630.1	13.0	6196.2	13.3	554.9	0.8	437.7	67.4	92.8
1978.	6064.4	20.5	5652.9	20.2	411.5	25.2	444.2	1.5	93.2
1979	10836.8	78.7	10166.8	79.9	670.0	62.8	498.5	12.2	93.8
1980	14186.7	30.7	13523.0	33.0	663.7	0.9	340.5	31.7	95.3
1981	10876.8	23.3	10680.4	21.0	196.3	70.4	178.4	47.6	98.2
1982.	8722.5	19.8	8601.6	19.5	120.9	38.4	92.0	48.4	98.6
1983	7502.5	14.0	7201.2	16.3	301.3	149.2	274.9	198.8	96.0
1984	9088.0	21.1	8840.6	22.8	247.4	17.9	208.	24.3	97.3
1985	11214.8	23.4	10890.6	23.2	324.2	31.0	258.8	24.4	97.1
1986	8513.0	24.1	8273.0	24.0	240.0	26.0	407.4	57.4	97.2
1987	30360.6	256.6	28205.6	241.0	2152.0	769.7	1588.9	289.9	92.9
1988	31192.8	2.7	28435.4	0.8	2757.4	28.1	1794.2	12.9	91.2
1989	57971.2	85.8	55016.8	93.4	2954.4	7.1	1739.1	3.1	94.9
1990	109,086.1	89.6	106626.5	93.8	3259.6	10.3	2857.0	64.3	97.0

Source: CBN, Annual Report and Statement of Accounts: Various issues.

APPENDIX 'C'

PER CAPITAL FOOD IMPORTS 1960-1990

YEAR	FOOD IMPORTS (₦ MILLION)	POPULATION (₦ MILLION)	PER CAPITAL FOOD IMPORTS 1 ÷ (₦)
1960	47.822	51.598	0.93
1961	45.442	52.921	0.86
1962	47.042	54.278	0.87
1963	43.826	55.670	0.79
1964	41.240	57.062	0.72
1965	46.062	58.489	0.79
1966	51.576	59.951	0.86
1967	42.560	61.450	0.69
1968	28.448	62.986	0.45
1969	41.726	64.561	0.65
1970	57.694	66.175	0.87
1971	88.254	68.160	1.29
1972	95.104	70.205	1.35
1973	126.260	72.311	1.75
1974	154.765	74.480	2.10
1975	298.805	76.714	3.90
1976	441.846	79.015	5.59
1977	781.19	81.38	9,60
1978	1108.66	83.83	13.22
1979	1105.90	85.97	12.86
1980	1191.016	88.41	13.47
1981	1506.750	90.92	16.57
1982	1642.2	93.92	17.49
1983	1296.7	96.16	13.48
1984	843.2	98.89	8.53
1985	940.6	101.70	9.25
1986	801.9	104.59	7.67
1987	1646.5	107.56	15.31
1988	1694.2	110.04	15,4
1989	2005.9	113.16	17.73
1990	3763.5	116.37	32.34

SOURCE: i. CBN, Annual Report and Statement of Account, various issues.

ii. CBN, Economic and Financial Review, various issues.

APPENDIX D

CURRENT EXPENDITURE OF THE FEDERAL GOVERNMENT 1970-80

(₦ Million)

YEAR	TOTAL	Gen. Admin.	%	Agricu-lture	%	Constr. and Manuf.	%
1970	909.1	458.8	50.7	4.4	0.5	13.3	1.5
1971	918.6	338.4	36.9	4.3	0.5	17.4	1.9
1972	1412.4	498.3	35.3	12.4	0.9	20.8	1.5
1973	1213.1	454.3	37.4	13.4	1.1	22.0	1.8
1974	2710.9	555.4	20.5	24.6	0.9	30.8	1.1
1975	4740.1	1055.4	22.3	38.8	0.8	55.3	1.2
1976	5459.6	1010.2	18.5	18.5	0.3	73.7	1.3
1977	6253.1	1040.4	16.6	42.0	0.7	73.0	1.2
1978	7139.1	1259.5	17.6	20.5	0.3	79.3	1.1
1979	8423.0	999.5	11.9	21.8	0.3	4.5	-
1980	15300.1	1917.4	13.0	56.0	0.4	273.2	1.6
1981	15741.3	2993.8	19.4	28.1	0.2	276.6	1.8
1982	10165.9	2340.1	23.1	29.0	0.2	169.3	1.7
1983	9806.7	2433.2	26.1	29.3	0.4	183.4	2.0
1984	11331.0	2677.3	23.6	32.8	0.4	200.4	1.8
1985	13480.3	2638.2	19.6	41.1	0.3	184.9	1.4
1986	14174.4	2675.7	18.9	38.1	0.5	282.7	2.0
1987	15646.2	6046.3	38.6	72.6	0.5	643.6	4.1
1988	19409.4	5777.8	29.8	83.0	0.4	693.6	3.6
1989	25994.2	6270.5	24.1	151.8	0.6	491.0	1.9
1990	36219.6	6540.2	18.3	258.0	0.7	634.4	1.8

Source: CBN, Economic and Financial Review - various issues.

APPENDIX E

CAPITAL EXPENDITURE OF THE FEDERAL GOVERNMENT 1970-90

(₦ Million)

YEAR	TOTAL	General Admin.	%	Agric-ulture	%	Const and Manuf	%
1970	221.0	145.0	65.6	5.6	2.5	5.0	2.3
1971	173.8	63.2	36.4	8.4	4.8	-	-
1972	451.3	108.2	24.1	20.7	4.6	2.8	0.6
1973	565.7	133.8	23.7	35.4	6.3	-	-
1974	1549.4	268.3	17.3	87.4	5.6	-	-
1975	3518.2	747.8	21.3	211.2	6.0	-	-
1976	4241.9	795.4	18.8	129.2	3.1	-	-
1977	5442.3	1013.4	18.6	113.7	2.1	959.6	17.6
1978	5197.0	989.9	19.0	125.0	2.4	652.3	12.6
1979	4837.5	769.5	15.9	98.3	2.0	927.2	19.2
1980	8395.4	1288.5	15.3	413.3	4.9	1503.9	17.9
1981	5696.9	720.1	12.6	1024.8	18.0	1257.0	22.1
1982	6896.2	763.2	11.1	615.6	8.9	882.9	12.8
1983	5868.6	681.0	11.6	228.1	3.9	893.8	15.2
1984	5411.0	262.7	4.9	125.5	2.3	82.3	1.5
1985	7613.3	459.6	6.0	134.9	1.8	368.0	4.8
1986	9076.8	264.8	2.9	236.2	2.6	138.2	1.5
1987	6372.5	1816.2	28,5	442.7	6.9	1008.2	15.8
1988	8340.1	1898.6	22.8	659.9	7.9	766.3	9.2
1989	15034.1	2617.5	17.4	1598.2	11.5	834.7	5.6
1990	24929.5	2919.9	11.7	1598.2	6.4	903.9	3.6

Source: CBN, Economic and Financial Review various issues.

APPENDIX F

SOME SELECTED NIGERIA'S ECONOMIC INDICATORS FOR SOME SELECTED YEARS

	1962	1966	1970	1975	1977	1979	1984	1985
a. GDP at current prices(₦m)	2630.8	3210.0	5705.8	21331.6	31120.0	40436.3	56716.3	5792.1
b. GNP (₦ million)	1841.6	2889.0	5139.3	20050.2	27771.8	33947.8	55389.8	56792.4
c. Population(Million)	54.3	60.0	66.6	74 .9	78.7	82.7	93.6	98.3
d. Government Investment(₦m)	319.8	484.8	473.5	5361.3	7375.9	6572.1	9553.6	13220.5
e. Labour Force in agric(M)	-	17.1	18.1	18.9	18.4	17.8	18.2	18.0
f. Labour Force in Manuf.(M)	1362.0	1402.1	2150.2	4356.5	5639.1	6258.3	6691.0	7097.0
g. Agric.Output (₦ million)	1362.0	1402.1	2150.2	4356.5	5639.1	6258.3	6691.0	7097.0
h. Manuf. Output (₦ million)	135.0	204.4	378.4	1170.4	1550.0	1895.5	2968.0	2279.0
i. Govt. Investment in agric per labour force (₦ m)	2.2	2.1	2.3	17.4	21.8	25.7	15.7	23.1
j. Govt. investment in manuf. per labour force (₦ m)	14.4	11.7	10.3	177.1	246.4	147.4	77.0	121.2
k. Govt Investment in Agric. (₦m)	35.0	35.0	41.0	329.0	400.8	457.0	285.3	415.1
l. Govt.Investment in Manuf. (₦m)	31.7	31.7	36.1	876.4	1330.8	854.8	469.7	727.4
m. Annual GDP Growth Rate	9.0	4.2	12.3	7.2	7.5	8.8	3.3	-3.3

Source: (i) National Development Plans 1962-68, 1970-74, 1975-80

(ii) Central Bank of Nigeria, Annual Reports various issues.

APPENDIX G

NIGERIA'S LABOUR FORCE AND DEPENDENTS 1980 - 1989

YEAR	Popul-ation	Labour	Depend-ents	Propor-tion of Labour Force to Pop.	Proportion of Depend-ents to pop.
1980	86767	27404	59363	31.6	68.4
1981	89315	28133	61182	31.5	68.5
1982	91862	28846	63016	31.4	68.6
1983	94410	29557	64853	31.3	68.7
1984	97516	30394	67122	31.2	68.8
1985	100620	31219	69401	31.0	69.0
1986	103731	32057	71674	30.9	69.1
1987	106817	32886	73931	30.8	69.2
1988	109944	33711	76233	30.7	69.3
1989	113749	34710	79039	30.5	69.5

Source: Arowolo O.O. (1982) Population change and Labour Force Supply in Population and Development in Nigeria, Orubuloye (ed) NISER.