# UNIVERSITY OF UYO

## THE ECONOMICS OF STRUCTURAL ADJUSTMENT AND THE ADJUSTMENT OF ECONOMICS+

By

**AKPAN H. EKPO**
*University of Uyo*
*Uyo, Akwa Ibom State*
*Nigeria.*

+ 9th INAUGURAL LECTURE DELIVERED IN THE UNIVERSITY OF UYO, COMMUNITY CENTRE, JANUARY 28, 2004.



# THE ECONOMICS OF STRUCTURAL ADJUSTMENT AND THE ADJUSTMENT OF ECONOMICS+

By

**AKPAN H. EKPO++**
**UNIVERSITY OF UYO**
**UYO, AKWA IBOM STATE**
**NIGERIA.**

+ 9th INAUGURAL LECTURE DELIVERED IN THE UNIVERSITY OF UYO, COMMUNITY CENTRE, JANUARY 28, 2004.

++ PROFESSOR OF ECONOMICS AND VICE-CHANCELLOR, UNIVERSITY OF UYO, UYO, AKWA IBOM STATE, NIGERIA.

e-mail: ahekpo@skannet.com
Web Page: www.AkpanHEkpo.com
Tel.: 234-85-200303.

**ISBN** 978-36515-1-X

Designed and printed by
**Sailand Printing Press**
08023388655



# LIST OF TABLES

## LIST OF FIGURES







## TABLE OF CONTENTS

## ACKNOWLEDGEMENTS

I wish to express gratitude to all my teachers who helped to shape my thoughts from the primary school level to the university level. I am grateful to teachers at St. Paul's Primary School, Lagos; Anglican Isoko Primary School, Apapa, Lagos; United Christian Secondary School, Apapa – Lagos, Howard University, Washington, D.C., USA , Northwestern University, Evanston, Illinois, USA and the University of Pittsburgh, Pittsburgh, Pennsylvania, USA.

I want to particularly acknowledge the lecturers, friends and comrades at Howard University who at the various seminars, workshops and symposia contributed to the radical development of my thoughts. It was at Howard University that I discovered and was convinced that education without total liberation is empty.

Specifically, I need to mention few individuals who had made positive turning points in my quest for education as well as my journey so far. These individuals include: Prof. I. I. Ukpong, Dr. Uford S. Inyang, Chief E. S. Atte, Dr. Asikpo Essien-Ibok, Elder O. A. Ufot, Mr. Patrick Archibong, Professor Jerome Wells, Prof. Ed. Attah, Professor Ransford Palmer, Professor Vincent McDonald, late Dr. Bala Muhammad, Justice John Bassey and Late Dr. Walter Rodney. Let me graciously mention Chief Anthony Ani, former Federal Minister of Finance and Arc. (Obong) Victor Attah for giving me the terrain to test and practice some of these ideas.

To my colleagues and students at Slippery Rock State University, Robert Morris College, North Carolina A & T State University – all in the USA, University of Calabar, University of Abuja, University of Zimbabwe, Harare, and the University of Uyo, I say thank you, for tolerating my persistent debates on issues. I am grateful to my collaborators Professor John Ndebbio and Professor Edet B. Akpakpan.

Lastly, I would like to thank my wife, Njeri and my children, Ekerete, Affiong, Ndifreke and Enobong for their patience and understanding, as I struggled along the academic ladder.






## DEDICATION

**This Inaugural Lecture is dedicated to my parents Late Elder Hogan Ekpo Etuknwa and Madam Affiong Harrison Ekpo Etuknwa for sacrificing all they had so that I can have what they did not have.**

# THE ECONOMICS OF STRUCTURAL ADJUSTMENT AND THE ADJUSTMENT OF ECONOMICS

## 1. INTRODUCTION

We have chosen this topic because since the introduction of structural adjustment in the late 1970s and early 1980s the developing countries, particularly those of sub-Saharan Africa (SSA) have moved from one crisis to another. Furthermore, we intend to locate some of our seminal papers within the context of structural adjustment. For Nigeria, it is very clear that since the introduction of a full blown Bretton-Woods Institutions (BWIs) type Structural Adjustment Programme (SAP) in 1986, the economy has moved from one crisis to another yet the SAP was supposed to ensure sustainable growth and development with minimal inflation. The Nigerian economy has never regained from the shocks (positive and negative) caused by the SAP. It seems our policy-makers are unable to conceptualize, formulate and implement programmes that will reverse Nigeria's underdevelopment and backwardness.

However, policy-makers in the industrialized and developed countries of Europe and North America appear to always conceptualize and implement programmes that will address their economic problems, sustain and even improve upon the standard of living of their citizens.

Structural adjustment measures are put in place in the belief that distortions are due to deviations from marginal cost pricing. Theoretically, SAP is deeply rooted in the dogma that market forces represent the **sine qua non** for arriving at realistic prices.

The collapse of classical theorizing in the 1930s as a result of the Keynesian 'revolution' (depression economics) which contended that government could be a partner in capitalist





development propelled the economies of Western Europe and America into an era of growth. The influence of neo-Keynesian policy prescriptions in fine-tuning several Western economies was apparent up to the mid-1970s. During the late 1970s and early 1980s, these economies began to experience stagflation – a serious crisis characterized by high rates of inflation, unemployment and declining productivity.

In an attempt to reverse the crisis of stagflation, there was a rebirth of classical economic theorizing under various names, for example, supply-side economics, new classical economics, business cycle theorizing, etc. The 'new' classical theory and its derivatives maintain that stagflation and/or depression are caused by unnecessary government intervention in the economy. Therefore, if government's role is minimal, supply-side programmes are implemented and economic agents are rational then the crisis can be averted and the development of capitalism can be sustained.

In this inaugural lecture, we intend to examine issues bordering on the economics of structural adjustment, draw on some empirical evidence based on our works. Thereafter, investigate whether economic science needs to be adjusted based on the implementation of structural adjustment.

It is anticipated that this lecture will alert us as to the importance of an appropriate framework for understanding problems of developing countries particularly Nigeria.

## 2. POLITICAL ECONOMY OF STRUCTURAL ADJUSTMENT

The need for an adjustment programme arises when an economy experiences an imbalance in aggregate supply which manifests itself in the worsening of a country's balance of payments. More often, this will take place after efforts at stabilization have failed to return the economy to its potential growth output. Though some countries (e.g. Nigeria) argue that their adjustment programmes have been designed internally, it is usually supported and recommended by the World Bank and the International Monetary Fund (IMF). It is extremely difficult to find an adjustment programme that differs from that of the Bretton Woods Institutions (BWIs). This is not surprising because the instruments needed to correct for structural problems in developing capitalist economies are essentially the same. Globally these developing economies are at the periphery of the industrialized economies.

The principal elements of an adjustment programme include:

- adopting measures to stimulate domestic production and broaden the supply base of an economy
- adopting a realistic exchange rate policy (devaluation)
- rationalization and restructuring of tariff structures
- trade and payment liberalization
- reduction or curtailment of government expenditures
- wage restraint
- adoption of appropriate pricing policies (the removal of subsidies)
- privatization of public sector enterprises
- increases in domestic interest rates
- reducing administrative controls through heavy reliance on market forces.

The objectives of adjustment are to: (i) restore a sustainable balance between aggregate demand and supply (ii) expand the production of tradeables and (iii) ease the balance of payments constraints. The proponents of adjustment believe that if every element in the package is set in motion in the medium term, an ailing economy would be set on a path of sustained non-





inflationary growth.

Formally, the World Bank and IMF type adjustment programmes are complex packages of policy measures designed essentially to achieve a viable balance of payments position in the medium and possibly in the short-term. The Fund has a mandate to ensure that the use of its resources by a member is linked to a viable payments position allowing scheduled repayment of the resources it had advanced.

The IMF posits that the basic cause for the external imbalance of a country is excessive monetary expansion which affects relative prices, hence encouraging imports, discouraging exports, and inducing unfavourable capital movements. It argues that in recent years, large fiscal deficits in the public sector have been the main cause of excessive monetary expansion in many developing countries. Therefore, the Fund-Bank approach to economic stabilization and adjustment is essentially eclectic. The theoretical formulation is neo-classical with the dominant variant being monetarist. It is anchored on the framework of the market mechanism. Thus, their policy prescriptions stressed the deregulation of all economic activities, free trade or trade liberalization, among others.

The focus of the monetary approach is that the balance of payments (BOP) is a monetary phenomenon rather than a matter of conditions in the market for tradeable products or of aggregate levels of savings and expenditure. Money plays a pivotal role in both disturbances and adjustment. In the extreme, all disturbances are seen to have a monetary origin, and only a monetary intervention will correct them. Accordingly, BOP deficits or surpluses are viewed as reflecting stock disequilibrium between demand and supply in the market for money. A balance of payments deficit is often the result of an expansion of domestic credit (money supply). The excess money which leaks abroad results in BOP deficit and reserve loss. On the other hand, when the demand for money balances exceeds the money stock, a surplus in the BOP occurs (Obadan and Ekuerhare, 1993).

We have elsewhere criticized the over-reliance on the market. The reliance on market forces ignores the fact that the so-called equilibrium price is either an administered one or a distorted price. The negative activities of multinational corporations through transfer pricing, excessive profit repatriation, corruption and exploitation of workers cannot result in a competitive price. The market structure in Nigeria is more oligopolistic than competitive (Ekpo, 1987).

The theory of structural adjustment places emphasis on the availability of foreign exchange if developing countries are to escape from underdevelopment. Foreign exchange fetishism makes a country's economic policy gravitate around the foreign exchange variable and perceives the latter as necessary and sufficient conditions for growth and development. We have argued elsewhere that on the part of firms, emphasis on foreign exchange will reduce output.

Let $R(q)$ represent total revenue, $C(q)$ total cost, and $fq$ the total foreign exchange required by a firm; $q$ is output and $f$ is per unit foreign exchange rate – a parameter determined by forces beyond the firm's control. (For example, the foreign exchange market). Note that the assumption here is that foreign exchange is desired to obtain foreign capital which is taken as homogenous.

The problem is, therefore, expressed as follows:

$$\text{Max } V(q) = R(q) - C(q) - fq \qquad (1)$$

$$\frac{\partial V}{\partial q} = R^1(q) - C^1(q) - f = 0 \qquad (2)$$

or





$$R^1(q) = C^1(q) + f \qquad (3)$$

Where:

$^1$ represents partial derivatives

For a maximum, the sufficient condition is:

$$R^{11}(q) - C^{11}(q) < 0 \qquad (4)$$

Equation (2) or (3) which is the choice function states that the firm will prefer the level of output where marginal revenue equates marginal cost plus the cost of foreign exchange. From equations

(2) and (3), we have

$$Q = q^*(f) \qquad (5)$$

Equation (2) indicates an implicit relationship between q and f but could be solved as an explicit chôice function as in equation (5). Substituting equation (5) into equation (2), we obtain,

$$R^1[q^*(f)] - C^1[q^*(f)] - f = 0 \qquad (6)$$

Differentiating both sides of equation (6) wrt f:

$$R^{11}(q)\frac{dq^*}{df} - C^{11}(q)\frac{dq^*}{df} - 1 = 0 \qquad (7)$$

Assuming $(R^{11} - C^{11}) < 0$, we thus obtain:

$$\frac{dq^*}{df} = \frac{1}{R^{11} - C^{11}} \qquad (8)$$

From the sufficient condition for profit maximization

$(R^{11} - C^{11} < 0)$, we thus have

$$\frac{dq^*}{df} < 0 \qquad (9)$$

Based on equation (9), an increase in the cost of foreign exchange will lead to a reduction in output for an individual firm. Though the theory of structural adjustment seems macro in outlook, its micro implications cannot be ignored.

It is also the contention by the proponent of the SAP that the devaluation or real depreciation of a national currency will increase exports and reduce imports.

The **a priori** assumption is that economic activity following the devaluation will focus more on the production of tradeables than on goods not traded on international markets (e.g. construction, hair cuts, etc.). The merits and demerits of devaluation in the context of SAP is explained in Lindert and Kindleberger, (1982 pp. 278-300); Khan and Knight, (1981 pp 15-18); Obadan, (1987, pp. 37-40).

The false assumption on the issue of devaluation is that imbalances which require stabilization often result from the loss of international competitiveness caused by an overvalued exchanged rate. The theory ignores or dismisses the fact that the prices of exports from developing countries are determined outside their borders and in foreign currencies. Factors such as corruption, non-productive activities within an economy, the degree of dependency and the structure of production areAjakaiye (1985) and Nnanna (1985) have shown that the price elasticities of imports for Nigeria are very small and therefore devaluation will not reduce imports substantially. While the theory of devaluation seems attractive, its practice has not yielded any reasonable success. Abundant empirical evidence against devaluation suggests that its role should be de-emphasized in the theory of structural adjustment (Krugman and Taylor, 1978; Cooper, 1971; Dornbusch, 1981; and Hanson, 1983).

It has been argued that the sole purpose of the IMF adjustment programme is to empower countries pay interest on





debts, ensure renewed commercial lending to developing countries, thereby making them more indebted and keep the clients economy alive enough to promote development in the USA and Europe.

In 1983, L. H. Hamilton, Vice-Chairman of the Economic Committee of the House of Representatives in justifying increased United States fiscal support for the IMF argued:

> My colleagues raise a number of objections to the IMF Legislation………….. The IMF legislation will help indebted countries pay interest on their commercial loans, but it will also help these countries pay for imports that they could not otherwise afford. The relationship between the IMF and US exports and jobs becomes clear when we examine the recent history of our trade with Mexico, third largest among our trading partners. In 1981 we exported roughly $18.0 billion in manufactured goods and farm products to Mexico. By the end of 1982, our exports had fallen by $6 billion due to Mexico's liquidity problems. Were exports to Mexico to remain at year end levels we would loose approximately 250,000 jobs. Hope for an increase of our exports lies with the IMF adjustment programme.

With IMF financing conditioned on the

> imposition of sound economic measures in Mexico and renewed commercial lending to that nation, Mexico will get its economy moving and increase its purchase of our products (Guardian, 1983).

The above statement clearly defines the interest of the IMF. The IMF is not only the most powerful supranational government in the world today but also is an instrument of instilling financial discipline on developing countries especially those that have rejected the capitalist path of development. "The resources it controls and its power to interfere in the internal affairs of borrowing nations give it the authority of which United Nations advocates can only dream" (Payer, 1974, p.ix).

Some of you may recall that there was a national debate as to whether Nigeria should take the IMF facility or not. The debate was entirely unnecessary because the ruling class (the then policy-makers inclusive) had already made the decision to obtain the facility. Their perception of reality was that Nigeria can indeed develop a capitalist economy if the structural bottlenecks and rigidities are removed. Therefore, the implementation of the SAP was a conscious effort by our policy-makers who believed that the crisis in developing a capitalist system such as Nigeria can be solved through SAP particularly as efforts at stabilization had proved fruitless.

Despite the attempt to cushion the adverse effects of adjustment, the negative consequences were so overwhelming that SAP as a programme was 'abandoned' in 1992 though some of its elements continue to torment the economy. The damage had already been done and even post-SAP Nigeria is still suffering from the negative effects of structural adjustment.

What lessons have we learnt from the implementation of the





SAP? The section on Nigeria's economic performance overtime will address this question. Let us examine the framework of analysis that is appropriate in discussing the subject matter of structural adjustment.

## 3. FRAMEWORK OF ANALYSIS

There are several approaches to studying any phenomenon. There is no doubt that the SAP falls within the framework of orthodox classical theory. The new macroeconomics school (new classical and new Keynesians) do not, in my opinion, show a marked departure from orthodox theorizing.

In the 1970s, there appeared a strong restatement of neo-classical ideas that were hitherto criticized and superceded by the Keynesian revolution . In classical orthodoxy, any explanation of business cycles (where capitalist crisis occurs) must be consistent with (a) market-clearing and (b) optimizing behaviour by rational economic agents. The contemporary restatement of these classical ideas is now known as the new classical macroeconomics. It is anchored on the methodology of rational economic agents. Its tenets include: (a) economic agents optimize, (b) markets clear, (c) expectations are formed rationally and (d) aggregate supply depends on relative prices. The new classical models try to show an alternative to the Keynesian explanation of the business cycle and to indicate that non-market clearing is not a necessary condition for the observed cyclical behaviour of economies.

A significant contribution of the new classical approach is its assumptions about the supply side of the economy from those found in Keynesian models. Furthermore, the notion of rational expectations ensures that economic agents will utilize completely all available information when forming expectations. The new classical arguments posit that government should abstain from an active stabilization policy. Their perception is that systematic changes in policy variables have no effect on real variables – the invariance proposition.

The new-Keynesian attack on the new classical approach rests on the market-clearing assumption, "If markets do not clear because of slow price and wage adjustment then fiscal and monetary policies still have real effects on output. Generally, new Keynesians do agree on rational expectations within a non-market clearing framework. They strongly believe that there is a role for stabilization policies in an economy (Ekpo, 1997c, p.13).

It is evident that the structural adjustment programme is based on an eclectic framework incorporating elements within classical and Keynesian orthodoxy. In fact, the alternative prescribed by the Economic Commission for Africa falls within the neo-Keynesian framework while capturing the realities of the African economy. Incidentally, the ECA's framework was not sustainable because it lacked the financing aspect.

Another approach to understanding the subject matter is through the dialectical and historical materialist approach. By dialectic we mean that contradiction is the essence of all phenomena. Therefore, we need to perceive dialectics as the key to change. The dialectic involves the struggles of opposites. It is the science of the general laws of motion and development of nature, human society and thought. The historical and dialectical materialist method consists of three components: the materialist theory of social formation as a guiding hypothesis, the activist epistemology which emphasizes the role of practice in knowing and dialectics as a way of analyzing complex, contradictory and dynamic interconnections. (Toyo, 1983; Onimode, 1985, pp 25 – 42, Rodney, 1981, pp. 31-41). This framework provides a penetrating understanding of social systems particularly capitalism. It is otherwise known as the





Marxian approach. It does not negate other methods; rather it swallows them. It provides a robust framework for analysing of social phenomenon. It incorporates anthropology, sociology, mathematics, logic etc. and is independent of time and space.

If this framework is used to study the concept, formulation and implementation of structural adjustment programme in Nigeria then more insightful results will be obtained. It will expose the perception of reality by the policy-makers as well as the class character of the state (Toyo, 2002).

## 4. PERFORMANCE OF THE NIGERIAN ECONOMY

The Nigerian economy remains underdeveloped and backward despite the existence of abundant human and natural resources. There are very few countries in the world that are so endowed as Nigeria. In the 1960s and early 1970s, Nigeria, Malaysia, Indonesia, Taiwan, Singapore and South Korea had similar income per capita, GDP growth rates and under-developed political structures. Today, the Asian Tigers (Newly Industrialized Countries) have escaped under-development and poverty partly because of the way in which their economies were managed.

The Nigerian economy entered the world capitalist system when she was colonized by Britain. After independence in 1960, she remained part of the global system as essentially an importer of finished goods and exporter of raw materials (primary commodities including petroleum). The situation has not fundamentally been altered.

The Nigerian economy has experienced all the phases of a typical business cycle (decline, depression or recession, recovery and boom). However, none of the booms (agriculture, oil and financial) resulted in any significant restructuring and transformation of the economy. None of the booms was ever linked to the real sector. Each boom came and disappeared.

Nigeria was unable to maximize the benefits associated with economic booms.

There is no doubt that the Nigerian economy earned increased revenue as a result of the positive oil shock of 1973-74. The windfall from oil and the subsequent boom enabled government to participate actively in the economy. However, the windfall from oil was not utilized in creating a strong industrial base. Consequently, with the negative oil shock of 1981, government no longer had the resources to execute its programmes. There was a persistent disequilibrium in the balance of payments. At some point in 1985, the country only had foreign exchange to finance two months of imports. The intensive primitive accumulation which is still on further exacerbated the problems of the country.

During the mid – 1980s, the industrialized economies were going through a period of stagflation. Because the Nigerian economy is an integral part of the global system, it follows that depression in the industrialized countries will affect Nigeria. Therefore, Nigeria experienced the depression as a client given her dependent nature.

It was, therefore, not surprising that by 1984/85, the Nigerian economy was deep in a depression which started in early 1980/81, unemployment rates were very high, the rate of inflation became not only double digit but run-away coupled with declining productivity. When these indices are examined against the background of deteriorating social services, it was apparent that some measures were necessary to arrest the crisis.

The various austerity measures and the stabilization packages of the early 1980s did not reverse the declining trend in the economy partly because the distortions have been persistent for a long-time. As once stated early in this lecture, government in 1986 implemented a full blown BWI SAP with the objective of





correcting the distortions in the economy and steer it on a recovery path with minimal inflation.

In 1993, government 'abandoned' the SAP though some of its elements continued to torment the economy. Managers of the economy experimented a 'guided' deregulation philosophy. Their inability to properly manage the economy due to **ad hoc** policies, policy reversals and inconsistent macroeconomic policies as well as the political crisis retarded the growth of the economy.

The present regime's economic policy is not too different from those of the 1970s except implementation is under a democratic experiment. The regime is committed to building capitalism; it romances with the BWIs. The new economic reform programme known as NATIONAL Economic Empowerment and Development Strategy (NEEDS) is not too different from the old SAP in that it seeks to correct distortions due to deviations from non-market clearing prices. Most of the elements of SAP namely privatization, curtailment of public expenditures etc. are in the new programme. However, NEEDS appear more comprehensive covering all facets of the economy. The ownership issue regarding the reform programme is irrelevant. Any economic reform programme mirrors the perception and philosophy of the ruling elites and their policy-makers to a large extent.

Therefore, once a developing capitalist economy is in crisis, ideologues of the system will prescribe similar solutions whether they reside in Washington, D.C; Kingston, Jamaica; Abuja, Nigeria; Nairobi, Kenya etc.

Despite the bold attempts taken by this administration the economy is still in the woods. Economic indices show overall marginal improvements. Generally, poverty is worsening; about 70% of Nigerians live below the poverty line. The state of infrastructure and the provision of social services are nothing to write home about. We are still in a crisis. What have we learnt after the SAP? Let us examine the evidence.

## 4.1. The Real Sector[1]

The growth of the agricultural sector which remained at 5.8% between 1990 – 1993 reduced to 3.5% between 1997 – 1998 and further declined to 1.8% during the period 1999 – 2001. During the period 1999 – 2001, agricultural GDP showed an average growth rate of 2.6%. The growth of this sector is disturbing given the fact that agricultural sector employs about 70% of the labour force with an expansive and rich arable land. The agricultural sector should grow between 7% and 10% in order to have any meaningful impact on poverty reduction.

It is important to re-examine the incentives package to farmers so as to increase productivity. The issues of subsidy regarding affordability of fertilizers, credible price-support system and modern production technologies must be revisited if this sub-sector is to contribute to sustained growth and development.

From table 1, the period 1999 – 2001 witnessed slow growth in all aspects of agricultural production; growth in real output depends on the performance of the agricultural sector.

The performance of the industrial sector was unsatisfactory. Available data (see Table 2) show that between 1990 – 1992 growth in the sector stood at 2.1%. Between 1993 – 1995 growth was –1.3%. However, between 1999 – 2001 growth rose to 6.1%. The slow growth in industrial production can be ascertained from sluggish growth in the key sub-sectors. For the period 1993 – 1995, the growth of manufacturing stood at –8.4%, mining at 3.2% and electricity at 3.1%. The mining sub-sector grew by 7.4% during the period 1999-2001; this may be due to increased activity in the solid minerals sub-sector.

The disappointing performance of manufacturing should be taken seriously especially as manufacturing is supposed to be an "engine of growth". Manufacturing capacity utilization which averaged 75% in the mid-1980s declined sharply to below 50%



The Economics of Structural Adjustment and the Adjustment of Economics+

from 1983 and by 1995 it remained at about 29%. In 1999, capacity utilization was about 30% and rose to about 40% in 2001; this marginal improvement cannot contribute to increased real output in the economy. Before the SAP in 1986, capacity utilization averaged over 70%. Thereafter, it nose-dived throughout the period of the middle 1980s and 1990s (See graph).

There is no question that expansion of manufacturing has been constrained by series of factors such as (i) low effective demand for local manufactured goods; (ii) high cost of domestic production due to high cost of investible funds, increase in tariffs on basic utilities; and (iii) poor infrastructure.

It is important that small-and-medium scale businesses be encouraged; most small and medium-scale businesses are unable to access the facility created by the CBN due to strict conditions by the banks. Since government has intervened in the provision of credit, it should complete the process by ensuring that the funds are actually disbursed.

**Table 1: Nigeria: Growth in Agricultural Production, 1990 – 2001 (%)**

| | 1990-1993 | 1992-1996 | 1997-1998 | 1999-2001 |
|---|---|---|---|---|
| Aggregate | 5.8 | 3.0 | 3.5 | 1.8 |
| Crops | 7.4 | 3.4 | 3.7 | 3.4 |
| Staples | 8.0 | 3.8 | 2.8 | 3.2 |
| Other Crops | 3.9 | 0.6 | 6.5 | 3.3 |
| Livestock | 0.9 | 2.5 | 0.5 | 2.7 |
| Fishery | -13.2 | 3.1 | 6.8 | 3.8 |
| Forestry | 2.6 | 1.9 | 0.6 | 1.7 |

Source: Calculated from Central Bank of Nigeria: Annual Report and Statement of Accounts, Various Issues.

**Table 2: Nigeria: Average Growth Rate of Industrial Production**

| Period | Manufacturing | Mining | Electricity | All Sectors |
|---|---|---|---|---|
| 1990-1992 | 2.0 | 2.1 | 5.6 | 2.1 |
| 1993-1995 | -8.4 | 3.2 | 3.1 | -1.3 |
| 1996-1998 | -1.7 | 2.3 | -2.8 | 0.8 |
| 1999-2001 | 3.1 | 7.4 | 1.8 | 6.1 |

Source: Computed from Central Bank of Nigeria: Annual Report and Statement of Accounts, Various Issues



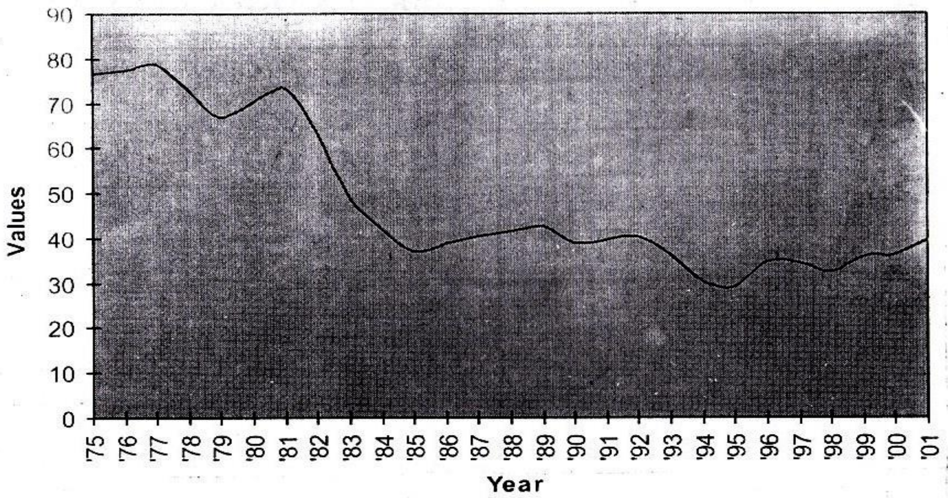


**Table 3: Nigeria: Average Manufacturing Capacity Utilization Rates, 1975 – 2001 (%)**

| Year | Capacity Utilization (CU) |
|---|---|
| 1975 | 76.6 |
| 1976 | 77.4 |
| 1977 | 78.7 |
| 1978 | 72.9 |
| 1979 | 66.8 |
| 1980 | 70.1 |
| 1981 | 73.3 |
| 1982 | 63.6 |
| 1983 | 49.1 |
| 1984 | 42.0 |
| 1985 | 37.1 |
| 1986 | 38.9 |
| 1987 | 40.4 |
| 1988 | 41.5 |
| 1989 | 42.5 |
| 1990 | 39.0 |
| 1991 | 39.4 |
| 1992 | 40.4 |
| 1993 | 36.2 |
| 1994 | 30.4 |
| 1995 | 29.3 |
| 1996 | 34.7 |
| 1997 | 34.2 |
| 1998 | 32.4 |
| 1999 | 35.9 |
| 2000 | 36.1 |
| 2001 | 39.6 |

Source: Central Bank of Nigeria. Annual Report and Statement of Accounts, Various Issue

Fig. 1: Nigeria: Average Manufacturing Capacity Utilization Rates, 1975 - 2001 (%)




## 4.2. Monetary and Financial Sector

The monetary authorities have tried to control inflation over the last four years. The inflationary spiral is due to expansionary fiscal spending and rapid growth of money and credit. The three tiers of government have spent exorbitantly during the last four years. During the period 1999 – 2001, the growth in monetary aggregate was excessive and grossly out of line with the prescribed targets. The expansion (see Table 4) was induced by the monetization of excess crude oil receipts, savings and monetary financing of Federal Government fiscal deficits.

Broad money supply (M2) increased by 27.0% in 2001 as against the 12.2% stipulated target for the fiscal year and 47.1% rise in 2000. In the same vein, narrow money (M1) rose by 28.1% compared with the target of 4.3% and the increase of 62.2% recorded in 2000. However, the observed growth between





2000 and 2001 indicates a deceleration (see Table 4). This is due to the various measures taken by the monetary authorities to address the problem of excess liquidity in the banking system.

The credit to the domestic economy for period 1993 – 2001 is presented in Table 4. Credit to government which had drastically reduced by 2000 jumped to almost 80% in 2001 due to the huge fiscal deficit financed by the Central Bank.

The increased credit to the private sector is encouraging but it seems that the increase is caused by persistent demand pressure in the foreign exchange market. The increased credit to the private sector ought to influence investment with positive results in real output of the economy.

The structure of interest rates can influence the developments in the monetary and financial sector. For example, the Central Bank continues to fine-tune the rediscount rate to influence both the bank deposit and lending rates. In June, 2001 the rediscount rate was increased to 18.5%. A detailed analysis of interest rate management in Nigeria is in Ekpo, (2001, pp. 1-23).

It is interesting to note that real interest rate remained negative for most of the period 1970-2001. From 1970 to 1984 (with the exception of 1972-74 and 1982), real interest rates were negative. During the period, the economy was characterized by oil windfall and reasonable growth in GDP. Between 1992 and 1996, a period of guided deregulation, real interest rates remained largely negative, ranging from –8.44% to –52.01%. These episodes of negative real interest rates confirm the inconsistency between savings and investment in the Nigerian economy. In addition, it gives credence to the fact that interest rates have no influence on savings and that policy should be directed at increasing incomes if saving is to be enhanced.

**Table 4: Nigeria: Growth of Money and credit to the Economy 1993-2001 (%)**

| Year | Net Domestic Credit | Net Credit to Govt. | Credit to the Private Sector | Narrow Money (M1) | Broad Money (M2) |
|---|---|---|---|---|---|
| 1993 | 6.27 | 89.1 | 19.9 | 57.5 | 54.0 |
| 1994 | 34.3 | 21.6 | 72.8 | 46.7 | 36.3 |
| 1995 | 22.0 | 7.7 | 49.4 | 15.4 | 18.8 |
| 1996 | -25.8 | -61.6 | 23.3 | 18.0 | 19.1 |
| 1997 | -2.8 | -53.5 | 23.9 | 18.2 | 16.9 |
| 1998 | 46.8 | 144.9 | 27.4 | 20.5 | 23.3 |
| 1999 | 30.1 | 32.0 | 29.2 | 18.0 | 31.7 |
| 2000 | -25.3 | -170.1 | 30.9 | 62.2 | 48.1 |
| 2001 | 75.8 | 79.7 | 43.5 | 28.1 | 27.0 |

Source: CBN: Annual Report and Statement of Accounts, Various Issues





**Table 5: Nigeria: Nominal and Real Interest Rates and Rates of Inflation, 1970-2002(%)**

| Year | Nominal Lending Rate | Rates of Inflation | Real interest Rates |
|---|---|---|---|
| 1970 | 7.5-8.0 | 13.8 | -6.3 |
| 1971 | 10.00 | 15.6 | -5.6 |
| 1972 | 10.00 | 3.2 | 6.8 |
| 1973 | 10.00 | 5.4 | 4.6 |
| 1974 | 10.00 | 13.4 | -3.4 |
| 1975 | 9.00 | 33.9 | -24.9 |
| 1976 | 10.00 | 21.2 | -11.2 |
| 1977 | 6.00 | 15.4 | -9.4 |
| 1978 | 11.00 | 16.6 | -5.6 |
| 1979 | 11.00 | 11.8 | -0.8 |
| 1980 | 9.50 | 9.9 | -0.4 |
| 1981 | 10.00 | 20.0 | -10.9 |
| 1982 | 11.75 | 7.7 | 4.5 |
| 1983 | 11.50 | 23.2 | -11.7 |
| 1984 | 13.00 | 39.6 | -26.6 |
| 1985 | 11.75 | 5.5 | 6.25 |
| 1986 | 12.00 | 5.4 | 6.6 |
| 1987 | 19.20 | 10.2 | 9.0 |
| 1988 | 17.60 | 38.3 | -20.7 |

| | | | |
|---|---|---|---|
| 1989 | 24.60 | 40.9 | -16.3 |
| 1990 | 27.70 | 7.5 | 13.2 |
| 1991 | 20.80 | 13.0 | 7.8 |
| 1992 | 31.20 | 44.5 | -13.5 |
| 1993 | 18.32 | 57.2 | -38.98 |
| 1994 | 21.00 | 57.0 | -36.00 |
| 1995 | 20.79 | 72.8 | -52.01 |
| 1996 | 20.86 | 29.3 | -8.44 |
| 1997 | 20.92 | 8.5 | -12.42 |
| 1998 | 21.80 | 10.8 | 11.00 |
| 1999 | 27.20 | 6.6 | 20.60 |
| 2000 | 30.00 | 6.9 | 23.7 |
| 2001 | 24.00 | 18.9 | 5.1 |
| 2002 | 24.00 | 20.2 | 3.8 |

**Source: Central Bank of Nigeria Statistical Bulletin, Various Issues.**





**Fig. 2: Nigeria: Nominal and Real Interest Rates, 1970 - 2002 (%)**

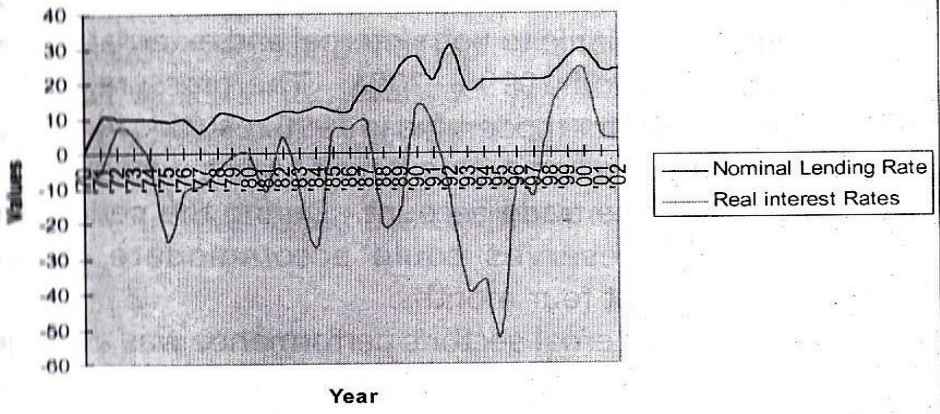
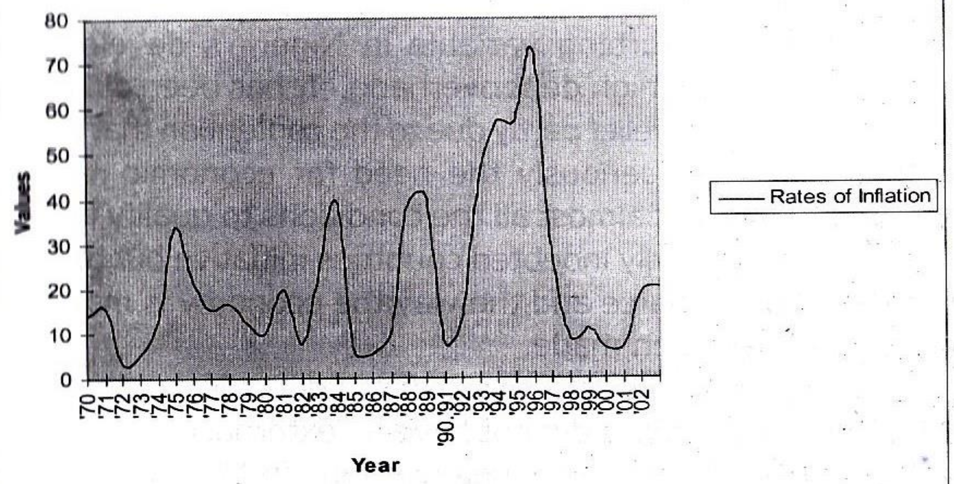



**Fig. 3: Nigeria: Rates of Inflation, 1970 - 2002 (%)**



### 4.3. The External Sector

The performance of the external sector since independence has been mixed. Since the favourable balance of trade position was reversed in the mid – 1970s the external sector has remained volatile to both internal and external shocks except during the period 1999 – 2001. The pressure on the economy's external sector moderated in 1996 resulting in a lower deficit of "195,216.3 million. This development was due to a favourable merchandise trade account. During the period, the country's external reserves could accommodate import commitments for about four months.

In 2001, the external sector's performance was average. The overall balance of payments was in surplus to the tune of "51.1 billion (US 459 m); the available external reserves could finance 10.5 months worth of imports. The buoyant balance of payments situation was due to favourable external factors such as the high world prices of petroleum , among others. (Iyoha, 2002, p.17; CBN, 2001).

Another disturbing variable in Nigeria's development matrix is that of the high debt overhang. It has been difficult to obtain external debt relief partly due to the contention that Nigeria has not addressed seriously the need for economic reforms. The country has met almost all the conditions to qualify for debt relief under the heavily indebted countries initiative but because of the huge oil resource and the way the economy is managed, no progress has been made.

Table 6 provides data on significant debt measures. Before 1980, the country really did not have an external debt problem. Beginning 1981 debt situation deteriorated. In 1989, the external





debt/GDP ratio was almost 107%; it reduced to about 71% in 1994 and jumped to almost 81% in 1999. Thereafter, it declined to almost 58% in 2001. The situation must be reversed in order to free resources for national development. It is anticipated that the management of the debt will not last for too long. This is against the background that a permanent Debt Management Office now exists in the country. The Office is a full-fledged bureaucracy with the Director-General. The external debt stock should be reduced to about 5% of GDP. It seems progress has been made in reconciling the country's external debt with the Paris Club.

**Table 6: Nigeria: Domestic and External Debt As Percentage of GDP, 1980 – 2001**

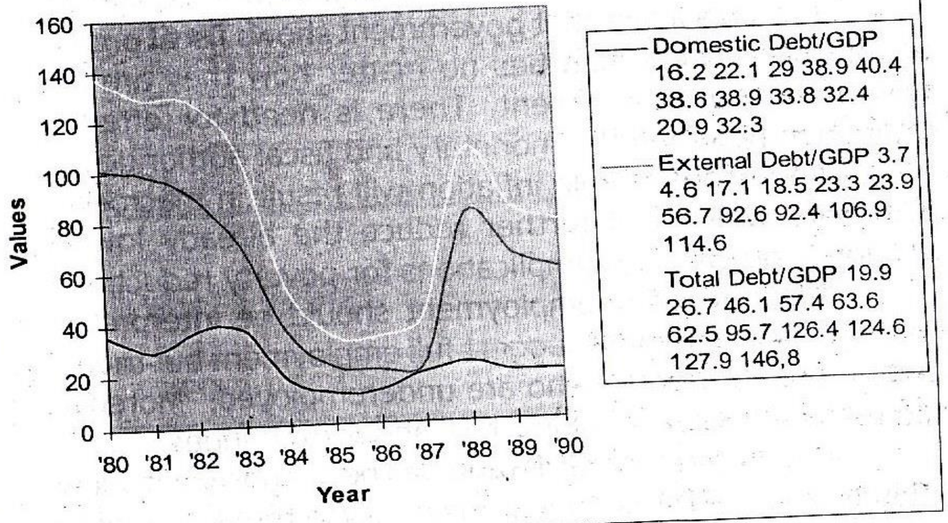
| Year | Domestic Debt/GDP | External Debt/GDP | Total Debt/ GDP |
|---|---|---|---|
| 1980 | 16.2 | 3.7 | 19.9 |
| 1981 | 22.1 | 4.6 | 26.7 |
| 1982 | 29.0 | 17.1 | 46.1 |
| 1983 | 38.9 | 18.5 | 57.4 |
| 1984 | 40.4 | 23.3 | 63.6 |
| 1985 | 38.6 | 23.9 | 62.5 |
| 1986 | 38.9 | 56.7 | 95.7 |
| 1987 | 33.8 | 92.6 | 126.4 |
| 1988 | 32.4 | 92.4 | 124.6 |
| 1989 | 20.9 | 106.9 | 127.9 |
| 1990 | 32.3 | 114.6 | 146,8 |
| 1991 | 35.9 | 101.2 | 137.1 |
| 1992 | 29.4 | 99.0 | 128.4 |
| 1993 | 37.5 | 90.8 | 128.3 |
| 1994 | 37.3 | 70.9 | 108.2 |
| 1995 | 17.2 | 36.2 | 53.5 |
| 1996 | 12.2 | 21.9 | 34.0 |
| 1997 | 12.5 | 21.0 | 33.5 |
| 1998 | 19.4 | 22.9 | 41.3 |
| 1999 | 22.9 | 80.7 | 105.6 |
| 2000 | 18.6 | 64.0 | 82.6 |
| 2001 | 18.5 | 57.9 | 76.4 |

**Source:** **Central Bank of Nigeria Annual Report and Statement of Accounts, Various Issues.**





**Fig. 4: Nigeria: Domestic and External Debt As % of GDP, 1980 - 2001**




## 4.4 TREND IN OTHER KEY ECONOMIC INDICATORS

The rate of inflation which remained at 70% in 1994 dropped to single digit (8.5%) in 1997. It declined further to 6.6% in 1999. However, in 2001 inflation rose to almost 19% against the background of measures taken by the monetary authorities to mop up excess liquidity. The present inflation has been driven by both demand-pull and cost-push factors. The demand-pull factors include:

- expansionary fiscal policy by all tiers of government
- rapid monetary growth
- large wage and salary increases

The cost-push factors propelling inflation are:

- Fuel price increases and/or fuel scarcity leading to structural inflation
- Inadequate and poor infrastructural services
- Supply constraints resulting from congestion.

It is important that government shows fiscal prudence as uncontrolled fiscal activities no matter how they are financed will crowd out investment. There is need for effective co-ordination between the monetary and fiscal authorities.

An uncontrollable inflation will result in macroeconomic instability which will further reduce the already low rate of economic growth with implications for poverty reduction.

The rate of unemployment should be interpreted with caution. Available data suggest full employment but there exists large a pool of people who are underemployed. Moreover, not too many job seekers utilize the labour exchanges.

The investment/GDP ratio has been consistently low from 1989 to 2001. This is not surprising given the dearth of foreign private investment in the economy. The savings-investment gap must be narrowed if the economy is to be on the path of sustained growth and development. The data in Table 7 and previous analysis show an economy in a recession in the last four years. Most of the economic fundamentals are moving in the wrong direction. The growth of GDP which stood at almost 5% in 1960 dropped to –0.8% in 1980 and –3.4% in 1985. The economy is presently projected to grow at the rates experienced in the 1960s and 1970s (5%).

When the above evidence is combined with the social indicators in Table A1 in the appendix there is no question that urgent measures must be put in place to avoid economic collapse.





**Table 7: Nigeria: Selected Economic Indicators for Selected Years (%)**

| Year | P | U | Y | I/GDP | DEF/Y |
|---|---|---|---|---|---|
| 1960 | 6.0 | 2.4 | 4.8 | 5.0 | -1.53 |
| 1970 | 13.0 | 4.8 | 5.7 | 5.4 | 8.41 |
| 1971 | 15.6 | 5.3 | 6.2 | 6.3 | 0.50 |
| 1975 | 33.9 | 4.8 | 6.0 | 15.2 | 1.97 |
| 1979 | 9.9 | 10.4 | 1.6 | 16.5 | 6.6 |
| 1980 | 20.0 | 7.8 | -0.8 | 17.9 | 3.9 |
| 1983 | 23.2 | 3.4 | 6.7 | 14.6 | 5.9 |
| 1985 | 5.5 | 8.2 | -3.4 | 7.1 | 4.9 |
| 1987 | 10.2 | 7.1 | 4.2 | 6.2 | 5.4 |
| 1992 | 44.4 | 3.2 | 3.6 | 4.1 | 7.2 |
| 1993 | 57.2 | 5.4 | 2.9 | 3.8 | 15.5 |
| 1994 | 70.0 | 2.2 | 1.0 | 4.2 | 7.7 |
| 1995 | 72.8 | 1.8 | 2.7 | 5.1 | 0.1 |
| 1996 | 29.3 | 3.8 | 3.2 | 5.2 | 1.8 |

| | | | | | |
|---|---|---|---|---|---|
| 1997 | 8.5 | 3.6 | 3.8 | 5.4 | -0.2 |
| 1998 | 10.0 | 3.2 | 2.4 | 5.3 | -4.7 |
| 1999 | 6.6 | 3.0 | 2.6 | 4.9 | -8.5 |
| 2000 | 6.9 | 3.6 | 3.8 | 5.4 | -2.1 |
| 2001 | 18.9 | 3.5 | 3.9 | 6.3 | -4.0 |
| 2002 | 20.2 | 3.8 | - | - | - |

**Notes**:

P = rate of inflation; u = unemployment rate; Y = growth of GDP $^{I}$/GDP = investment/GDP; $^{DEF}$/Y = overall deficit/surplus/GDP

**Source**: Central Bank of Nigeria. Annual Report and Statement of Accounts, Various issues





## 5. CONTRIBUTIONS FROM SELECTED WORKS

It is customary to highlight one's contribution to knowledge in order to perhaps justify why today's lecture is necessary. Traditionally, the inaugural lecture is often delivered the day one is given a chair. We highlight below some of my published works that have some bearing with the subject matter:

1. Corruption and Prices: A Theoretical Note, 1985
2. Capital Formation in Selected West African Countries: Theory and Empirical Evidence, 1987
3. The Morphology of Growth in Selected West African Countries, 1989.
4. Second-tier Foreign Exchange Market and the Nigerian Economy, Theoretical Issues, 1991
5. The Economics of Public Enterprises, 1991
6. Political Economy of Human Rights, A Materialist Interpretation, 1992.
7. Economic Recovery and self-reliance in Nigeria: Implications for Labour, 1992
8. Economic Development Under Structural Adjustment: Evidence from Selected West African Countries, 1992
9. Unemployment and Inflation During Structural Adjustment: The Nigerian Experience, 1992.
10. A Re-examination of the Theory and Philosophy of Structural Adjustment, 1993
11. Exports and Economic Growth in Nigeria: A Reconsideration of the Evidence, 1994
12. Money, Finance and Development in ECOWAS: Theory and Some Evidence, 1994
13. The Role of the Annual Budget in Macroeconomic Management, 1996.
14. The Public Sector in Revitalizing Nigeria's Economy, 1997.

15. Foreign Private Investment in Nigeria: Evidence From Time Series Data, 1997.
16. Private Investment and external Debt: Is the Debt Overhang Hypothesis Relevant to Nigeria, 1998?
17. Public Expenditure and Economic Growth in a Petroleum-based Economy: Nigeria, 1999.
18. Interest Rate Management in Nigeria: Lessons From Conceptual and Empirical Reviews, 2001.19. Equity, Efficiency and Incentive Effects of Revenue Policy, 2001.
20. Economic Governance and NEPAD, 2002
21. The New Macroeconomics: How Relevant to Africa, 1997.
22. Openness and Economic Performance in Nigeria, A Time Series Analysis, 1995.
23. Economic Reforms and the National Question in Nigeria, 1993.
24. The Nigerian Economic Crisis: Is An IMF Loan the Solution? 1991.
25. Economic Crisis and the IMF: The Case of West Africa, 1991.
26. Distortions in Economic Theory and Method: The Nigerian Scene, 1987.

These papers are available on our web page: **www.AkpanHEkpo.com**. The summary of the findings in some of the papers appear illuminating.

I. **Capital Formation, 1987**

We found that savings and investment were not responding to interest rates; policy output to be directed at increasing income if savings is to be induced. Our findings contradicted orthodox theorizing.





II. **The Morphology of Growth, 1989**

Using regression analysis, we examine the morphology of growth in Ivory Coast, Ghana, Nigeria and Senegal by testing structural equations for primary, industrial and service sectors in each country. The results revealed that for the period 1970 – 1981, the growth process was characterized by essentially the export of primary products. The decline of the primary sector was not only relative but also did not reflect increases in industrial sectors. Hence, the growth pattern followed the pre – 1970 era.

III **Economic Development Under Structural Adjustment, 1992**

The results here indicated that the SAP did not produce the desired results in the West African sub-region. We utilized the indices of performance as postulated by the BWIs.

IV. **Unemployment And Inflation Under Structural Adjustment, 1992**

Despite various stabilization and adjustment packages from 1978 – 1990, the Nigerian economy still experience high rates of inflation and unemployment. Using a Phillip's relation approach, the paper shows that Government expansionary demand as well as supply-side policies have been ineffective in reducing inflation and unemployment.

V. **Distortions in Economic Theory and Method, 1987**

The paper argues that orthodox economic theory and method as applied to developing countries in general and Nigeria in particular failed to incorporate vital variables which reflect the experiences of such countries. The paper suggested that the theory and method of historical and dialectical materialism be applied in studying Nigeria's reality. This 'new' theory by aiding the understanding of the dynamics of a dependent capitalist Nigeria in this epoch of imperialism will definitely demand that the only genuine way of removing distortions in such an economy is through structural radical transformation (not adjustment).

VI. **Economic Reforms and the National Question in Nigeria 1993**

We argue that economic reforms may not address the national question giving the class character of the Nigerian economy. The creation of states further generated, in most cases, ethnic rivalry. There must be balanced development of all areas for the national question to subside. To build a nation, the tribe must 'die'.

VII. **The "New" Macroeconomics: How Relevant to Africa, 1997**

The findings suggest that in Africa, we have to transfer, modify and implement models developed outside the continent with caution. For example, the stage of Africa's development necessitates a positive role for government if growth and development are to be accelerated. Supply side theory may be against





government participation in the economy but the African reality counters such perception.

VIII. **Public Expenditure and Economic Growth in a Petroleum Based Economy, 1999**

The paper examines the contribution of government expenditures on the growth process in Nigeria. The results show that government expenditures on infrastructure complement and even stimulate private initiatives. Regression results confirm that public sector investments especially those on transport and communications, and agriculture have positive impact on private investment. In aggregate terms, public sector investments crowds-in private investment.

In terms of growth, private investment seems more efficient than public sector investment. It was also shown that private investment benefits from government investment in human capital formation and the provision of health care. The study makes the point that it is important to decompose the infrastructural aspects in order to explain better government's role in the growth process.

IX. **Interest Rate Management in Nigeria: Lessons from Conceptual and Empirical Reviews, 2001**

Interest rate management in Nigeria has a chequered history. The period before the introduction of SAP witnessed the use of direct administrative control in the management of interest rates. The early years of the reform witnessed a lot of policy inconsistencies, policy reversals, macroeconomic distortions and the absence of the political will to implement some of the desirable options in the reforms. Since the introduction of SAP in 1986, interest rate management has been a mixture of deregulation and guided deregulation.

The evidence shows some inconsistency between savings and investment, suggesting that policy ought to be directed at increasing income in order to enhance savings. For most of the period under study, real interest rate remained negative. Another source of concern is the spread between the savings deposit and lending rates. In addition, the gap between the rediscount rate and the lending rate suggests the importance of examining the profit profiles of banks and other financial institutions in the country. The current situation depicts exploitation of the non-banking public and this could be a major disincentive to financial intermediation and deepening.

## X. Economic Governance and The New Partnership for Africa's Development, 2002

There is general acceptance of Economic Governance Initiative (EGI/NEPAD) by multilateral institutions, and some industrialized countries. However, negotiations with international donors must not deviate from the African agenda.

The study recommended the following:

- there is need to re-examine the concept of NEPAD to capture the African reality
- individual countries must be committed to building a vibrant, dynamic and well-managed economy
- there must be a concerted effort towards debt cancellation





- the state must play a more active role in economic activities
- a substantial investment in human capital formation
- the relationship between existing regional groupings, African Union and NEPAD, needs to be studied
- economic deregulation must be guided to minimize negative shocks.

## 6. THE ADJUSTMENT OF ECONOMICS?

The ten works summarized above show that most orthodox economic theories and/or models cannot be confirmed with Nigerian and African data. Does this imply a rejection of orthodox economic theory?

Economics as an inexact science uses vague concepts, appeals to intuition and finds it difficult to make "correct" predictions. Generally, the scientific method comprises the appeal to facts in an organized pattern. The scientific method involves an organized procedure for shifting warranted beliefs. Science moves forward by the dialectic application of the scientific method on a continuous process of stockpiling facts and techniques. Science, therefore, consists of paradigms which are "universally recognized scientific achievements that for a time provide model problems and solutions to a community of practitioners (Kuhn, 1970, p. viii).

Another view is that science progresses catastrophically by timely discontinuities, breakdowns, and variations in direction. This occurs when problems or anomalies exist in the erstwhile dominant paradigm or model. As inadequacy of the dominant paradigm in solving problems persists, a crisis sets in and the old paradigm is overthrown (Kuhn, 1970; Coats, 1969; Marx, 1847; Lenin, 1972, Engels, 1977).

In economic science, the 'Keynesian revolution' is an example of a change in the ruling paradigm through the catastrophic view. For example, the persistent crises of stagflation, unemployment and increased psychiatric disorder in the Developed Economies of Western Europe and North America have resulted in theoretical revolts against neo-classical, neo-Keynesians cohorts and their derivatives. The assertion is that new constructs based on realism (accumulation of facts over the years) will assist policy formulators in removing the distortions of unemployment, low productivity, and high inflation rates etc.

> In Nigeria, economist have attempted to formulate and/or utilize ruling paradigms in trying to solve the country's economic problems. For the most part, emphasis has been on model testing rather than puzzle-solving. The consequence of this has been not only the omission of important variables based on the Nigerian experience but also the implementation of half-baked policies which deepens the country's underdevelopment. (Ekpo, 1987)

If facts on the Nigerian economy fail to confirm orthodox economy theory then the challenge is to conceptualize why and formulate theories and models that mirror our reality. After-all, a model is an attempt to explain reality from reality. If these facts are accumulated over a long-time it follows that orthodox economic theory must be confronted. The confrontation may not necessarily mean a rejection of existing theory. The Nigerian experience may be a special case of the existing theory. In other words, we may not need to adjust economic science to fit our reality. For a recent 'confrontation' of SAP, see (Garba, ...., Toyo, 2002).





It must be stated that there are instances when economic agents in Africa respond to economic theory. In some studies, peasants in Africa have been known to respond strongly to relative prices changes and have in fact uprooted crops where price changes have not been in their favour. Also, investors in Africa have been known to have carefully observed the time consistency of government policies. It is not uncommon to find the hoarding of commodities in anticipation of announcements in the government budget of new policy measures. Where such measures are unfavourable, there is often capital flight and speculative investment.

According to the new-classical school, only unsystematic government policies (i.e. surprises) can be effective in the short-run but that in itself could generate long-run problems for the economy by disturbing the 'natural' level of output. This position affirms the ineffectiveness of government stabilization policy and calls into question the role of the state in managing the economy.

We obtained elsewhere (Ekpo, 1992a) the following results for Nigeria using data from 1978 to 1990:

$$P = \underset{(.1705}{-.0521} - \underset{(-.6448)}{1.1890U} + \underset{(153.34)}{.9138P^e} \quad (10)$$

$$R^2 = .99; \; DW = 2.3$$

Cross-sectionally, using 1987 data for 16 states:

$$P = \underset{(2.0769)}{21.86} - \underset{(-.4548)}{26.92U} + \underset{(6.2797)}{.7015P^e} \quad (11)$$

$$R^2 = .77; \; DW; = 2.62$$

Where:

P = inflation rate;
U = unemployment rate; and
$P^{'e}$ = expected rate of inflation
t scores in parenthesis.

Equation (10) indicates the ineffectiveness of government stabilization policy (no trade-off between inflation and unemployment) while equation (11) could be argued either way. They do not reflect concrete experiences in Nigeria given the nature of labour market and price configurations in the country.

Structural adjustment epitomizes a situation of minimum government involvement in the economy. Yet the nature and structure of African economies demand that government play an active role in ensuring that development objectives are met. We insist, and this is where we agree with the new-Keynesians, that markets do not automatically clear in Africa and the state must continue to play a key role. The provision of adequate infrastructures, the provision of credits to indigenous businesses, the training of human capital, the determination of prices, interest rates and exchange rates cannot be left to the whims and caprices of market forces. However, the role of the state must be qualitative.

More recently Ekpo, (20003c), using time series data for the period 1970 – 2002, estimated an extended Phillips equation and obtain the following results:

$$P_t = \underset{(2.564)}{2.183} - \underset{(-.806)}{0.3022Ut} + \underset{(2.072)}{.369P^{'e}} \qquad (12)$$

$$R^2 = .70; \quad DW = 1.7$$





The unemployment variable has the expected sign but statistically not significant. It confirms that even in the long-run, policy is still relevant - the coefficient of the expected rate of inflation is less than one. The result implies that government can decide which point to be on the long-run Phillips curve by putting in place proper policies and strategies. This result contradicts that of Ekpo, (1992a) - equations (10) and equation (11). In this case, a new set of data validates the new-Keynesian position that policy is still relevant.

## 6.1 CAN THERE BE AN AFRICAN ECONOMIC THEORY?

Some African scholars have argued on the possibility of an African economic theory particularly as most theories applied in Africa are derived outside the continent. It is considered that the African economic crises is deep and different.
According to Onimode (1988,p2)

> Fundamentally, the African crisis is one of underdevelopment, the central problem of the African continent and the Third World generally. This makes the crisis basically structural and historical. But though underdevelopment is largely an economic phenomenon, the African crisis is also accentuated by serious social and political problems as well as an intellectual crisis. The intensification of the contradictions of underdevelopment are visible in the food crisis, deplorable mass poverty, decimating disease, pervasive illiteracy, technological backwardness, prostrate extermal dependence and mounting foreign debts.

The contention is that no orthodox economic theory can describe the African crisis hence the need for a 'new' theory. Let us attempt to model the labour market in Nigeria.

$$N^d = f(w_b, T, P_p, W/p, V) \quad (13)$$
$$N^s = g(W_b, T, R, Z, w/p, V) \quad (14)$$

where:

$N^d$ = demand for labour
$N^s$ = supply of labour
$W_b$ = bureaucratic wage rate
$T$ = state of origin or clan or tribe
$P_p$ = political, or internal institutional pressures
$R$ = religion
$w/p$ = real wealth
$V$ = other factors

Equations (13) and (14) depict that the demand and supply of labour are influenced outside the market. "It is an open secret that state of origin, ethnicity, religion, rate of profits and social class are important variables in any serious discussion of Nigeria's labour market (Ekpo, 1987, p.8). In other words nominal or real wages enter the respective equations but are not significant. This can be generalized to other markets. For example, you may decide to work in a particular state not because of the wage rate but due to the religious belief in the area.

It will make no sense to model the financial market in Nigeria and ignore the informal financial sub-sector. It is even dishonest to model the wider economy without incorporating the underground (informal) sector. Will incorporating relevant variables result in an African or a Nigerian economy theory? It is interesting to note that our counterparts in Latin America are associated with the dependency school. Despite the criticisms they have received, they have attempted to 'discover' a theory based on their experiences.





## 7 THE NATIONAL ECONOMIC EMPOWERMENT AND DEVELOPMENT STRATEGY (NEEDS)

The lecture will not be complete if we do not discuss NEEDS, the economic reform programme of the present President Obasanjo's administration. We had earlier alluded in the paper that NEEDS was a type of structural adjustment.

We state up-front that this is the boldest attempt to build a modern market economy after our early leaders were overthrown in 1965. This is based on the fact that the 1962-68, 1970-74, 1975-80 development plans remain Nigeria's serious effort at accelerating development. However, none of these plans was implemented to the fullest.

NEEDS is a comprehensive reform package to correct the structural rigidities and bottlenecks in the system in order to build a viable, vibrant and dynamic economy. From the sketch that we have seen the ownership is essentially that of the President's economic team headed by the present Finance Minister. The economic reform package represents their perception of reality and how to alter it. It touches all sectors of the economy.

We want to argue that NEEDS should be the beginning of returning to a comprehensive planning for the country. This year's budget is part of NEEDS. In other words, the budget is to be implemented in line with the objectives of NEEDS.

NEEDS with the 2004 budget as a subset recognizes the important role of government in the economy. In this year's budget, 65% of the capital allocation is for the social sector – road construction, education, health and water supply. The provision of social infrastructure re-echoes the importance of the public sector in Nigeria's development matrix. The quality of public sector intervention is crucial. It is refreshing that the NEEDS programme recognizes the qualitative role of government. The economic team recognizes the importance of returning to basics. We will in future comment on NEEDS as the details are made available.

## 8. CONCLUSION

We examined the economics of structural adjustment. Our analysis shows that the structural adjustment programme implemented in Nigeria in 1986 continue to exert negative impact on the economy. It is evident that the SAP is predicated on the market mechanism as the way to correct for distortions within an economy.

We brought empirical evidence to bear on the subject matter by summarizing our relevant seminal papers. It seems that for the most part, available evidence from Nigeria did not validate neo-classical theory.

The notion of building an African economic theory was examined in the context of whether economic science needed to be adjusted to reflect the realities of the African economy. This remains an open question because certain aspects of the African economy do respond to orthodox economic theorizing.

It seems to us that if Nigeria is to build a modern economy that is knowledge-based then comprehensive economic planning is compulsory. However, in modelling such an economy essential features of the Nigerian economy must be incorporated. It appears that the earlier sketch of the NEEDS programme favours the development of a modern economy.

Economists in Africa particularly in SSA must continue to carry out research in order for the continent to escape from backwardness and underdevelopment. It is through research that a 'new' economic theory reflecting Africa's peculiarities may





emerge. A mistake by a trained Medical Doctor may kill few patients. A 'bad' economic theory and policy may destroy an entire economy and by implication kill millions of people.

We hope that this lecture has generated important issues that will stimulate interest in the subject matter.

## REFERENCES

Ake, Claude (1979) *Social Science as Imperialism – The Theory of Political Development, Ibadan*: University of Ibadan Press.

Ajaikaye, D.O. (1987) "The Structural Adjustment Programme for Nigeria: Its Impacts on prices and Incomes" in D. Phillips and E.C. Ndekwu (eds) *Structural Adjustment Programme in a Developing Economy*: The Case of Nigeria, NISER, Ibadan.

Baran, Paul (1968) *The Political Economy of Growth*. New York: Macmillan

Central Bank of Nigeria (2000) *The Changing Structure of the Nigerian Economy and Implications For Development.* Lagos: Realm Comm.

Central Bank of Nigeria (1999) *Infrastructure Expenditure Policy and Private Sector Output in Nigeria,* 1970 – 1998, Abuja.

Coates, A.W. (1969) "*Is There a Structure of Scientific Revolutions in Economics*"? Kyklos, 22, No. 22.

Cooper, R.N. (1971) *Currency Devaluation in Developing Countries*, Princeton Univ. Press, Princeton, N.J.

Dorubusch, R. (1981) *Open Economy Macroeconomics*, Basic Books, New York.





Ekpo, Akpan H. (1987) "*Distortions in Economic Theory And Method: The Nigerian Scene*". Conference Proceedings, Nigerian Economic Society, Ibadan.

Ekpo, Akpan H. (1987b) "Capital Formation in Selected West African Countries: Theory and empirical Evidence" *Analysis Economico*, 2.1, June, pp. 55 – 65.

Ekpo, Akpan H. (1989) "The Morphology of Growth in Selected West African Countries" *Decision*, 16.1. pp. 13-21.

Ekpo, Akpan H. (1992a) "Economic Development Under Structural Adjustment: Evidence From Selected West African Countries", *Journal of Social Development in Africa*, 7, 1.

Ekpo, Akpan H (1992b) "Unemployment And Inflation During structural Adjustment: The Nigerian Experience", *Eastern African Economic Review,* Vol.8, No. 2 pp. 102-113.

Ekpo, Akpan H (1993) "A Re-examination of the Theory and philosophy of structural Adjustment", *Nigerian Journal of Economic and Social Studies* Vol. 35, No.1, pp. 64-78.

Ekpo, Akpan H. (1993b) "Economic Reforms and the National Question in Nigeria" in *National and Economic Development in Nigeria*, Nigerian Economic Society, Ibadan, pp. 177-84.

Ekpo, Akpan H (1994) "Fiscal Federalism: Nigeria's Post-independence Experience, 1960-90", *World Development, Vol. 22, No. 8, pp. 1129-1146.*

Ekpo, Akpan H and John Ndebbio (1994) "Local Government Fiscal Operations in an Oil-Export Economy: Nigeria, 1980-1992"' *African Journal of Economic Policy*, Vol.1, No.2, pp. 1-18.

Ekpo, Akpan H. (1995) "Openness and Economic Performance in Nigeria: A Time Series Analysis in *External Trade and Economic Development in Nigeria*, Nigerian Economic Society, Ibadan.

Ekpo, Akpan H (1995b) "Public Expenditure and Economic Growth in Nigeria", AERC, Nairobi, Kenya.

Ekpo, Akpan H (1997a) "Foreign Private Investment in Nigeria Evidence From Time series Data", *Economic and Financial Review*, CBN, Vol.35, No.1, pp. 59-78.

Ekpo, Akpan H (1997b) "The Public Sector in Revitalizing the Nigerian Economy", *Journal of Accounting and Management*, Vol. 1, No. 1, pp. 46-59.

Ekpo, Akpan H (1997c) "The 'New' Macroeconomics: How Relevant to Africa"? in *Economic Management in Sub-Saharan Africa*, Nairobi, East African Educational Publishers, pp. 8-27.

Ekpo, Akpan H (1999a) "Public Expenditure Economic Growth in A Petroleum-based Economy: Nigeria, 1960-1992"' *South African Journal of Economic and Management Sciences*
Vol. 2, No. 3.





Ekpo, Akpan H (1999b) "Fiscal Federalism and Local Government Finances in Nigeria" in *Fiscal Federalism and Nigeria's Economic Development*, Nigerian Economic Society, Ibadan,
pp. 239-251.,

Ekpo, Akpan H (2000) "Equity, Efficiency And Incentive Effects of Revenue Policy". Paper presented at the Fourth AERC Seminar Policy, Gaborone, Botswana, 24-26 February.

Ekpo, Akpan H. (2001) *Managing The Nigerian Economy in the 21st Century*, IPPA Distinguished Lecture, University of Calabar.

Ekpo, Akpan H. (2001b) "Interest Rate Management in Nigeria: Lessons From Conceptual and Empirical Reviews" *Policy analysis Series*, NCEMA, Vol. 7, No. 2, pp. 1-24.

Ekpo, Akpan H. (2002) "Economic Governance and the New Partnership for Africa's Development (NEPAD) in *New Partnership for Africa's Development (NEPAD): A New Path?* Nyong'o, Anyang et al (eds). Heinrich Boll Foundation, Nairobi, Kenya, pp. 164-181.

Ekpo, Akpan H (2003a) The Macroenonmic Policy Framework: Issues and Challenges. Annual Conference, CBN, December, 2003.

Ekpo, Akpan H. (2003b) Economic Crisis And The Challenge of Macroeconomic Management in Nigeria, Debt Management Office, Guest Speaker Forum, Abuja, October.

Engels, F. (1977) *Anti-Duhring.* Moscow, Progress Publishers.

Garba, Abdul-Ganiyu (1996) "What Can we learn From Nigeria's Experience with The World Bank's Adjustment with growth Programme". *Proceedings of the Nigerian Economic Society,* Ibadan, pp. 55-105.

Hanson, James (1983) "Contradictory Devaluation, Substitution in Production and Consumption and the Role of the Labour Market" *Journal of International Economics*, 14.

Iyoha, M. (2002) "Review and Appraisal of the 2002 federal Government Budget Performance" Bullion, Vol. 26, No. 21, pp. 14-21.

Keynes, J.M. (1936) *The General Theory of Employment, Interest and Money*, London, Macmillan.

Khan, M and M. Knight (1985) Fund-supported Adjustment Programmes and economic Growth, Occasional Paper 41, IMF, Washington D.C.

Kwanashe, Mike (1998) "The Concept and Process of Globalisation" *CBN Economic And Financial Review*, Vol. 36, No. 4, pp. 340-351.

Kuhn, T. (1970) *The Structure of Scientific Revolutions.* Chicago, University Press.

Lenin, V. (1972), *Materialism and Empirio-Criticism.* Peking, China.





Max, K. (1917), *The Poverty of Philosophy.* Moscow, Progress Publishers.

Nanna, O.J. (1985) "The elasticity of demand for foreign exchange and Exchange Rate of the Naira" "*Economic and Financial Review*, 23 (2).

Nigeria (1997) *Report of the Vision 2010 Committee,* Main Report (September).

Obadan, Mike I. (1987) "The Theory and Practice of the SFEM in Nigeria: Nine months After" in D. Philllips and E.C. Ndekun (eds) op.cit.,

Obadan, Mike I. (1998) *The State, Leadership, Governance and economic Development.* Ibadan, Nigerian Economic Society, pp. 9-14

Onimode, B. (1985) "Economic Development and Class Struggle in Nigeria", *Nigerian Journal of Economic and Social Studies,* Vol. 20, No. 3.

Payer, C. (1974) *The IMF and The Debt Trap,* Monthly Review, New York.

Payer, C. (1982) The World Bank: *A Critical Analysis*, Monthly Review, New York.

Rodney, W. (1981) "Marxism in Africa", *Solidarity* No. 7.

Toyo, Eskor (1983) "The Materialist Conception of History and its Applications". Department of Economics, University of Calabar.

Toyo, Eskor (1984) "The Cause of the Depression in the Nigerian Economy, "*Africa Development*, Vol. IX, No. 3.

Toyo, Eskor (2002) *Economics of Structural Adjustment: A Study of the Prelude to Globalization*, Third Eye, Lagos.

World Bank 91994) *World Development Report*, Washington D.C.

World Bank (2000) *Entering the 21st Century: World Development Report 1999/2000.* The World Bank, Oxford University Press.





## APPENDICES

Table A1 : **Nigeria Social Indicators, 1991 – 2001**

| Year | YN | Pn% | LF | ALR% | HDI |
|---|---|---|---|---|---|
| 1991 | 1069 | 2.1 | 51 | 54 | 0.328 |
| 1992 | 1066 | 3.2 | 52 | 554 | 0.328 |
| 1993 | 1069 | 2.1 | 52 | 55 | 0.389 |
| 1994 | 1060 | 2.1 | 52 | 55 | 0.384 |
| 1995 | 1041.5 | 2.1 | 52 | 57 | 0.402 |
| 1996 | 1051.8 | 2.1 | 52 | 57 | 0.400 |
| 1997 | 1048.4 | 3.0 | 53 | 57 | 0.400 |
| 1998 | 1041.0 | 3.0 | 54 | 57 | 0.400 |
| 1999 | 1038.8 | 3.0 | 54 | 57 | 0.400 |
| 2000 | 1046.8 | 3.0 | 54 | 57 | 0.400 |
| 2001 | 1062.5 | 3.1 | 54 | 57 | 0.400 |

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

**Notes:**

$Y_N$ = GDP per capita in Naira
$P_n$ = Population growth rate
LF = life Expectancy at birth (year)
ALR = Adult literacy rate

HDI = Human Development Index

## Table A2: Nigeria: Average Growth Rate of GDP (%)

| Period | GDP at 1984 Constant Price | Agric GDP |
|---|---|---|
| 1960 - 1965 | 4.9 | 1.8 |
| 196- 1970 | 6.3 | 2.0 |
| 1971 - 1975 | 8.4 | -1.5 |
| 1976 - 1980 | 4.0 | 2.9 |
| 1981 - 1985 | -5.7 | 4.9 |
| 1986 1990 | 5.6 | 5.3 |
| 1991 - 1998 | 2.3 | 3.2 |
| 1999 - 2001 | 2.5 | 2.6 |

**Source**: Computed from Data derived from Federal Office of Statistics, Lagos.





## TABLE A3: NIGERIA'S FISCAL INDICES, 1970-2001

| Year | Federal Budget Balance | Deficit/GDP Ratio % |
|---|---|---|
| 1985 | -3.0 | -4.2 |
| 1986 | -8.3 | -11.3 |
| 1987 | -5.9 | -5.4 |
| 1988 | -12.2 | -8.4 |
| 1989 | -15.1 | -6.7 |
| 1990 | -22.1 | -8.5 |
| 1991 | -35.8 | -11.0 |
| 1992 | -39.5 | -7.2 |
| 1993 | -107.7 | -15.5 |
| 1994 | -70.3 | -7.7 |
| 1995 | 1.0 | 0.1 |
| 1996 | 32.0 | 1.6 |
| 1997 | -5.0 | -0.2 |
| 1998 | -133.4 | -4.8 |
| 1999 | -285.1 | -8.9 |
| 2000 | -103.8 | -2.1 |
| 2001 | -221.1 | -4.0 |

**Source**: Central Bank of Nigeria. Annual Report and Statement of Accounts. Various Issues.

**AKPAN H. EKPO**

*Professor of Economics & Vice-Chancellor,*
*University of Uyo*
*Uyo, Akwa Ibom State*
*Nigeria.*

## ABOUT THE LECTURER

Akpan Hogan Ekpo obtained the B.A (Cum Laude Hons) in Economics from Howard University, Washington D.C., USA. He received the M.A. (Econs) and Ph.D (Econs) from the University of Pittsburgh, Pittsburgh, Pennsylvania, U.S.A. His areas of specialization include Economic Theory (microeconomics and Macroeconomics) Economic Development and Public Finance. He has attended refresher courses at the World Bank Development Institute, Northwestern University and Harvard University. He has lectured in Universities in the USA, Zimbabwe, and Nigeria.

Professor Ekpo has published extensively in his areas of specialization in national and international journals and has consulted for several national and international organizations. He was the first occupier of the Chief Anthony Ani Chair, Professor of Public Finance. He has over 160 publications comprising refereed journal articles, books, chapters in books, conference proceedings and other research outlets; he has attended over 90 national and international conferences and has presented papers in most of them.

Professor Ekpo has advised all levels of government (Municipal, State and federal) in Nigeria. Between 1996 and 1999, he was Chairman, Ministerial Advisory Committee, Federal Ministry of Finance, Abuja. He was Technical Adviser to the Vision 2010 Committee. He was Editor of the prestigious Nigerian Journal of Economic and Social Studies from 1997 - 2003. He serves in various government boards and boards of companies.

Currently, he is Professor of Economics and Vice-Chancellor, University of Uyo, Uyo, Akwa Ibom State, Nigeria.

*Printed by*
**SAILAND PRINTING PRESS,**
*Plot 28, Road 2, Federal Housing Estate,*
*Uyo, Akwa Ibom State - Nigeria.*
*Tel: 085-202192, GSM: 0802-3388655*