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THE PARADOX OF THE BLACK MARKET: What is Black about Rational Economic Behaviour?

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ABSTRACT

This paper provides a theoretical analysis of the basic economic behaviour and activities in rational economic markets (REM), which are generally referred to as black markets. It argues that in the face of shortages in a market where demand is price inelastic, speculative activities such as inventory accumulation and risk-taking occur. These result in higher prices and profits in REM. This should be expected of economic agents and should be regarded as normal. Government intervention in direct economic activities generally brings about sub-optimal results that only reduce social welfare, especially in the presence of technological rigidity. It is recommended that rational economic market behaviour should not be 'black'-listed, and that an official market is irrelevant because it generates rivalry, waste and losses in the provision of social welfare.

JEL classification: D24, D43, H42

1. Introduction

MARKET failure has been regarded by government as justification for its participation in the production and distribution of goods and services. The inefficiency of the market system arises from many causes including: a decreasing cost industry, the indivisibility of investment, inequity in the distribution of income, the existence of pure public goods, and externalities. Government intervention has been a common feature in almost all sectors of most developing economies. Developmental considerations have been given as the overriding reason for government incursion into virtually all economic activities. Intervention includes increasing economic activities and the pace of economic growth, and reducing unemployment and the level of inflation. These are in addition to government's traditional responsibilities of reducing income inequity and the level of poverty through the equitable distribution of economic opportunities.

Government adopts different measures to intervene in the various sectors of the economy. These include tax, price control, rationing, subsidy, licensing, direct production and distribution, trade (export and import) control, foreign exchange control and the regulation of business ownership. These are legislated and implemented by government, based on its economic and political interests. In Nigeria, the interventions, which were embarked on at the dawn of political independence, when there was obvious evidence of underdevelopment, reached a climax in the 1970s when the oil boom provided the balance of payments surpluses needed by government to undertake any project it felt was necessary. The need for rapid development, economic self-reliance and protection of political sovereignty were cited as excuses for the preponderance of direct government involvement in production, domestic distribution and external trade. The extent of these interventions made it possible for government to effectively control the institutions and organizations that it set up to produce, distribute or perform other direct economic activities. The resulting inefficiency has generated huge financial and economic losses. The exposure of this gross inefficiency and the cost of government's direct participation in economic activities has led to the on-going demand for privatization.

The pace of privatization in Nigeria has been greatly hindered by political crises and lack of mutual trust and confidence among the different people and interest groups in the country. Government's inefficiency in the provision of economic goods and services continues to worsen. Shortages and the poor quality of the goods and services from these parastatals have resulted in the production and distribution of similar commodities by rational private sector agents. Government intervention has rivalled the private sector in the production and distribution of these commodities. It has often used its legislative power to scuttle the growth and expansion of the private sector in the provision of these commodities by outlawing free private participation in such activities.

Government's regimentation of direct economic activities in which it has investment interests without reference to the market mechanism, combined with its inefficiency in carrying out these activities, has naturally led to the evolution of reactionary markets for these goods and services. The reactionary markets are frequently referred to as the 'black market' while the government market is called the 'official market'. The contention of this paper is that the official markets exist outside the laws that govern economic activities: whether these markets are dealing in foreign exchange, domestic money/capital, inputs, or goods and services. On the contrary, the market categorized as the 'black market' has inherent qualities and features that classical economic theory can easily capture and predict. The question therefore arises as to why most of the black markets behave the way they do, and whether it is possible for the 'alternative market'

arrangement by the government to solve the problems of production and distribution in a sustainable manner.

This paper is, therefore, concerned with finding a theoretical justification for stockholding (hoarding) and high prices in the reactionary market resulting from government intervention. The paper is divided into five sections beginning with the introduction. Section two deals with government intervention and distortions in resource allocation, while section three presents an analysis of the private sector rational reactions to shortages and the resource pricing effects generated by such activities. In section four, the paper considers the effects of government-private sector rivalry in the provision of economic goods and services. The fifth section presents the conclusion.

2. Government Intervention and Distortions in Resource Allocation

Price mechanism is an efficient indicator of the relative scarcity of resources (especially of private goods) within an economy. Prices of products which are in high demand will increase, while the prices of the products with falling demand will decrease. Price is therefore an effective indicator of the relative cost and the relative utility (demand) of a true economic commodity. The flexibility of price artlessly provides market information on which area of investment will give higher returns to the resource owners. This helps in curbing inefficiency and waste within the economy. The price mechanism, therefore, guarantees efficient participation of all agents in all facets of rational economic activity. On the production side, this is made possible through the rational profit-motivated behaviour of the investors and freedom of entry and exit. Market economists contend that the price mechanism, being more efficient in resource allocation than any alternative non-market arrangement, is capable of generating greater social welfare, to the benefit of both the producer and the consumer.

Economic analysis has widely highlighted the effects of government intervention on economic activities. A number of studies have focused on the analysis of the behaviour of market agents in the presence of government intervention. Earlier works have concentrated on various aspects of the resulting markets and have characterized the markets with a variety of names. The appraisal of the taxonomical issues of the market has been carried out by Lindauer (1989) and Bagachwa and Naho (1994). By way of designation, terms such as: (a) parallel market; (b) black market; (c) curb market; (d) colour market; (e) underground economy (or market); (f) segmented market; (g) fragmented market; (h) dual economy; (i) third sector; and (j) informal sector have been used to describe the market with differentiated prices resulting from either market imperfection caused primarily by imperfect flow (due to high cost) of information, or government sub-optimal intervention in the market. Generally, the notions of parallel market, fragmented, informal and segmented markets all convey the existence and

persistence of a distribution of prices and, hence, of multiple market settings for seemingly homogeneous goods' (Lindauer, 1989). He also asserts in comparison that 'the parallel markets approach champions the buoyancy of the market forces in the face of institutional constraints'.

Given that there are two basic causes of price dispersion over a range in a market of a seemingly homogeneous product, namely imperfect information (as evaluated by Stiglitz, 1979) and government interventions, then, the list of markets above can be broken along the lines of causative distinction. The first group on the list consists of markets that evolve in reaction to government intervention while the rest are mostly attributable to the effects of information costs in the markets. This classification is not mutually exclusive as shown in Bevan, Collier and Gunning (1989), Lindauer (1989), and Bagachwa and Naho (1994). A profound understanding of the workings of a developing economy and its market development can help to stop the branding of the developing rural markets and informal sector as being parallel markets or part of the 'underground' economy. The reactionary market behaviour arising from government intervention, which creates excess demand or excess supply, is the cause of the so-called *black market* or, more fairly put, the *parallel market*. The 'blackness' of a market depends on the legality of activities in the market under question, and parallelism of a market is a function of non availability of information that leads to price dispersion between space and between market agents.

Government intervention in Nigeria tends to be ad hoc in nature, as it lacks well-ordered procedures for regulating production and distribution. Arrangements for effective intervention should make provision for the management of shocks and business cycles. Successful government intervention in production will require that some aspects of the activities become market sensitive. For instance, government may produce and distribute any commodity, but should allow the market mechanism to determine the price at which such a commodity will be sold. Government may become involved in production and allow the private sector to freely compete in all aspects where possible. In these ways, government will get the market signals and adjust its activities without any information premium and additional administrative costs. It will thus behave as a private producer, on the one hand, to check its costs of production and manage its supply/inventory, and on the other hand, as a regulatory institution giving fair price leadership analogous to collusive oligopoly to enhance consumer welfare. This is the practice in some sectors where the size of government investment is relatively less than the private sector's outlay. Examples are road transportation services, and banking and insurance services. There is, however, still a high level of inefficiency in the public sector due to bureaucratic bottlenecks and a high rate of corruption.

Government intervention in production in Nigeria often results in total control as it intervenes in all aspects of transactions. For example, in the input market,

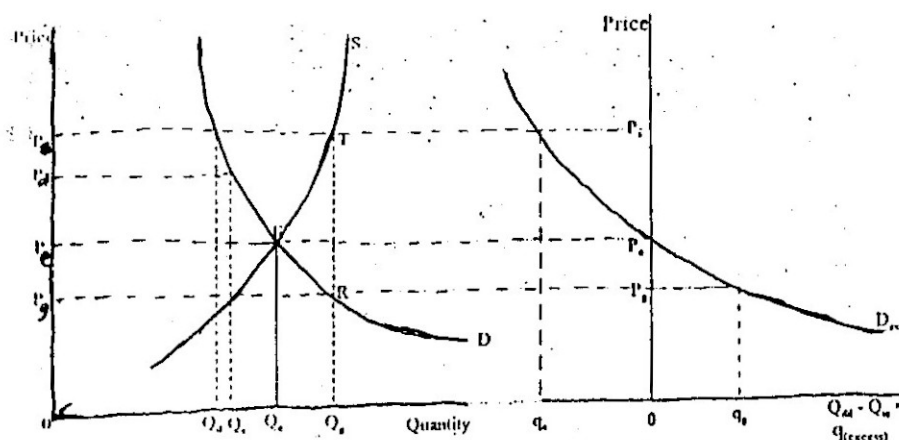
government determines the prices of raw materials; interest on financial capital; wage rates; the price of energy and other inputs; as well as the retail prices. In both the input and output markets, resources are underpriced, except in some few cases where some inputs may be overpriced; for example, when organizations have been shut down but still continue to pay their employees. The underpricing of resources is a regular feature of government enterprises. Effective use of resources and control of waste are not usually given adequate consideration because such resources are almost freely supplied at legislated prices. Instances of this abound in unjustifiable foreign travel by workers (before SAP) to obtain those things which were available locally, simply due to the unrealistically low price of a foreign exchange that did not reflect the relative scarcity of foreign exchange resources. This precarious situation was continued until 1997 through the maintenance of dual exchange rates - ₦25.00 : \$1.00 legislated by the government for use by its agencies and a higher market determined rate of ₦85.00 \$1.00 used by the private sector. Again, workers directly in charge of such 'cheap inputs' can corruptly resell them to private producers.

Another problem of underpricing is that if the government organization is not a monopolistic purchaser of such inputs, the owners of the resource inputs can sell directly to the highest bidder in the private sector. Whenever any of these reactionary activities occurs, the production and/or the distribution of the government controlled commodity will likely suffer from shortages.

Production shortage is exacerbated by government fixing the price below the equilibrium. These prices are not easily changed due to the long chain in the bureaucratic decision-making process. Government intervention in the determination of prices in both its input and output markets only combines to worsen the level of distortion in the output market. The shortfall in supply will necessarily result in excess demand, even when the reference price is the equilibrium price. The excess demand function will take on a larger value, when government fixes a price below the equilibrium for a commodity that is in short supply. There will be double pressure on the price, and the impact is therefore more severe. The buyers' queue for the product will be longer than it would have been under free market pricing.

The distortions created by government intervention in input and output markets are demonstrated in the diagram below. Assume that the situation in the input market is represented in figure 1. Government compels the resource owners to sell their resources at the price, P_g below the equilibrium price (where $P_g < P_e$). Then, the resource owners will sell Q_g and make losses that are equal to $P_g P_e TK$. If there are vents for rational economic production, the producers in government will buy the input at P_g and resell it at any price above P_g and up to P_e and make some profit.

Again, the owners of the input are likely to divert such an input from the government producers to private domestic producers who will provide higher returns. The price at which the factor input may be sold under this situation is indeterminate but will certainly be greater than P_g . The final price charged will depend on both market and non-market factors, namely, level of anticipated profit, level of risk, and the relative influence (the bargaining power) of the buyers and the sellers in the market. The input can also be smuggled to other countries that offer higher prices. Generally, where this type of destabilization occurs, there will be multiple prices for the resource, but the level of distortion will possibly be greater in the output than in the input markets. This is so because the output markets have a higher number of buyers than the input markets. If these distortions lead to a reduction in the input supply to the industry, shortages will occur in the output markets.



Panel (a): Market with Intervention

Panel (b): Effects of Intervention

Fig. 1. Government Intervention and Excess Demand

If the diagram above illustrates the output market, there will be much impact, but this will depend on the number of consumers and producers, and the number of available substitutes and their prices. In the commodity market, because of the non-organization of the buyers and the contrasting highly organized producers (sellers), the prices paid whenever shortages occur are usually higher. The rate of diversion from the lower price market is also higher in the output market because buyers are readily available.

Some salient points deserve further consideration. First, government will have to organize the sellers and ensure availability of the goods at Q_s to always maintain

the price at P_g . In that case, government will inherently pay a subsidy, $P_g P_e TR$, that will equal the amount of loss that the controlled price has generated. This subsidy can be manipulated by the government in different ways. The cost (especially the price) of the input could be forcefully maintained below equilibrium; the brunt of this will be borne by the resource owners. In Nigeria, this is a particularly common feature in the labour and financial capital markets, where wages, and interest and exchange rates are kept below the equilibrium rates. This repression in the input market is itself a 'real tax' on the resource owners. The government can expend tax revenue on the subsidy, which would constitute a cost to the tax-paying public directly, with the society consequently suffering a lack of development from the opportunity costs of the subsidies. Second, as long as any shortage occurs in a market regulated by the government, another market will emerge where rational profitable business will be carried out through the appropriation of the right prices.

3. Private Sector Reaction to Shortages

The behaviour of government in directly intervening in market mechanisms is an aberration to the economic operation of the price system. Government intervention will cause shortages due to:

- its fixing the prices below equilibrium level
- lack of adjustment by government agencies to demand changes and other variables
- absence of incentives to the operators of government businesses which makes them engage in information racketeering
- insider profit-oriented activities by government agents [where government workers (agents) exploit the situation to make personal gains]
- uncertainty and speculation on the part of business agents

Private sector profit speculators will move into any activity where profit can be made. The opportunity to make a profit when shortages occur in government have been a feature of the Nigerian economy since the 1990s, particularly with respect to the supply of energy products (electricity and petroleum fuels), telecommunications, education and health services. Shortages always indicate potential profit to the rational producer since the buyers are willing to pay higher prices in order to obtain the available quantity of the affected commodity. Whenever the excess demand function ($Q_d - Q_s$) has positive values, the consumers will be disposed to pay higher prices for every quantity available.

Normally the producers can increase their supply through:

- depletion of their inventories

- exploitation of the built-in reserve capacity through extension of plant production time
- expansion of existing production plants through new investments
- new entrants if the excess demand is evaluated as a sustainable increase in demand

This cannot, however, happen in a regimented market. The equilibrating forces do not work to bring about stability, due to suppression of the market mechanism. The government-controlled market is dominated by uncertainty, speculation, fear of the law, and insider's cheating activities. Uncertainty arises since nobody can adequately predict the direction of government action, since they are not economically determined. Business units are afraid of the laws introduced to protect government's business colonies.

Against this background, most rational investors would be unwilling to commit funds to long-term investments in an area in which government is active. They would rather invest in short-term speculative business activities. Their actions are guided by information received through collusion with the insiders, and speculations. Somehow, new products may be evolved if the technology is feasible, and the legal requirements are not too cumbersome; and if the signals of the instability speculated are sustainable. In Nigeria, the uncertainty of government policy and the weak infrastructural/technological base do not encourage investment, and in fact give rise to speculative activities during periods of shortages. The short-term measures adopted to alter the levels of stock (inventory), price and profits include:

- accumulation of inventory or stockholding
- regional balancing of stock through trading
- smuggling of the affected commodity

Stockholding (or hoarding, as those who use the term *black market* would call it) arises as a pure rational economic activity by speculative business agents. Since entry into industries such as petroleum and fertilizer has been denied by legislation and due to the high take-off capital outlay required, rational business behaviour turns to the expedience of purchasing and stockpiling at the slightest speculation of future shortage in the refined petroleum products and fertilizer markets. The signals that can intensify these speculations occur more in government-controlled industries in Nigeria because of the long chain of bureaucratic processes and the slow pace of response to market situations. For example, since 1993, there has not been any year in which one or two of the four petroleum refineries in Nigeria have not been shut down for some months due to poor maintenance and lack of response from the Nigerian National Petroleum Corporation (NNPC). Analogously, National Electric Power Plc. (NEP) is beset with broken-down

turbines and transmitting stations, with only two out of eight turbines currently in a mere sub-optimal operation.

Blanchard and Fischer (1989: 334) have specified a negative relationship between production and inventory. This is expressed in the equation below where the current production decision, Y_t , is a function of the output inventory of the previous period, I_{t-1} , and the current state of technology, U_t :

$$Y_t = \alpha I_{t-1} + \beta U_t; \quad \alpha < 0, \beta > 0 \quad (1)$$

It follows that in a market economy where the government is restricted to providing policy incentives, the technological base is flexible and market competition is unrestricted, the current production level will, according to the direction of technological progress, increase or adjust in the opposite direction to the previous period level of inventory. In Nigeria, technology is invariably rigid, and the positive effects of U_t are rare; negative responses are often experienced due to the breakdown and poor maintenance of production plants.

When the negative adjustment of technology shock sets in, the fall in production that ensues under such rigidities changes the pattern of the relationship in equation (1) above. The resulting relationship is shown in an inventory adjustment model in which signals from the previous level of production and state of technology determine the behaviour of the current inventory accumulation of the REM business agent.

$$I_t = 1/\alpha Y_{t-1} + \beta/\alpha U_{t-1} + \lambda V_t; \quad 1/\alpha, \beta/\alpha < 0, \lambda > 0 \quad (2)$$

The variable V is the consumer taste variable.

It is true that in Nigeria, as long as there is a fall in production in the domestic refineries, and importation is not completely open, activities of the REM speculators will lead to an increase in inventory. The concern, therefore, should be on how to raise the level of output and improve the production technology to minimize future stockpiling and shortages. Taste is very important in the REM because it introduces demand elasticity into the model. Since fuel is price inelastic on the demand side, especially because of the mass importation of second-hand vehicles which are not fuel efficient, stockpiling is therefore a profitable business. Taste impacts positively on inventory behaviour during shortages.¹

¹ The normal relationship between taste and inventory is that an increase in taste will lead to inventory reduction that will be reversed in the inventory speculative model with production shortage, technological rigidity and government repressive activities.

Stockpiling is disequilibrating and inflationary when speculation about shortfalls and price increases further stimulates shortages (stockpiling) in the market. The relative response of the market to the shortages created by the stockpiling and price increases ultimately depends on the price elasticity of demand. Although elasticity of supply is also important for commodities with flexible technology, it is the ability to store the commodity or what this paper terms the 'price elasticity of stock' that is considered necessary by REM business agents. The assumption is that REM activities are short-run business adjustments made possible by shortages in the market and manipulation of stock by rational business agents. In the long-run, the intervention of the government will be removed from the market due to the high cost of enforcing the law and losses accruing to the government and the society in general. The stock of a commodity is price elastic if it can be easily stockpiled at a low price.

The commodity with an inelastic demand in price is, therefore, the one that would have its price and profit enhanced by REM stockpiling activities. That is because the consumer's resistance to higher prices through a reduction in consumption is curtailed by the necessity value of that commodity to the consumer. Thus, the lower the price elasticity of the price and the higher the price elasticity of the commodity, the higher the prices and the profits. A continuous increase in price is limited by the arrival of new entrants into the market, though the disequilibrium persists because of government enforcement and information costs. The disequilibrium could be explosive if the commodity is completely banned and entrance into the market is checked by a collusion of REM business agents, as the case may be in the narcotics market.

As long as the shortage persists, there would be a rapid movement of the goods from areas of low demand to centres of high demand. This is inter-regional stock-balancing. The greater the price differentials the greater the inter-regional trading activities. Invariably, reaction to government intervention in a market leads to an increase in these activities. The natural cause of trade, which is disparity in resource endowment, is also the argument for inter-regional stock-balancing. In a shortage situation, however, the region from which the stock flows out does not necessarily have excess supply, considering the situation in a normal market. Nevertheless, it can be considered an excess supply market as long as its market price is less than the adjacent region or country where the shortage exists. Thus, the increased rent-seeking activities of the rational business agents will introduce instability to prices in the regions through their purchases, stockpiling and supply, until all regions have uniform prices. Interregional stock-balancing activities will not necessarily continue till there is price equalization, only up to the point where it becomes unprofitable to buy from one region and resell in another. At this point, the price of the commodity (plus the costs of transportation) would equalize across the region.

A similar argument exists for the increase in smuggling activities if shortages are associated with government intervention in economic activities. Activities in the rational economic market depend on the level of government intervention and on the magnitude of the distortions in the government market. Higher government intervention will generate greater distortions. When the price disparity between the government 'official' market and the rational economic market is high, profit-seeking activities among private agents intensifies.

As demonstrated in the analysis above, it follows that high prices are normal whenever government intervention leads to shortages in a market. This is true and indeed logical, but it does not stop there. Where government reaction to growth in the rational economic market tends to be repressive, prices generally spiral upwards. There are three economic explanations for the prevalence of high prices in the rational economic market due to shortages in the official market.

First, the normal costs of production argument forms the crux of any cost analysis. In the case of shortages in the market, input costs are important elements in the total cost function, since price valuation from the supply side begins from there. The cost of funds may be crucial at this point. Since the business is mostly speculative in nature, the price of financial capital (interest rate) is supposed to reflect the level of risk encountered in any business. In some cases, for two major reasons, the financial capital for these activities is raised from the rational economic financial markets. These are, government intervention in the financial market which creates shortages resulting in the growth of a large rational economic financial market and the simplicity of the procedure for raising funds from such markets. This means that government intervention in other sectors such as money and capital markets also introduces additional variables into business cost functions. In addition, the intensification of government enforcement of controls and penalties on the REM agents restricts information flow in the market about technology, inputs, and consumer's demand. This makes it more restricted, imperfect and costly, and adds to the cost per unit of output, which must be recovered through the price of the product.

Second, some elements in the price increase are treated as risk premiums. These premiums can be broken down further into speculative risk premiums and legislative risk premiums. A speculative risk premium arises from the envisaged losses that could result in the future, should the predicted values of the profit variables fail to hold. These 'probable' losses must needs be reflected in the present business decisions and this pushes the price upwards in the rational economic market. Needless to say government intervention and its unpredictable activities in the market always increase speculative risks. The legislative risk premium comes in as the cost of circumventing the laws against the business. The size of the legislative risk premium is determined by the level of illegality and government enforcement of the law against the business. The greater the level of

government intervention, the higher the legislative risk elements in prices charged in the REM.

The third component accounting for high prices in the rational economic market is the shortage premium. This is in consonance with the law of supply and demand. When a commodity is scarce, the seller can set a much higher price. This indeed is a consequence of competition among buyers to purchase the product. The shortage premium is in fact the rental earning received by business agents because of the buyers' willingness to spend more to obtain the commodity that is in short supply. The inventory accumulation activities of the sellers, increase this premium and intensify the existing shortage. A shortage premium, therefore, includes the element of stockholding costs transmitted into the pricing policy. It is also the cost recovery of earnings from the manipulation of stock in government intervened markets. This is rational because in normal profit-oriented businesses, the price charged should at least cover the cost of production.

Again, price increase is a rational economic behaviour of business agents in a market with supply shortages, like stockholding, stock-balancing and smuggling. Even if the suppliers do not hike prices, the consumers would bid higher prices to beat the queue and scramble for the commodity in short supply. High prices are characteristic of a market with shortages but are worsened by government intervention.

4. Effects of Government-Private Sector Rivalry

Government direct intervention in actual productive activities is an aberration and cannot bring about equilibrium in the long run. Such parastatals only add to the expansion of government, aggravate the problem of policy control, and create opportunities for corruption. Rivalry between government and the private sector has the following effects.

- i. *High costs of legislation.* These are naturally extra but unnecessary costs introduced into the government administration cost function due to an extension of government activities to include market activities. Government activities are funded directly by tax payers through their taxes and indirectly by the public through the welfare opportunity cost of government expenditure. The high cost of legislation in a market that could run naturally and freely without such waste represents huge losses to the society in general. Apart from generating inflation, it also makes policy management difficult, due to the scope and scale of business in the REM, which the government cannot forecast or control. Worse still, the government is only interested in the eradication of the REM, instead of understanding its workings.

- ii. *High risk and costs of business investment.* Unwarranted intervention by the government normally introduces higher risks into private business activities. In trying to beat legislative barriers, additional cost arguments such as legislative, premium and stockholding costs are introduced into the cost function. These are unnecessary risks and costs which can reduce entrepreneurial zeal. Worse still, the high costs are passed on to the consumers through the price mechanism with impoverishing effects on their welfare.
- iii. *Reduction in welfare.* Direct participation of government in purely private economic activities and/or direct (regimented) control of economic businesses has a tendency to generate rivalry between the government and private business agents. These rival activities have adverse effects on the social welfare function and cause shortages of the commodities because of the inefficient pricing policy by the government. The consumers will incur some costs searching for the commodities which are sold under the counter and at higher prices. Time is also lost during the search. More importantly, under such arcane deals no one can guarantee quality control for the commodities traded. The society therefore suffers welfare losses due to poor quality. Some consumers, most probably, cannot buy the commodities at the current high prices. Besides, given the possibility of the practice of price discrimination, the welfare losses of some individuals will further increase. There is also the moral hazard involved in the trading activities in such markets.
- iv. *High costs of subsidies.* The activities of government in the marketplace cannot be cost efficient and effective. Government must support its activities in such markets with subsidies to sustain its production and supply at low prices. These subsidies represent costs or a loss of purchasing power in the form of taxes or low wages to some people, and ultimately affects the society as a whole.
- v. *Prevalence of corruption.* Government rivalry can create an avenue for corruption. Government intervention in private sector activities tends to generate a series of underground or illegal activities. If shortages occur, government agents will likely be corrupted by the process of the business and by the consuming public because of the opportunity to make abnormal profits.
- vi. *Policy problems.* Where there is market balkanization, economic forecast and prediction become very difficult. This is because the rational economic markets must operate subterraneously to avoid the penalty of the law. Moreover, the focus of the government is often to rid the economy of these alternative market arrangements, thus, they increase the secrecy

of transactions in these rational economic markets. Another policy-related problem is that government loses significant tax revenue that could have accrued from these markets mainly because of its avowed goal to eliminate the black market, which drives the operators underground. The poor tax payment habit in this sector greatly reduces government's capacity to cater for the growing activities in the economy.

vii. *Emergence of high risk-bearers.* On the positive side, government rivalry with economic agents has engendered competition and led to the upsurge in the number of risk-bearers. The increase in profiteering activities as a result of this rivalry has also facilitated the growth of entrepreneurship in developing economies such as Nigeria. Economic development awaits the arrival of risk-bearers and entrepreneurs as fundamental factor inputs to the process. In effect, the growth in entrepreneurial activities due to this rivalry satisfies a basic development requirement of the economy.

viii. *Enhancement of economic development.* A large share of economic activities takes place under rational economic market arrangements. Labour and other economic resources are employed for the production and distribution of goods and services in the rational economic markets. Since employment is generated, income created and economic problems solved at some level, there is necessarily some increase in the national income resulting from these activities.

5. Conclusion

This paper has demonstrated that government intervention in a market or an economic endeavour, either to provide certain commodities or to prevent the business agents from providing them, will eventually lead to various uneconomic results. Government business ventures generally result in shortages. The economic reaction to such shortages is the creation of a rent-seeking environment and the growth of pseudo-profit activities. The business agents will act rationally to reap the available profit through price mechanism. Shortages, inventory management, high costs and high prices are consequences of government intervention in the market. These are all normal responses of the private economic agents, and are predictable in economic theory.

Surely, if there is a market in economics to be labelled the 'black market', it is that which does not obey economic laws, and that is the so-called 'official market'. What the government organizes into an 'official market' is characterized by uneconomic and inefficient controls, and their activities do not fit into the predictions of economic laws. On the contrary, rational economic behaviour dominates the activities in the rational economic market. Predictable economic

behaviour is not and should not be regarded as abnormal. Government behaviour as an economic agent in the marketplace often produces sub-optimal results.

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