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The public sector and private capital accumulation in Nigeria

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THE PUBLIC SECTOR AND PRIVATE CAPITAL ACCUMULATION IN NIGERIA

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ABSTRACT

For both policy and pedagogical purposes, a need for an improved appreciation of the dynamics of the mixed economy is evident. This became so especially because of the rapidly unfolding changes taking place in divergent economies of the world, particularly Africa, with the ascendancy of free market theology.

The historically defined status of a Third World economy like Nigeria, within the international division of labour calls for a qualification of its characterisation as a mixed economy. This also gives added importance to the correct appreciation of the role of the public sector in national development. This is because the State is a juridical arbiter, both between domestic and international markets, and between socio-economic forces within the national economy, in the process of capital accumulation. The State exerts major influence on patterns of resource allocation; it constitutes a veritable source of private primitive accumulation. Thus, the State is enmeshed in the contradictions of accumulation.

Orthodox schools of economic thought conceptualise public sector activities essentially subjectively, preoccupying themselves with an elusive optimum size of the public sector, within a fundamentally technicist frame of analysis. Classical, neoclassical, public choice and Keynesian schools - all end up with recommendations of either

more, or less, public sector, and corresponding less or more emphasis on private initiative. In particular, the neoclassical paradigm ascribes incorrectly a neutral status to the State. The critical question of what actually determines the size, composition and direction of public expenditure, on a dynamic basis, receives scant attention within the orthodoxy.

The study undertakes a theoretical and empirical exploration of the logic of the dynamics of interaction between the public and private sectors of the Nigerian economy. The basic Marxian two-departmental model of capital accumulation is utilised to examine the role of the public sector in facilitating private accumulation in both the agricultural and industrial sectors. The classical Marxian model of capital/consumer goods format is, however, revised to follow a public/private sector divide, in consonance with the project concern. Thus, we have two departments, I and II, corresponding to public sector and private sector, respectively. Marxian accounting categories are employed to capture inter-sectoral transfer of the various components of surplus value for actual and potential accumulation at their respective destinations.

Our analysis rests on the Marxian paradigm of historical materialism, with its integrated social science approach.

In it, economic, social and political influences are fully accommodated. A class perspective anchored to the three branches of capital in the economy provides the framework for monitoring the long-term direction of the ecosystem.

The study shows that over time the public sector of the Nigerian economy has shifted from a vacillating alliance with the local branch of private capital to a more open identification with and subservience to, foreign capital - as reflected in the industrial policies of the government. Thus public expenditures on programmes of assistance to the private sector for both agricultural and industrial projects inevitably benefit mainly foreign interests. In particular the huge public expenditures on agriculture are not justified by proportionate increases in agricultural output because significant proportions of such expenditures leak out of the local economy to enlarge foreign monopoly capital.

The policy implication of the unfolding trends in the public-private sector relationship is the challenge of bringing the public sector properly back under the control of the citizenry, in particular, the productive segments so as to ameliorate the festering alienation which undermines the legitimacy of the Nigerian State and hence its capacity to facilitate capital accumulation in an atmosphere of social harmony.

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No reminder should be required to appreciate the fact that meeting a challenge of this order, must have entailed soliciting inputs from diverse sources. Indeed, I see myself as having done little more than serve as an agent for the consumation of a collective endeavour. But, since the final report now carries my name more conspicuously than all other contributors, I hereby confess publicly to getting this far principally by the grace of those who shared in my own quota of responsibility. I am grateful to these rescue-missioners, who are many.

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CERTIFICATION BY SUPERVISORS

This is to certify that this research was conducted by Aderemi Medupin, in the Department of Economics, University of Ibadan.

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CHAPTER 1

INTRODUCTION

The mixed economy has become a shorthand for describing the reality of public - private sector co-existence. As Maurice Peston (1982), tersely put it, "the mixed economy comprises a public sector and a private sector". An economy is deemed qualified for the mixed label once both its private and public sectors are substantive in size. This throws up the challenge of measuring the size of each sector. Paul Samuelson views the mixed economy as the outcome of the growth of regulated capitalism from some pure original form in which the public sector was minimal. In his words, "undiluted capitalism has been evolving into a mixed economy" (Samuelson, 1973:867).

The Nigerian economy registers the effective presence of both State activities and private entrepreneurship, which raises the question of how to characterise it as a social formation. If we simply label it as a mixed economy without qualification, how is it to be distinguished from, say, the British economy which has been a mixed economy for at least two hundred years? (Roll, 1982). The British and Nigerian economies do not enjoy the same status within the international economic system, viewed from the angle of the maturity of their internal division of labour. There is a need, therefore, to underscore the specific contexts in which these economies function, beyond their general attribute of having public and private sectors, or even the fact that they are both capitalist systems.

Hajela (1980) has drawn attention to two major areas in which these economies differ qualitatively. He distinguishes the mixed economy of the advanced capitalist countries such as Britain as the Keynesian type as opposed to what we may call the Third World type. Whereas the Keynesian type already has abundant capital stock and infrastructure Third World type still "needs State intervention to raise capital stock and build up infrastructure". Secondly, while the constraint of the advanced mixed economy is not so much the absence of real resources as the will to make investments, in the underdeveloped mixed economy, we have both shortages of real resources and inadequate investment. On both counts, the role of the State is more embracing in the Third World type of mixed economy.

Shortly after political independence, the official view of the Nigerian economy and the philosophy of its economic management was made explicit: "Nigeria's economy is a mixed one. The governments (Federal and State) have taken an active part not only in providing the social but also the basic economic services, such as electricity and ports. They also intend to participate in the operation of various industries such as steel plant and oil refinery. The attitude of the Governments of the Federation, however, is entirely pragmatic and it accepts the desirability of a mixed economy" (First Plan, 1962-68, p.21: my emphasis). In the 1979 Constitution, the mixed economy was elevated to the status of a national ideology. The label thus serves the purpose of legitimising the intervention of the State in the economy. The question thus arises: intervention for what purpose?

One other interrelated dimension constituting another level of analysis for conceptualising the Nigerian economy can be identified. This is the location of the economy within the international economy, namely as a peripheral and dependent economy. This second dimension captures the heavy presence and in some cases the dominance of foreign capital in the economy. There is the need for us, therefore, to transcend Hajela's criteria (1980) of mixed economy typology to take explicit account of the following basic characteristics of the Nigerian economy: (a) the presence of public and private ownership and control and (b) the existence of local and foreign ownership and control.

The full complexity of this mix can be grasped if it is realised that foreign capital intersects and interacts with both public and private indigenous capital in the economy. This formulation is not blind to the fact that both foreign and local capital have the same objective, namely, the maximum extraction of surplus value. The foreign/local distinction is, nonetheless, relevant because of its implication for the destiny of the surplus generated, and the practical consequence of this for the rate of accumulation in the national economy.

1.1 The three branches of capital in the mixed economy

Capital, as an ensemble of property relations, has three branches in Nigeria as in many other Third World economies. One of them is State capital which is identified with the public sector. Two other branches of capital, namely, private indigenous capital and private foreign capital constitute the private sector. The three branches are distinguished not so much by their objectives as by their ownership and source.

State capital exists in various forms of public sector investment in the economy, so its profile is not uniform across the sectors. In Nigeria, it enjoys monopoly in communications and rail transportation and near-monopoly in electricity generation. Its presence in manufacturing is substantial in terms of expenditure and employment. As at 1981, taking medium and large-scale establishments across all the sectors of the economy, the public sector accounted for about 58 per cent of total wage employment while the private sector accounted for 42 per cent. The Nigerian State became increasingly involved in the oil industry, especially since the creation of the Nigerian National Oil Corporation (NNOC) in April 1971. By June 1974 the State had acquired 55 per cent interest in oil producing companies. In the capital goods sector which is rudimentary, with its output limited to construction, electricity, simple equipment and minor tools it is State capital that is dominant. Public sector investment in this sector has been at a great cost, as shown by the resources already committed to the existing steel projects at Aladja and Ajaokuta, to mention the two most important projects. Five billion naira has been invested in the Ajaokuta project alone. State capital remains the bedrock of social and physical infrastructure which private capital constantly requires for its accumulation purposes. But State capital has minimal impact in the agricultural sector as private capital, mainly in the form of sole proprietorship and small holder agriculture remain dominant.

The two branches of private capital, local and foreign, have been persistently alternating between collaboration and conflict, with foreign capital being the senior partner in the productive formal sectors of the economy. The total cummulative foreign investment in the country as at 1986 amounted to ₦9.3 billion. This spans sectors like mining and quarrying, trade and business services, manufacturing and processing, building and construction, agriculture, transportation and communications and others. Both foreign and local private capital collaborate to secure the support of the State in the interest of accumulation in general through legislation that creates the required 'enabling environment for business'. In the process local private capital has historically played the role of an intermediary through which foreign capital gains access to the public sector for its expansion. The two sectors conflict mainly over the determination of the domain and the specific form of surplus extraction. The indigenisation programme of 1972/77 is one major evidence of such conflicts. The State itself is, in its entrepreneurial role, also directly interested in this extraction of surplus value and mediates the conflict of private capital. It is interested simultaneously in more global issues of national economic independence, rapid industrialisation and development and the general protection of public interest.

This is the broad context in which the dynamics of interaction between the public and private sectors can be captured. For, while the public sector may be viewed, conceptually as an autonomous agency, our suggested perspective also highlights its endogenous nature and how in particular, it can be seen in its full role as a major platform for servicing private branches of capital. To attain a fair picture of the actual and potential impact of the activities of the public sector, some specification of its boundary is required.

1.2 Delimitation of the public sector

The public sector may be defined narrowly or broadly. The narrow definition limits it to what is conveniently called 'general administration', embracing organs of government that feature directly in the budgetary allocation of the State. The broad definition goes on to cover parastatals, that is, enterprises that either belong exclusively to the State, or in which the State holds dominant equity. The latter group of parastatals are owned by the State in partnership with private capital usually foreign.

The public sector has an expansive boundary in Nigeria, which makes it practically impossible for a single study to cover the whole terrain. Consequently, the specific working definition adopted by a researcher is dictated by the ultimate focus of the project. What is most important is that the institution or activity of interest comes unambiguously within the purview of the public sector. As Teriba found out,

> The concept of the public sector is far from precise; like many concepts employed in practical statistics, it is slippery and indeed hazy at the edges. There is no single or uniquely acceptable definition of the public sector; the appropriateness of particular definitions depend on the particular interests and purposes in view. (Teriba, 1965:26)

This is especially the case as the public sector spans the economic, social and political aspects of the society in a dialectically complex way. In attempting to narrow the focus of enquiry, however, there is need to strike a balance in order not to fall to the other extreme whereby the framework of analysis is emptied of all its policy relevance.

One of the most valid benchmarks for tracing the origins of the public/private sector divide in any social formation is, conceptually, the beginning of class formation in that society. As soon as social classes develop, and with them, the State apparatus, a dichotomy between the State and civil society develops. Public administration, requiring the imposition and collection of taxes in whatever form, or a coercive apparatus (military, police, etc.) thus lays the basis for a State sector. The Nigerian social formation obeys this logic. Before colonial imposition, various parts of this country were at different stages of organisation, ranging from the communal, through the slave, to feudal modes of production. With a predominantly feudal mode of production, a classic State sector had developed in such areas as Kenen Borno, Hausa States, Oyo and Benin Kingdoms long before the coming of the Europeans[1*]. What colonialism did was to formalise the public/private dichotomy by

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*Notes are at the end of chapter.

universalising capitalist relations of production as it sought to give the upper hand to the foreign branch of private capital.

Historically the colonial government did not show much interest in the industrial development of the country beyond its complementing the British industrial base. As contained in the Ten-Tear Plan of Development and Welfare for Nigeria 1946 (P.5), "one of the more important and first functions of the Department of Commerce (the newly formed 'co-ordinating entity') will be connected with the establishment of factories for the improved method of (extraction) of palm oil". These functions were to serve the fledging British soap industry. Thus on the whole, the interventionist role of the colonial state in the national economy hardly got beyond the half-hearted provision of physical infrastructures. "Apart from basic investments in ports, roads and railways, and the enforcement of law and order, there was little investment in public services, either economic or social" (Beckman, 1985:78).

At independence in 1960, the nationalists assumed political power only to find themselves economically weak and dangerously exposed. The State inevitably had to become the most important source of capital accumulation. The public sector, therefore, expanded in scope and size, offering subsidies and incentives to foreign capital. It also actively got involved in both directly and indirectly productive activities in various sectors of the economy.

As the private sector maintained the lead in the directly productive sectors foreign investors effectively remained the vanguard of private investment (Schatz, 1977).

It is relevant here to re-examine Blunt's claim[2] that the ideological factor could conveniently be discounted in explaining the 'origins and development' of the public sector in Nigeria. According to him it was due more to nationalist temperament than to socialist conviction that public enterprises were developed in the post-colonial period. There are fragments of illumination in Blunt's thesis which can be missed easily in the haze of the conceptual muddle that marks his submission.

There are two pertinent questions. How correct is it to equate the absence of a socialist ideology with the absence of ideology in general? How nationalistic were the political leaders? The first question touches on the correctness of equating the floating of public enterprises with a socialist move in the first place. Furthermore, the author's identification of two important forces behind the Nigerian Development Plans, namely, the twin desires to industrialise and Nigerianise, gives the impression that he has glossed over the fact that neither industrialisation nor Nigerianisation was carried out in a vacuum. Ideology refers basically to "a set of ideas, beliefs, norms and values which inform the general policy orientation among political and economic decision makers in a political systems" (Osoba, 1972). It follows, therefore that political leaders or economic managers cannot act in an ideological vacuum, with or without the accelerated development of public sector enterprises. In short, there is no political system that does not have an ideology.

The practical significance of this perception of ideology can be seen in the various policy statements of government officials and, in particular, the concrete policy measures of the State - which serve as signals to private economic agents. For example, since the adoption of the Structural Adjustment Programmes (SAP) as official policy, private investors have had to adopt planning techniques which reflect the enhanced role of market forces in the allocation of resources. The abandonment of the planning strategy which emphasised a leading role for the public sector in national economic development, is arguably an ideological move, granting that this was influenced by global trends which are, in themselves, a reflection of the configuration of politico - economic forces in Europe and America, marked by the triumph of monetarism. Increasingly, social programmes in education and health sectors hitherto conceived primarily as the responsibility of the public sector are being consigned to the private sector. These policy shifts have, of course, long-term implications for national development, thus underlining the importance of the ideological factor.

It is frankly stated in the First National Plan that, "it has always been the aim of government policy to stimulate the vigorous growth of the private sector ... The system adopted has been to ensure that the various proposals by Government ... are consistent with the development of the private sector" (First Plan, pp.9,22,24). It is obvious from all these that the major plank of the State's intervention in the economy is to facilitate the development of the private sector.

Viewed from the conventional angle of characterising an economy that is basically capitalist, the Nigerian economy is truly mixed, considering the size of its public sector. This is not the same as the more nebulous and analytically misleading category of 'intermediate regime', fashioned by Kalecki (1967) and popularised by Skouras (1978) and others. This conceptual category cannot be applied validly to Nigeria given the fact that the pattern and tempo of public investment has been shaped largely by private interests. As the State sector increasingly finances social infrastructures for the welfare of the population and for public investment that facilitate private accumulation, the financial burden of the State increases. This is exacerbated by the conversion of public enterprises (PE's) into avenues for private enrichment through deliberate mismanagement, thereby crippling such enterprises.

1.3 Nigeria's mixed economy and its accumulation problems

As an economy with capitalist orientation, Nigeria has been integrated into the capitalist international division of labour with a subordinated status and this defines the framework of possibilities available for development (Benelli, 1982). This status has direct implications for the rate and pattern of capital accumulation and the kinds of problems that are encountered in the process. The two levels at which the mixed nature of the economy is manifested constitute, simultaneously the primary sources of its accumulation problems. In this respect, we differ from the existing major schools of thought on how to conceptualise the problems of accumulation in a mixed economy.

The neoclassical synthesis sees the crisis of accumulation as a monetary or inventory problem, resulting from inordinate lending by the banks or fluctuating inventory. In this reasoning the cost of investment tends to be cheapened, with the result that there is a pile of inventory which inevitably dampens future investment. The final outcome is a fall in output whose multiplier effects destabilise the accumulation process. The specific Keynesian component of this school of thought ties the problem to inadequate effective demand, or what we prefer to call the problem of realisation, as output remains unsold. Combining these perspectives, neoclassical synthesis sees the solution to the accumulation problem essentially in terms of demand management.

The reality of the Nigerian system is quite different from this neoclassical-Keynesian scenario. What Nigerian accumulation depicts predominantly instead is inadequate supply, as shown by low productive capacity, perennial shortages of essential commodities and consequent sharp price increases. The problem here, therefore, is more of supply rigidities than inadequate demand.

The classical Marxist framework is also inadequate for fully explaining the crisis of accumulation in Nigeria. In the classical Marxist theory of crisis, the explanations advanced are mainly, underconsumption (a version of overproduction), the tendency for the rate of profit to fall (TRPF) and disproportionality between the capital and consumer goods producing sectors of capitalist economies. The underconsumption thesis is another version of the inadequate effective demand theory and is also unsatisfactory. As for the TRPF thesis, contrary to expectations, companies in Nigeria continue to record huge profits even in the trough of the current crisis. The disproportionality thesis is the only one that enjoys some validity as it highlights the sectoral imbalances in the economy, for example, between oil and other sectors as well as between industry and agriculture. This thesis is, perhaps, best applied to the lag in the non-oil sectors vis-a-vis the rapid growth of the oil sector.

The two extreme paradigms (neoclassical-Keynesian and Marxian) share the common fault of not paying attention to the critical issue of the peripheral status of Third World economies like Nigeria. More specifically, oil which literally constitutes the motor of the economy, though jurisdically falls under the supervision of the public sector, is effectively controlled by external agencies and factors. Foreign exchange earnings depend precariously on oil export. During 1981-1987, the sector accounted for an average of 96 per cent of the country's foreign exchange earnings. This is why every major economic crisis since oil became dominant in the economy can be explained in terms of the fate of the commodity in the international market and its consequences for export revenue. Before oil, cocoa in the external sector played a similar crisis generating role. As the external sector is destabilised, there is a parallel dislocation of national revenue, consumption expenditure and public investment. This is quickly transmitted to the private sector and the rest of the economy, thus constraining accumulation generally.

Beyond the foregoing, the large share of foreign investment in the economy creates its own crisis problem as the three branches of capital are sometimes locked in contradictory alignment. For example, foreign investors generate additional capital funds within the national economy, only to repatriate them abroad as profits. According to the United Nations Centre on Transnational Corporations (UNCTC) data, between 1975 and 1985, there was a net transfer of capital from Nigeria to the advanced capitalist countries, of approximately \$3.2 billion. Similarly, for the decade 1970-1980, there was a net outflow of capital from the country of \$2.7 billion. Thus, the indigenisation programme put on stream since 1972 has not much impact in terms of stemming the rate of capital repatriation.

This shows that the rate of pattern of accumulation in the Nigerian economy is influenced largely from outside, in the home bases of the transnational companies (tnc's), whose branches dominate the most important sectors of the national economy. In this setting, planning is easily aborted since critical variables in the system are under the control of external factors. The problem is further compounded by the persistent contradictions among fractions of local capital engaged in different sectors but competing for surplus extraction. Thus, the interests of industrial capital often conflict with those of agricultural capital. In the conflicts, State capital, which is not an uninterested party as a major employer of labour, must put up the facade of an impartial arbiter. The whole system is thus riddled with conflicts that threaten accumulation.

There are other dimensions of the foreign domination and consequent perversion of the development process in the country. Major sectors of the economy are linked, not to other sectors of the local economy, but to foreign economies in Western Europe, North

America and Japan. This generates a classic case of disarticulation. The insertion of the economy into the capitalist world system has also perpetrated its technological underdevelopment through the myth of "technology transfer". The result is the continued undermining of indigenous technology. Capital flight or the growth of stipendiary capital also generates its own problem for accumulation. It is estimated that between 1979-83, Nigeria lost about $17 billion through unofficial repatriation processes.[3] Private Nigerian wealth holdings abroad is believed to exceed the country's total external debt of about $32 billion as at 1990.

The basic problem which the study concerns itself is how to transcend the existing normative format for conceptualising the relationship between the public and private sectors of the Nigerian type of mixed economy. Hitherto, the role of the public sector has not been subjected to a coherent framework of analysis which would allow for a durable assessment of public policies vis-a-vis the dynamics of the relationship between the public and private sectors of the nation's economy.

1.4 Objectives of the Study

The main objectives of this study are fundamental to the development of the Nigerian economy. They are to:

1) quantify the various development assistance which the public sector has been offering the private sector in Nigeria, and thus demonstrate the primacy of the interventionist role of the State in facilitating private accumulation, thereby fostering the development of Nigerian capitalism in its special form;

2) establish the specific forms of the interconnection between the fiscal crisis of the State, on one hand, and private accumulation, on the other; and

3) provide a better conceptualisation of the role of the State in economic development.

These objectives flow from a basic conceptual focus, namely the underlying determinant of the complementarity and friction observable, over time, between the public and private sectors of the Nigerian economy. A systematic investigation of the various ways in which the Nigerian State socialises the costs of private investment should enhance our understanding of the fiscal crisis of the State. By examining some government-sponsored programmes such as the Agricultural Credit Scheme, Industrial Credit Scheme, Industrial Assistance Programme, Indigenisation, etc, the study will provide illuminating insight into the fundamental mechanisms of accumulation in the economy and the organic unity of the process.

We thus consider the World Bank-sponsored approach to the study of the basic problem through the study of public subsidies in

Columbia[4] inadequate. The approach focuses on areas such as education and health, which are rather too diffuse in their benefit to provide incisive insight into the logic of the interaction between the public and private sectors.

1.5 Scope and limitations of the study

In spatial terms, the study covers the whole country as the spread of Federal Government sponsored programmes such as the Agricultural and Industrial Credit Schemes as well as Indigenisation, delineate. The specific agencies that feature most prominently in these schemes are the Central Bank of Nigeria (CBN), the Nigerian Agricultural and Cooperative Bank (NACB), the Nigerian Bank for Commerce and Industry (NBCI), and the Nigerian Industrial Development Bank (NIDB). Thus, the economy is conceptualised in terms of the two broad sectors of manufacturing and agriculture, for which the Credit Schemes are designed to accelerate development.

The time horizon covers the post - independence period, especially since the 1970s. This coincides with the period when a relatively coherent official view vis-a-vis the role of the public sector in the economy took roots with the adoption of the aforementioned programmes. The underlying hypothesis for our periodization is that the point of formal independence provides a valid analytical benchmark for exploring the national economy in relation to attempts at sovereignty in economic management. This is with regard to the choice of a developmental path.

One major strength of this study is also simultaneously a source of its relative weakness: the coverage. As indicated earlier, the study does not cover everything in the public sector, including some which have implications for private accumulation. The near-total exclusion from mention of a sub-head like general administration and the summary treatment of important sectors such as electricity and water and petroleum, shows that the exercise can analyse only important parts of the total public assistance enjoyed by the private sector. By reaching out to other areas of state involvement in economic and social activities, however, an attempt has been made to ameliorate the aberration. Similarly, the study limits itself to Federally-funded programmes, though it is realised that similar programmes are operated in the states. The idea here is that the state government programmes are mostly derivatives and/ or duplicates of the federal ones.

1.6 Data for the study

The study relies heavily for its data on the publications of several public sector institutions such as the Central Bank of Nigeria (CBN) and development banks. It also utilises data from international organisations, especially the World Bank and the

United Nations Centre on Transnational Corporations (UNCTC) principally to crosscheck local trends and official reports. These are complemented with primary data generated in the course of the study.

1.7 Outline of the study

The study is structured into seven chapters: After this introductory chapter attempt is made in the next chapter to document some of the specific expenditure programmes of the public sector, including but not exclusively those geared to encourage private entrepreneurship. In Chapter 3, the relevant literature on how the role of the (State) public sector in the development process is conceptualised comes under review. This is done through a critical survey of the identifiable major schools of thought. Chapter 4 shows the methodology and the theoretical framework adopted in the study. Chapters 5 and 6 grapple with the challenge of substantiating the theoretical stand-point on which the study is carried out. Specifically, these two chapters are concerned with exploring and showing the organic nature of the relationship between public sector policies and programmes on one hand and on the other private accumulation, in both the Agricultural and industrial sectors of the economy; Chapter 7 contains the summary and conclusion of the study.

Notes to Chapter 1

1. For details, see Bade Onimode (1983); Imperialism and underdevelopment in Nigeria; London; Macmillan.

2. M.E. Blunt (1964): "The place of ideology in the Origins and Development of Public Enterprise in Nigeria", Nigerian Journal of Economic and Social Studies (NJESS) Vol. 6(3).

3. First Bank of Nigeria: Business and Economic Report (June) 1990, pp. 16-17.

4. See Marulo Selowsky (1979): Who Benefits from Government Expenditure? A Case Study of Columbia; Washington D.C.: Oxford University Press, for the World Bank.

CHAPTER 2

THE FUNCTIONAL ANALYSIS OF PUBLIC EXPENDITURE IN NIGERIA

In Nigeria, as elsewhere, public expenditure is the most visible and quantifiable measure of government activity. Public expenditure is very important in terms of its effects on social welfare and national development. It affects the size of the initial endowment of resources which orthodox theory assumes away in its general equilibrium analysis; this serves as a main essence of primitive accumulation in the Nigerian context. Public expenditure spans all the sectors of the economy, though at an uneven profile. The State expends resources on social services and the economic sectors.

There are two broad forms which state intervention in the Nigerian economy takes, both geared towards facilitating capital accumulation, either directly in the public sector, or indirectly via the private sector. The State supports and encourages existing private industry while at the same time, it launches its own ventures. This approach is typical for oil mixed economies hence they are called State monopoly capitalism (SMC) in the advanced countries and State bureaucratic capitalism (SBC) in the under-developed countries. Even strong supporters of private entrepreneurial competence concede that the success of the private sector rests critically on the method and scale of public sector activities, especially in underdeveloped countries.

The impact of public sector expenditure on social services is more diffuse across social groups than expenditures targeted at economic sectors where interest groups are more coalesced and defined. The preoccupation of this chapter is the documentation of public expenditures across sectors of the economy, so as to highlight the symbiotic relationship between these and the interests of the private sector. Specific programmes such as indigenisation and privatisation are also considered.

2.1 Social services

The most rabid advocates of the supremacy of market forces for the task of resource allocation concede, even justify and advocate, state input in the delivery of social services. The provision of these services, therefore, has been generally accepted as a legitimate sphere for State participation. Consequently, it is usually one of the first areas of public sector involvement in economic management. This consensus seems to be anchored to the realisation that social services constitute a basic prerequisite for the overall development of society as they engender quantitative and qualitative improvements in important variables such as entrepreneurship, level of skills of the population and technology. It is apposite, therefore, that our analysis opens with the social services sector.

Like resource allocation to any other sector of the economy, the share of social services, or so-called 'soft sectors', embracing education, health, housing and water supply, is determined primarily by two factors. These are the commitment of government to the sector, as an objective function, and the flow of available resources, acting as a constraint. In the colonial period, the focus of public expenditure was on the maintenance of the State apparatus and general administration with little or no attention to social services. This was because general administration, defence and security preoccupied the colonial administrators.

In the two colonial plans for Nigeria (1946-1956 and 1955-60/62), there was little specific allocation to social services as colonial education and health were mainly under private christian missions, especially in Southern Nigerian. The World Bank mission to the country in 1953, whose report constituted the basis of the 1955-60 plan in many respects, made little explicit reference to the education and health needs of the population. Instead it was concerned more with transportation. The capital allocation to education in the second colonial plan was ₦37.6 million, representing about 9 per cent of the total expenditure throughout this period, as the role of the public sector was conceived essentially as supportive of the leadership role of the private sector. Within this framework, the public sector limited itself to the provision of physical infrastructures such as railways, electricity and telecommunications. The result was that at independence in 1960, less than three persons in ten that were of school age and over could read and write; the number of registered medical practitioners was about 1,000, while hospital beds numbered less than 20,000 (Adebayo Adedeji, 1985).

When the first post-colonial plan (1962-68) was being drawn, an urgent need to expand primary and secondary education substantially was apparent. The importance of education at these levels was tied to the double function it was to serve. First, it was to provide an informed electorate that is so crucial to democratic governance. Second, it would serve as the pool from which, with further training, 'the future managers, foremen, administrators and technicians are drawn'. As a broad objective of the plan, the training of high and intermediate manpower was one of the three areas to be given the highest priority; the other two being agriculture, and industry (First Plan, p.23). About ₦140 million was then allocated to education, but this did not really indicate any significant shift from the second colonial plan. Viewed in proportional terms, this represented 10.3 per cent of the total capital expenditure in the plan, a 1.3 per cent upward shift above the colonial planner's horizon. Correspondingly, only ₦20.6 million went to health projects.

It was in the Second Plan (1970-74) that an appreciable shift in commitment to social services occurred. Out of the capital expenditure of about ₦3.2 billion, by the public sector, 28 per cent was earmarked for social services. The Federal government alone was expected to make a capital investment of ₦179.4 million in education. The State governments combined, shared the burden of ₦98.2 million out of a total capital investment by the public sector in education of approximately ₦278 million.

There was a fall in the proportion of initial allocation to social services in the Third Plan (1975-80) compared to the Second Plan. Out of the total public investment, less than 12 per cent was devoted to social services, of which education and health received 7.4 and 2.7 per cent, respectively. However, there followed an upward revision in the overall expenditure as the Third Plan was being executed. With the oil boom from 1973/74, the Federal government inroduced ambitious programmes in the social services and other sectors. It was during this plan period that the Basic Health Services Scheme was introduced. Education also enjoyed a special boost with the introduction of the Universal Primary Education (UPE) programme in 1976, the cost of which was borne by the Federal government. The UPE gave birth to a crash programme of training about 44,000 teachers locally on the basis of free tuition and boarding facilities. To sustain these policy measures in the

Fourth Plan (1980-850 necessitated the devotion of increased spending to social services, both in absolute and relative terms. Consequently, as against the less than 12 per cent devoted to this sector in the Third Plan, 17.5 per cent was allocated to it in the Fourth Plan.

It is worth noting that these huge expenditures on social services also constitute a veritable source of private accumulation, through one single chain from the Federal through the State down to the local government level. This chain involves major construction companies and multinational importers handling the importation of construction vehicles, construction equipment, construction materials and school equipment.[1]

In recent times, however, the social services sector has experienced a drastic fall in commitment, and financial allocations to these sectors conceal much of the reversal. Thus a casual look at Table 2.1 gives the impression that health care delivery has not suffered from any cuts in government spending as alleged by many. The absolute allocation is, after all, on the increase though with oscillations, while the general trend of allocation to health is still apparently upward. Even when the relative share of the sector in the total budget is considered, the picture is not clearer, except that it brings out the low priority which health care delivery has enjoyed historically in this country. Behind all the figures was the spectre of inflation which has become pernicious in recent times. The result is that a marginal increase in nominal allocation from year to year was, concretely a massive reduction in terms of real expenditure.

TABLE 2.1

Federal government expenditure (Capital and Recurrent) on health, 1980 - 89

Year	Amount (₦ million)	% of Total
1980	190.98	1.58
1981	250.90	2.24
1982	90.79	1.15
1983	254.50	2.21
1984	131.20	1.32
1985	199.40	1.65
1986	320.40	2.77
1987	236.40	1.35
1988	443.20	1.82
1989	452.60	1.50

Source: Central Bank of Nigeria, Annual Report, 1982; Economic and Financial Review, June, 1988, September 1990.

Thus, the commitment of the government to social services has witnessed a major reversal, especially since 1984 when the 'welfare state' started collapsing. The official explanation is the fall in government revenue. But in general, the public sector is being rolled back by the State, thus affecting virtually all sectors, with perhaps the exception of general administration and security.

2.2 Economic sectors

The economic sectors understandably cover a large area and with a fluid boundary. They cover a range of activities such as agriculture, manufacturing, mining and quarrying, construction, transport and communications. These are the directly productive sectors, the base of the economy. It is on the strength of the surplus generated from these sectors that the activities in other sectors like services, general administration, public debt amortisation, etc., are financed. As observed in the preceding section, the colonial government took special though selfish, interest in infrastructural facilities, which the private sector desperately needed. Between 1950 and 1960, the regional and federal governments were responsible for a wide network of roads, mostly untarred. As at 1950, they were responsible for roads totalling about 28,000 miles out of which just about 1,000 miles were tarred. By 1960, these governments took responsibility for about 47,000 miles of roads, out of which over 42 milies remained untarred (First Plan, p.12).

The development of the railway system was a colonially inspired programme, with its pattern of extraverted layout, designed to facilitate the collection of export commodities and the importation of European manufactured goods, with little interest in the development of an integrated, internal communications network.[2] This pattern of providing physical infrastructural facilities is typical of colonialism, as the African case has demonstrated (Onimode, 1988: 212-217). In the immediate post-colonial plan of 1962-68, the Nigerian government justified its timid commitment to the development of the transport system on the basis of the high cost involved. The total investment in the sector had to be limited, therefore, to approximately 12½ per cent of the total capital expenditure of the plan (First Plan, p.69). But this was much higher than the proportion devoted to education. The underutilisation and imminent collapse of the railway system was merely bemoaned and rationalised on the ground of 'the rise of competition from road transport'. But less than ₦16 million was devoted to the development of rail transport in the plan.

Other physical infrastructures were given greater attention in the plan. For example, ₦196.2 million was devoted to the development of electricity generation, out of which the Electricity

Corporation of Nigeria (ECN), now the National Electric Power Authority (NEPA) took ₦60 million. The bulk of the investment of ₦136.2 million went to the development of the Niger Dam at Kainji. The development of the Ports fell within 'a special ten-year development programme', but within the 1962-68 plan period, an investment of ₦47.2 million was made (First Plan, p.73). Seaport installations at Warri and Calabar, which were previously operated by private companies were taken over by the Federal Government's Ports Authority (NPA) within the period.

In the Second Plan, the Federal Government devoted ₦334.2 million to transport development, as against ₦150.8 million by the State governments. Between 1960 and 1980, transportation attracted relatively higher investment funds than any other single sector (Fourth Plan, p.215). Table 2.2 gives a summary of capital allocation to the transport sector over the four post-colonial development plans. By the Fourth Plan, the recorded achievement in the sector was considered significant enough to require some scaling down. The emphasis was then shifted to the generation and transmission of electricity, and the Federal government earmarked ₦2.4 billion for this purpose in the Fourth Plan, out of which the Rural Electricity programme took ₦645 million.

TABLE 2.2

Public sector planned capital investment in transport, 1962-85

Plan Period	Plan Size (₦ Million)	Transport Sector Allocation (₦ Million)	Transport Sector Allocation as % of Total
1962 - 68	1,586,000	309,092	19
1970 - 74	2,050,738	472,398	23
1975 - 80	43,314,009	9,677,541	22
1981 - 85	70,500,000	10,706,616	15

Source: Fourth National Development Plan, p.217 Table 17.1

Coming to the more directly productive sectors of the economy comprising agriculture, manufacturing and mining, the pattern of public expenditure did not change significantly. But there were shifts in relative emphasis among the three sectors as indicated by the declared objectives of the different plans. The colonial government considered these directly productive activities to be constitutionally outside the purview of the public sector and accordingly, the State abstained from them as a role. By 1962, this view was revised as the government decided to participate in the operation of various industries, focusing in particular, on iron and steel, and oil. During the plan, the oil sector remained effectively in the hands of transnational companies. This was changed somewhat, in 1971 when the Nigerian National Oil Corporation (NNOC) was set up to provide government participation in the industry, based on the wise counsel from the Organisation of Petroleum Exporting Countries (OPEC). With effect from April 1, 1974, this corporation compulsorily acquired 55 per cent controlling share in all foreign oil companies on behalf of the Federal government. This involved an estimated payment of N780 million to the foreign companies. The corporation also started participating in oil marketing. It took a 51 per cent interest in the offshore exploration concessions awarded in 1972, as well as engaging in its own exploration activities. The corporation has since been transformed into the Nigerian National Petroleum Corporation (NNPC), which motivated the setting up of local refineries at Warri, Port Harcourt and Kaduna; a Liquified Natural Gas (LNG) project involving State, foreign and local private capital is being executed at a cost of about ₦2 billion.

Both agriculture and manufacturing were to enjoy the highest priority in the First Plan. As a broad programme of agricultural development, a survey of the country's agricultural potential was undertaken as a prerequisite to its modernisation; agricultural research was to get ₦2.9 million. The total public sector involvement in agriculture in the 1970-74 plan amounted to ₦215.2 million as capital expenditure, out of which ₦61.6 million was undertaken by the Federal government while the States were responsible for ₦153.6 million. The Federal government was, however, relatively more aggressive in its involvement in manufacturing to which committed ₦81.6 million as capital expenditure out of a total public sector investment of ₦192 million.

The direct involvement of the public sector in manufacturing was not expressedly tied to specific projects in the First Plan. Based on the projected execution of an integrated iron and steel complex, public sector involvement in industry was mainly to be in the form of provision of credit and infrastructural facilities for private investors. A provision of ₦10 million was, however, made for direct investment in new industrial projects by the Federal government. Such projects were to be potentially viable and of strategic importance within the development plan, but which otherwise would have been handicapped by lack of funds. The government was not interested in the nationalisation of existing private companies. In fact, its expressed ultimate ambition was the sale of the enterprises it was establishing, to private Nigerian investors (First Plan, p.63). The spirit of indigenisation was thus actually taking root; it became public policy programme in the Third Plan.

Taken together, the economic sectors took 61.5 per cent of the total public sector investment programme in the Third Plan. Out of this, the highest relative allocation of 30.5 per cent (of total plan expenditure) went to transport and communications. In 1977, during the plan, the indigenisation decree of 1972 was amended to expand the scope of participation by private Nigerian investors. Public sector expenditure during the Third Plan also reflected a policy shift towards mechanised large-scale farming. Huge expenditures were committed to the River Basin Development Authorities. In 1976, there was Operation Feed the Nation (OFN) under which the government approved ₦3.9 million in 1977 for the purchase of 32 heavy-duty feed mills to be located throughout the States. During the 1978/79 fiscal year, ₦76 million was reportedly spent on fertiliser subsidies under the infamous OFN.[3]

Given the persistent deterioration of agricultural performance as reflected in serious food deficits and shortfalls in agricultural export, the need for a comprehensive review of past policies became especially imperative by the time of the Fourth Plan. The planners reasoned that the missing link in past efforts was a combination of misconceptions which included: (a) the general disproportional development of the economy whereby there was a rapid growth in oil, construction, commercial and service activities, leading to an intensification of rural-urban drift among the active labour force in the agricultural sector; (b) placing emphasis on extensive rather than intensive farming which puts a premium on productivity per hectare; and (c) inadequacy of suporting facilities for the agricultural regions. On the basis of this analysis, there was to be a policy shift to focusing on the small holder agriculture, using price as incentive and with the subsidisation of inputs. A substantial increase in the volume of both short-term and medium-term credit to farmers was to be a major pivot of this initiative. A total sum of ₦4.5 billion was earmarked by the Federal government alone as capital investment in agriculture within that plan period. On the whole, between 1970 and 1989 Nigeria secured seven World Bank loans totalling $1.8624 billion for the development of agriculture. The bulk of these loans ($1.16 billion) went to the World Bank assisted Agricultural Development Projects (ADP's), $250 million was spent on the importation of fertiliser, $229 million for cocoa and oil palm rehabilitation projects and $204 million for both livestock and forestry development. Other projects executed during the period included irrigation and draingage, agricultural management and training institutes.

The effective participation of the public sector in mining and quarrying activities was endorsed right from the Second Plan, but this was not pursued initially with the seriousness it deserved until well into the plan. This resulted from external developments and "efforts were limited mainly to administration and geological surveys, manpower training, provision of research facilities and the co-ordination of international mining policies" (Third Plan, p.138). However, whereas in the First Plan period, only ₦0.414 million was actually disbursed as capital expenditure to mining, this went up to ₦8.9 million in the Second Plan. In fact, as a result of the acquisition of participating rights by the State in erstwhile foreign-owned oil companies, total public sector investment in the industry went up to ₦411 million before the end of the plan period. In the Third Plan, public investment in the industry was around ₦2.680 billion, and ₦5.4 billion was to be invested in these activities under the Fourth Plan. The principal institutions involved were the NNPC, the Associated Ores Mining Corporation, Nigerian Mining Corporation and the Nigerian Coal Corporation.

Joint State/foreign capital participation in the oil industry has continued to be maintained, with nominal control by the State. Dealing with the question of State/private capital collaboration raises the important subject of parastatals. Their importance derives partly from their perceived role in development and also more recently, from their record of failure, typically defined in terms of 'inefficiency'.

2.3 The role of parastatals

Parastatals are known alternatively as Public Enterprises (PE's), Public-Sector Enterprises (PSE's) or State-Owned Enterprises (SOE's). In the Nigerian Public Service Review Commission's Report (Udoji, 1974), parastatals came under four types of organisation, namely: (a) a public utilities, which are corporations or boards set up to provide essential goods and services such as water, electricity, transportation, health and others. Examples here include the Nigerian Railway Corporation, Nigerian Airways, Radio Nigeria, Nigerian Telecommunications (NITEL), National Electric Power Authority (NEPA), etc.; (b) financial institutions such as commercial, merchant and development banks as well as insurance firms and other finance houses; (c) commercial and industrial enterprises which operate in typical business fashion, involving production, sale and maintenance of a wide range of goods and services for public consumption on a commercial basis; and (d) regulatory or service bodies, which are semi-autonomous agencies concerned with specific national programmes such as census. Also included are public institutions for education, research institutes and other related institutions.

There are two general ways in which a parastatal may emerge, namely, through the nationalisation of existing private enterprises (local or foreign-owned), and the creation of new enterprises.

Historically the approach has been almost eclusively through setting up new enterprises, either independently or in partnership with private (usually foreign) capital. Rarely, with the exception of the oil and banking industris, has the State attempted to nationalise private capital. Whichever way the parastatals have emerged, the <u>Federal</u> government channels funds into them in the form of equity investment, loans and grants or subventions. According to available data that sometimes conflict and should be taken with caution, by October 1985, public sector investment in equity and loans to parastatals over the previous six years amounted to more than ₦23 billion; this excludes subventions and grants which totalled ₦35.75 billion. Table 2.3 shows the sectoral distribution of holdings in new and nationalised industries in the productive sectors of the economy as well as in projects outside the country as at December 1984. By that date, the Federal government alone had investment in more than 60 parastatals.

Parastatals have not, historically, always been dominant in the Nigerian economy. The colonial economy was based largely on peasant subsistence and export production for which a state apparatus limited in scope and size was quite adequate. Thus apart from the provision of inadequate and unintegrated physical infrastructures and the enforcement of law and order, there was little investment by the colonial administration in either economic or social services.

Public sector participation in the economy is thus essentially a post-colonial phenomenon in Nigeria.

TABLE 2.3

Summary of Federal Government Investments as at December 1984

Item	Original Investment	Additional Contribution	Total Investment
	₦	₦	₦
Manufacturing Companies	3,760,013,165.00	46,926,961.00	3,806,940,126.0
Financial Institutions (out of which)			
- Bank	376,544,189.00	216,142,375.00	592,868,564.0
- Insurance	14,651,471.00	26,400,717.00	41,052,188.0
Service	4,275,190,590.00	1,902,999.00	4,277,093,589.0
External Investments	64,829,292.00	358,209.00	65,187,501.0
Investment Forfeited to Federal Government	691,229.00	89,533.00	780,762.0
	8,491,919,936.00	291,820,794.00	8,783,740,730.0

Source: Federal Ministry of Finance

Barely four years to the country's independence, the central government affirmed the public sector's limited and mainly supportive role in the economy:

> our policy is not to compete with private enterprise, it is not to go all out spending public funds trying to establish industry in all parts of country. One policy is to encourage private enterprise ...4

This official defference to the private sector was reaffirmed in the first post-colonial plan since "it has always been the aim of government policy to stimualte the vigorous growth of the private sector" (First Plan, p.8); even though the State intended to participate in the operation of various industries, especially iron and steel and oil. Meanwhile, inflow of private foreign capital was to be actively encouraged and enthusiastically welcome (ibid. p.24).

The relative non-performance of the private sector in general and, especially, the disappointing inflow of foreign capital during the First Plan created the objective condition for public sector participation in the commanding heights of the economy 'in the quest for purposeful national development' and as a basis for the promotion of public interest. The underlying logic of this developmental thrust lies in the realisation that a government cannot plan effectively what it does not control (Second Plan, p.33). Hence, the need for greater public sector initiative and involvement in economic activities.

For a long time, the government was ambivalent, for as it justified public sector participation, it pledged limited and selective action. In late 1978, a top State official proclaimed,

> The official policy of the Federal Government is to minimise direct involvement of the public sector in the manufacturing industry as far as possible and consistent with the best interest of the nation. In line with this policy, only projects which are of strategic importance to the national economy and security are reserved for the public sector.5

By the early 1980's, government had invested heavily in a diversified portfolio of industrial projects including salt, iron and steel, cement, banking, sugar, pulp and paper, fertilisers, oil, motor assemblage, hotels, etc. This became possible, of course, because of increased earnings from petroleum, especially in the early 1970s. It is instructive that at the close of the decade in 1989/90, the World Bank and IMF spearheaded a frantic bid to curtail the expansion of the public sector, with the programme of privatisation under the Structural Adjustment Programme (SAP). Previous argument for creating PE's have been reversed, and subverted with ingenuous rationalisations.

2.4 State assistance programmes

Apart from directly financing social and physical infrastructures, which facilitate productive activities in the private sector, the Nigerian State also undertakes other cost-underwriting measures which come in various programmes of assistance. These include the provision of tariff protection, subsidised credit facility, subsidised industrial estates, technical and commercial advice and assistance, etc. (Schatz, 1977; 1988). They are usually announced under the broad framework of 'industrial policy', that covers different incentives aimed at encouraging the private sector, ostensibly as a way of accelerating the development of the country.

There are also non-quantifiable measures which have almost equal impact on the performance of the private sector. Thus several measures may be involved in 'improving the investment climate prevailing in the country', including the suppression of workers and the general discipline of labour in order to guarantee a docile and exploitable labour force or 'industrial peace' for larger profits.

2.4.1 Agricultural credit

The adoption of the broad principle of credit provision by State-assisted financial institutions to promote development dates back to the colonial era. By the instrument of Ordinance No. 2 of 1946, the Nigerian Local Development Board (NLDB) was established. Its functions were to make loans and grants to public sector institutions, and foster Nigerian business activities in general. The Board took off with an authorised grant of ₦2.5 million from the government (Schatz, 1964: 16-17).

Apart from the Central Bank's provision of financial support for the Marketing Boards' export programmes which started in 1962, and the issuance of broad credit guidelines, no explicitly agricultural credit arrangement existed, at least at the Federal level, until 1972. Then commercial banks were required to devote a minimum of 4 per cent of their total lending to agricultural projects. This was raised to 6 per cent in 1975, and in 1986 it went up to 15 per cent, as agriculture became one of the 'preferred sectors'. Interest rates on such loans were normally pegged at levels that were considerably lower than commercial rates. Thus the agricultural sector enjoyed interest rate subsidy, thereby lowering its cost of capital. In effect, the Central Bank imposed credit measures to control both the price and the supply of credit.

In value terms, from 1972 to 1984, commercial banks advanced loans to the agricultural sector totalling N4.7 billion. The figure for merchant banks for the 1973-84 period is N248.8 billion. Both commercial and merchant banks lending to the agricultural sector amounted to N15.320 billion for eight-year period, 1980-87. It is worth noting that the proportionate shareholding by the Federal and State government in these banks stood at 35.4 per cent by December 1989.

A special institution, the Nigerian Agricultural and Co-operative Bank (NACB) that focuses exclusively on advancing credit to the agricultural sector was established by the Federal government in 1972 and became operational in 1973. It grants credit to individuals, firms, cooperatives and State governments for agricultural activities. It was fully owned by the Federal government until 1979 when the Central Bank became a joint owner. The former holds 60 per cent of the ₦150 million share capital while the latter holds 40 per cent. During the Third Plan period, 1975-80, the bank established six area offices at Enugu, Ibadan, Bauchi, Sokoto, Port Harcourt and Benin, with the objective of broadening the scope of its impact. By the end of 1984, the bank had established a branch in each of the 19 States and the Federal Capital Territory. The bank's minimum direct credit is ₦5,000, and its main areas of interest are primary production and marketing. Between 1973 and 1978, it advanced a total credit of ₦157.45 million for various projects. From 1980 to 1988, NACB approved loans totalling ₦901.4 million; between its inception and 1984, it had extended loans to 3,383 applicants of which 83.9 per cent are individuals, 2.4 per cent cooperatives, 3.5 per cent corporate firms, 3.6 per cent public corporations and 0.7 per cent State governments. Over 77% of the beneficiaries of the bank's loans are reported to have defaulted, reflecting poor management, loan diversion and outright unwillingness to repay such loans.[6] At the end of 1984, a total of ₦135.5 million remained outstanding as overdue for repayment.

By Decree No. 20 of 1977, the Agricultural Credit Guarantee Scheme Fund (ACGSF) was established, with an authorised capital of N100 million held in a 60-40 ratio by the Federal government and the Central Bank, respectively. The Fund rose to ₦212.3 million by the end of 1983. Loans granted under the Scheme by commercial and merchant banks are guaranteed up to 75 per cent in case of default, net of any amount realised by the lending bank from the security pledged by the borrower, subject in the case of a loan to an individual to a maximum of ₦50,000 and, in the case of a loan to a cooperative society or corporate body, to a maximum of one million naira. The rate of interest on loans under the scheme stood at 7 per cent per annum for individuals and companies, and 6 per cent for institutions for on-lending to farmers. Between 1978 and 1988, the value of loans guaranteed by the Fund to individuals, cooperative socities and companies amounted to approximately ₦269.4 million, ₦17 million and ₦251.2 million respectively, totalling about ₦537.6 million.

It is to be noted that as with the NACB, the rate of default under the ACBSF has been very high. The case of Plateau State (which is not unique), constitutes an eloquent testimony to the recovery rate recorded by the Fund; only about ₦2.8 million of the ₦20.3 million loans given to farmers in that State since the commencement of the Scheme in 1978 had been fully repaid. Of the

1,691 guaranteed loans given out during the 1978-88 period, only 450 had fully repaid by 1989, and these are mainly small-holder borrowers whose loans are not more than ₦5,000, while the medium and large-scale borrowers constitute the major defaulters.

The State government controlled Agricultural Development Projects (ADP's) all over the country also administer credit to farmers. They enjoy financial assistance from the Federal government and the World Bank. On the whole, however, the recovery experience of these ADP's has been much more inspiring than the foregoing institutions, though the total amount involved is relatively small.

On December 15, 1987 the President launched the Nigerian Agricultural Insurance Scheme (NAIS). The broad objective of this scheme is to offer protection to the farmer from the effects of natural disasters and to ensure payment of appropriate compensation sufficient to keep the farmer in business after suffering a loss. The scheme is, of course subsidised by the government and it is in fact run primarily as a social service programme. The Federal government is expected to provide 70 per cent of the total reserve fund, while the States, financial institutions and oil companies also contribute to the scheme. The Federal government promptly made an initial provision of ₦41.5 million to cover the initial reserve and administration of the scheme.

In many other ways and through divergent institutions, the State has also been subsidising private farming or claims to agricultural production. A conservative estimate by the World Bank puts the credit subsidy to agriculture in 1982 alone at ₦35 million. The regressive nature of the impact of agricultural credit subsidy in Nigeria is acknowledged by the World Bank as it observed:

> The credit subsidy programme has been inequitable because it has reached very few small holders. The larger, richer farmers who receive most of the formal loans probably could have borrowed anyway at unsubsidised rate.7

Similarly, private industrial projects are routinely subsidised by the State.

2.4.2 Public industrial credit

By the instrument of Ordinance No. 14 of 1949, the Nigerian Loans Development Board (NLDB), which was established in 1946, was replaced by the Colony Development Board (CDB) as regionalisation led to the formation of regional develoopment boards. The CDB was soon transformed into the Federal Loans Board (FLB). Between 1946 and 1949 when the NLDB was in operation, it approved loans, aids and grants totalling ₦912,948. Out of this, private sector enterprises secured the highest loans amounting to ₦203,684 and representing 22.3 per cent of the total loans approved by the Board for the period (Schatz, 1964:18). When the Federal Loans Board (FLB) was to start operations in July 1956, based on the suggestions of the

World Bank Mission that visited the country in 1953, it was given the expressed task of granting loans for private business.

In 1952, the Aid to Pioneer Industries Ordinance was passed in response to nationalist pressure for the stimulation of industrial development of the country. By this ordinance, the industrial enterprises covered were exempted from tax payment for the first two years of operation. In the same year, the Income Tax (Amendment) Ordinance was passed, granting generous depreciation allowance to investors. A more comprehensive package of incentives specifically targeted at private foreign investors was formulated in 1956, titled "Opportunities for Overseas Investments in the Federation of Nigeria" (Government Press, Lagos). It was meant to induce foreign investors to get involved in the industrial development of the country.

Between 1957 and 1959, there were other measures taken to lighten the investment-burden and risk of private capital. The programme of assistance to private investors by the State was pursued into the post-colonial period. In fact, one of the immediate steps taken was the reorganisation of the Investment Company of Nigeria Limited. It was floated in 1959 by the Commonwealth Finance Corporation at the behest of Nigeria, after due consultation with local and British investors. It was set up to render financial assistance to investors in a wide range of activities such as industrial production, commerce and agriculture. It was reorganised in January 1964 to become the Nigerian Industrial Development Bank (NIDB) Limited. The principal function of NIDB was to serve as "a source of finance for industry and as a channel for bringing in overseas investment into the country". The bank has since expanded from its initial authorised capital base of ₦10 million to its current operational level of ₦400 million which enabled it to give loans totalling ₦397.8 million in 1987, for small, medium and large scale projects. Out of this amount, medium and long-term loans amounted to ₦365 million for the finance of 53 projects.

During the First Plan, the Federal Loans Board was given ₦1 million for loans to private Nigerian businessmen but most of the money was allegedly diverted to projects that had little or no bearing with the specified purposes for which such loans were granted in the first place. Besides, 'loans were granted in most cases on political rather than commercial considerations', such that a few well-connected individuals ended up turning the whole arrangement into a 'bonanza' for themselves at the expense of the many small-scale businessmen. It had to collapse, inevitably (Second Plan, p.141). This, however, did not deter the Northern Chamber of Commerce from calling on the government in 1966 "to give adequate financial assistance to produce buyers ... in order to increase their quota of produce buying and ensure the economic stability of the North" (New Nigerian, December 6, 1966 p.12). Yet, earlier in the same year, under the Northern Nigeria Small Industries Credit Scheme, the sum of N78,400 was approved for a number of small and medium indigenous enterprises scattered throughout the Northern States (Morning Post, August 19, 1966 p.16). There were several cases of similar calls and government response to them.[8]

It was resolved quite early that the involvement of the State would occur at all levels, and through a wide variety of forms, including the provision of credit for agriculture and industry (First Plan, p.3). Yet the impression was being created that government was averse to subsidising private consumption or accumulation as this 'imposes a burden upon the community as a whole'. Consequently, the official declaration was to the effect "that conscious attempts will be made to limit subsidies wherever possible to those groups of people who are unable to pay for services essential to their well-being", in the spirit of social justice (ibid., p.4). In practice, however,powerful farmers and industrialists have usually cornered the bulk of the subsidised credit administered by the Strate, at the expense of the needy.

Loans to small-scale industrial enterprises have been increasing since, especially with the renewed interest and encouragement from the World Bank in recent times. In March 1988, a total of ₦3.9 billion was granted to this group of enterprises. The idea of a Small-Scale Industry Credit Guarantee Scheme (SSICGS) similar to the existing Agricultural Credit Guarantee Scheme (ACGS) has actually been suggested. Meanwhile, NBCI had decided, in 1987, to reduce the rate of interest it charged on loans for small-scale industrial projects by 2 per cent against other lending rates. The bank has also taken a $90 million loan from the World Bank and African Development Bank, to finance small-scale enterprises.

On January 9, 1989, the Federal Government passed Decree No. 2 of 1989 setting up the National Economic Reconstruction Fund (NERFUND). The Fund was estabished 'to correct any observed inadequacies in the provision of medium to long-term financing, to small and medium scale industrial enterprises' engaged in manufacturing, agro-allied ventures and ancillary services. The Fund is to provide mediumto long-term loans at subsidised rate to participating commercial and merchant banks for on-lending to small and medium enterprises (SME's). Loans with five to ten-year maturity, with a grace period of one to three years, will be available from the Fund.

In several other ways, the governments of Nigeria have been assisting private industrialists. Apart from the more obvious programme of building industrial estates at subsidised rent to industrialists, the Land Use Decre has also gone a long way to facilitate land acquisition by capitalists especially in agriculture and industry. In Kano State, for example, the government grants free land to investors and also exempts them from paying ground rent for an initial period of five years. Similarly, the Rivers State government approved a loan of N0.5 million for small-scale enterprises for 1988. The same government has also indicated its plan to build industrial estates to reduce the overhead costs of small-scale industrialists (CBN).

2.4.3 The indigenisation programme and private accumulation

The programme of indigenisation formally took off with the passage of the Nigerian Enterprises Promotion Decree of 1972. One point that deserves immediate highlight is the contradictory posture of the State on the question of indigenisation. In spite of the fact that the need for the public sector to assume control of the commanding heights of the economy was put on the agenda of national planning in the Second Plan, the government chose the option of indigenisation as against nationalisation. In the Third Plan that was drawn up barely two years after the 1972 decree, the government had 'decided to further open the doors to both indigenous and private foreign investors in most sectors of manufacturing'. Because "foreign investors have (also) begun to realise the great advantage of indigenous participation which does not only make their (foreign investors) position more assured, but is also capable of promoting industrial peace", indigenisation was judged successful (Third Plan, p.153-5). Yet the government went ahead in 1977, within the life-span of the same plan, to amend the indigenisation decree to broaden the scope of indigenous participation. The more significant turn about by government was made in 1989 as it announced that the Nigerian Enterprises Promotion Decree of 1977 had been amended to reduce the areas of full ownership by local capital. Henceforth, all enterprises but forty were descheduled and therefore open to foreign capital. It is only in the scheduled 40 enterprises where Nigerians must have 100 per cent share. But for a private foreign capitalist who has up to N20 million investment to make, even the scheduled area becomes descheduled.

It is pertinent also to trace the genesis of the indigenisation exercise. One of the early official notes of disquiet following those of nationalists and leftists concerning the domineering role of foreign capital in the Nigerian economy was sounded in March 1970 by the Federal Commissioner for Trade and Industry, Alhaji Shettima Ali Munguno. He decried the exploitative practices of foreign investors. According to the reports, the Commissioner described as exploitation and not investment the attitude of some investors who come to Nigeria to make quick profits, repatriate them and pull out in fifteen years (Morning Post, March 21, 1970, p.1).

About the same time, S.A. Aluko publicly called on Nigerian governments to help indigenous industrialists with finance. A newspaper editorial comment of July 10, 1970 observed that the NIDB had not been giving loans to Nigerian investors. The Western State branch of the Nierian Chamber of Indigenous contractors, in the same month, appealed to State governments in the country 'to grant financial advances to indigenous contractors to enable them cope with contracgt awards' (Daily Sketch, July 23, 1970 p.3). In October of the same year, the President of the Organisation of Indigenous Businessmen called on all indigenous businessmen throughout the country 'to pull their resources together in order to meet the challenge of foreign monopoly (capital) which has been exploiting the people of Nigeria'.

By the end of the year, the demand by indigenous businessmen became clearly militant. In late January 1971, the Chairman and Managing Director of an indigenous company in the foods industry specifically asked the Federal Military Government to clear the air on the extent of foreign capital operation in Nigeria. According to him, the Federal Government needed to protect indigenous businessmen so that the economic viability of the country would not be jeopardised 'by foreign detractors and their agents±'. Finally he condemned the lending policies of foreign-owned commercial banks which tended to discriminate against indigenous businessmen. All these were essentially expressions of post-war nationalism against the nefarious foreign role in the civil war.

By mid-1971, the Federal Military Government felt compelled to respond to these calls. At its sitting of June 17, the Supreme Military Council announced that foreigners were to be barred from small-scale industries 'where the fixed capital is under 200,000 (₦400,000) (based on the prevailing exchange rate), and indigenous equity participation is less than 40 per cent'. A list of such businesses was then published with a resolution to back up the announcement with a decree. The promise came in 1972. The Organisation of Nigerian Indigenous Businessmen (ONIB) was quick to praise the government's tough stance on the indigenisation exercise, especially when it was announced that hurried naturalisation would not be allowed again. The Nigerian Enterprises Promotion Board (NEPB) was constituted to supervise the execution of the programme.

There were several reported and unreported cases of fraud and false claims during the implementation of the indigenisation programme. Some foreign companies used Nigerians as fronts to evade the transfer of ownership; a few simply refused to comply while some foreign owners hastily nationalised themselves. Several companies that were detected in their bid to sidetrack the provisions of the decree were seized by the government and handed over to the NEPB for subsequent sale to Nigerians. The Nigerian Bank for Commerce and

Industry (NBCI) was already in place to provide funds for indigenous investors. Within its first year of operation, the bank approved ₦15 million in loans and equity capital. At the end of the exercise, the demand for company shares slated for indigenisation exceeded the supply as evidenced by oversubscription. This might have been due partly to the fact that some companies so slated escaped the net. Also, it became clear later that many of the foreign concerns that were allegedly seized by the government for non-compliance were in existence only on paper as their owners had smartly moved elsewhere to continue business as usual.

It is obvious that indigenisation was never meant to fight private enterprise in general or even foreign capital as such rather, it was a programme designed to resolve a secondary contradiction between the foreign and local branches of private capital in which the latter is the obvious underdog, but placed advantageously with the State at that point. Even after the 1977 amendment to the decree, with the notable exception of International Business Machines (IBM), no known foreign company affected pulled out of the country. By early 1981, the Federal Government had started working out ways to re-amend the indigenisation decree so as to give greater scope for foreign capital. By the close of 1982 only 254 companies had been issued 'certificates of full compliance' with the 1977 decree; 1,049 others were merely issued provisional certificates.

In spite of this obvious poor show, officialdom expressed satisfaction with the exercise though there were complaints that the programme ended up concentrating shares in one geographical area of the country and in the hands of few individuals.

The programme took off on a wrong note with the two-year notice to foreign enterprises before the decree actually came into effect in 1974, thus giving the foreign investors ample time to recover their outlay through the declaration of unusually high dividends. There was no attempt to indigenise the technology of the foreign investors, rather, the programme enhanced the entrenchment of the transnational companies in high-technology areas. The neocolonial status of the economy was further entrenched as capital was being strengthened at the expense of labour (Onimode, 1983; Eteng, 1981). According to a survey conducted by the Securities and Exchange Commission in 1985, in spite of the indigenisation, the dominant position of foreign investors as a single unit still persists. In fact the foreign investors now enjoy greater control in the affected enterprises "as their holdings carry bloc voting power as against Nigerian holdings scattered in smaller units among individuals".

Indigenisation now appears to have gone full circle in the way the State has accommodated, or in fact, surrendered to foreign capital. This is going by the excessive liberalisation of national economic management under SAP, coupled with the determined effort to pursue the doctrinaire privatisation of several parastatals.

2.5 Privatisation under Structural Adjustment Programme

The State's policy of privatisation acquired legal backing with the promulgation of the Privatisation and Commercialisation Decree No. 25 of 1988, but its general principles were already indicated by late 1985. Trimmed of technical encumbrances, privatisation means 'selling State-owned assets to private buyers'. It is a way of denationalising parastatals and is thus a component of the Structural Adjustment Programme (SAP) of the government.

The protagnonists of privatisation harp basically on the inefficiency of parastatals. The editors of an in-house Journal already took the validity of this charge for granted as they defined privatisation as "a process whereby the size of public sector enterprises (sic) is reduced through transferring some or all its functions to <u>a relatively more efficient</u> private sector" (First Bank, <u>Report</u>, February 1986) (emphasis mine). The huge amount invested by the State, in particular, covering the six-year period up to October 1985, allegedly totalling over ₦23 billion, but not justified by the poor returns, is the often quoted index of inefficiency. This refrain re-echoed in the statement on the New National Industrial policy adopted in early 1989. In fact, once this argument is tied to the factor of dwindling base of government revenue, the case is considered made for the Structural Adjustment Programme (SAP) which is presumably aimed at imposing cost-control discipline and the enhancement of efficiency in a competitive environment where the private sector plays the leading role.

Earlier in 1981, the Presidential Commission on parastatals had made the observation that the private sector enterprises were relatively more efficient and effective than their public sector counterparts. But the Commission also advanced explanations for this difference, which bordered on the relative smallness of the size of private sector projects, the greater degree of freedom for decision-making and the existence of a reward penalty system. There are nothing new really because even much earlier, a far deeper and richer analysis had been made by the government for example, in the Second Plan (pp.75-76). The question is why there should be the ritual of lamentation over a curable malfunction? Or can the persistence of inefficiency of parastatals also facilitate accumulation, somehow?

The advocates of privatisation tend to read ideological rigidity to analyses that lead to anti-privatisation conclusion. But a scientifically rigorous analysis of the performance of parastatals in Nigeria may end up with just this kind of conclusion, which is distinct from 'a defence of the public sector in capitalist

Nigeria' (Toyo, 1989). Nothing says that a parastatal cannot be efficient or must necessarily remain inefficient. The private sector in Nigeria owes much of its achievement to the priceless inputs from the public sector and the unfettered latitude granted it by government, e.g., in pricing and other abusive practices. In fact now, more than at any time before SAP, the public sector is being made to serve the ends of private accumulation.

Notes to Chapter 2

1. For a succinct account of the logic of this chain, given by Yusuf Bala Usman, see Sunday Triumph, September 30, 1984, p.5.

2. As Segun Osoba (1972:96) graphically put it, "what the British put out to be communication links among different parts of Nigeria would appear to have been specifically designed to set various sections of the country apart, and enhance their exploitation in isolated pockets of humanity."

3. See Quarterly Economic Review (Economic Intelligence Unit, London) No. 4 (1977) p. 15, No. 1 (1979, p.15).

4. See Nigeria Trade Journal, Vol. 4(3) (July/September) 1956: p.92.

5. Dr. R.A. Adeleye, as Federal Commissioner for Industries, in an address on the occasion of the opening of an exhibition of made-in-Nigeria goods organised by the Daily Times, in December 1978.

6. Central Bank of Nigeria, Economic and Financial Review Vol. 24 (2), 1986; 3740.

7. Cited in Ezra (1986): "Restructuring Bank Lending Rates for Agriculture in Nigeria - A policy Analysis of Central Bank's Credit Guidelines", Business and Economic Report (First Bank of Nigeria) (December): 2-35.

8. See for example, Renaissance, August 29, 1971, and Daily Sketch, March 3, 1971 for the cases of farmer, East-Central and Western States, respectively.

CHAPTER 3

LITERATURE REVIEW

A research into any aspect of a given phenomenon cannot possibly take off in a vacuum; it must be based on some foundation already laid by some other researchers. Thus in general, scholarship is fundamentally a collective enterprise in the sense that every member of a scholarstic genre must rely on the efforts of some predecessors.

More specifically, even the failure of previous efforts to obtain correct answers to identified problems may serve as point of departure for fresh attempts. Significantly, the focus of this study can be assumed to enjoy wide-ranging importance in the philosophy of management of national economies - given the unfolding tendency towards practical convergence of hitherto divergent if not rivaling economic systems. More than ever before, the 'mixed economy' category has assumed the status of universalism.

The purpose of this chapter is to attempt a historical survey of the efforts at theorising on the role of the public sector in economic development and hence the relationship between the two sectors of the mixed economy. The exercise is conceived to put in global perspective the core issues involved in the study.

A study which seeks to capture the dynamics of the interaction between the public and private sectors, especially at this time in contemporary international economy faces a herculean task. As the decade of the 1980s drew to a close, momentous developments occurred in the economies of several countries in different regions of the world. Third World economies, especially in Africa, which had been popularly associated with large public sectors, began to dismantle their parastatals. The theoretical and policy appreciation of the role of the State (public sector) in economic development seems to have gone full circle.

"Governments in the western world are everywhere playing an increasingly important part in economic life", is an observation that could be made some twenty-five years ago without qualification; today, it would be contested. More importantly, this development has further eroded the basis for using the size and scope of the public sector to pronounce on the specific status of social formations. Thus, increases in the State's economic activity can no longer be equated with the advance of socialism (Winker, 1977). While underlining the relevance of this study, this trend has also thrown up additional challenges by introducing fresh complexities. It is now, therefore, apposite to undertake a brief survey of the theoretical perspectives that have informed and developed from these changes vis-a-vis the role of the State in the economy.

3.1 The role of the State in economic development

As a preamble to these theoretical perspectives, some remarks need to be made regarding the concrete ways in which the State has sought to influence the direction of the economy in specific countries. Adolf Wagner remains the most important name associated with the early acknowledgement of an enlarging public sector as national economies grow. His 'Law of the increasing Extension of State Activity' has instigated a tome of literature, affirming, refuting or simply re-examining the original thesis of Wagner or its derivatives (see, for example, Wagner and Weber, 1977; Gupta, 1967; Beck, 1976; Dubin, 1977; Ganti, 1979; Pluta, 1979, 1981; Vatler, 1986; Pryor, 1968 - in particular, Appendix E.5: Ram, 1986). Arguably, the most rigorous critic of the Wagner tradition is Wildasvaky (1985) who assaults every major argument of all the principal characters involved.[1] It remains true that government intervention in the economic life of most countries grew phenomenally in the twentieth century as a result of several factors. These include welfare considerations, war, changing economic structure, demands of democratic culture, as well as the international environment (Skidelsky, 1977; Cameron, 1978). The growth of the public sector has been acknowledged to be so pervasive as to give rise to the concept of 'crowding out', with respect to the displacement of private economic activity by public economic activity.

Shortly before the publication of Adam Smith's magnum opus, The Wealth of Nations, in 1776, public expenditure as a proportion of the British national income was below 10 per cent, and it remained around the same level until the First World War (Musgrave, 1976). By 1960, the ratio had risen to 32.6 per cent reached 40 per cent in 1970 and was 46.6 per cent by 1980. A similar trend has been recorded in other European countries (Heald, 1983). Table 3.1 gives the picture in five advanced capitalist countries as at 1972.

TABLE 3.1

Public sector expenditure in major advanced countries
(per cent of GDP in 1972)

	Britain	France	West Germany	Italy	United States
Military	4.9	3.5	3.0	2.4	6.7
Health and Education	7.7	8.8	14.7	5.7	7.1
Other Civilian	6.1			6.7	7.0
Current Real Expenditure	18.7	12.3	17.7	14.8	20.8
Capital Expenditure	4.7	3.1	3.7	2.6	3.2
Total Real Expenditure	23.4	15.4	21.4	17.4	24.0
Social Security	8.9	17.2	13.0	14.6	8.0
Debt Interest	3.9	0.8	1.0	2.9	1.9
Other Transfers & Subsidies	3.7	3.3	2.6	5.1	0.4
	39.8	36.7	38.0	40.0	34.3

Source: Petter Nore (1977) 'The State', in A. Gamble & P. Walton, eds, Economics : An Anti - Text, London and Basingstoke: Macmillan, p.184 Table 12.1.

A more representative cross-sectional insight is given in Table 3.2 as it covers five time periods and three regions of the world, including Africa.

TABLE 3.2

Government expenditures in selected countries, 1972 and 1986 (as per cent of GNP)

	Total Expenditure		Total Expenditure Less Transfers		Economic Services	
	1972	1986	1972	1986	1972	1986
U.S.A.	19.0	24.5	12.3	16.9	2.0	2.2
U.K.	32.3	40.6	23.7	28.3	3.6	3.6
Sweden	27.9	44.1	15.5	21.3	3.0	3.0
Developed Market Economies (DMES)	22.2	28.6	12.8	17.4	2.8	2.7
Sub-Saharan Africa	16.4	23.7*	15.6	22.5	3.5	6.0*

Note* = 1985

Source: IBRD: World Development Reports 1987 and 1988; cited in James Pickett (1989); "Reflections on the Market and the State in Sub-Saharan Africa. African Development Review, Vol. 1(1), p.63, Table 1.

From the table, we observe that in relative terms, the public sector in Sub-Saharan Africa spends on the average less than its counterparts in other regions of the advanced capitalist economies. This is instructive as the popular impression is that African economies tend to have a bloated public sector. Furthermore, we can infer that sub-Saharan Africa spends less on social security and social services in general than its European and American counterparts as reflected in the low value of transfer items. Out of this, a substantial proportion presumably goes to debt servicing. Conversely, other regions trail behind Africa in spending on economic services.

The emphasis on economic services by the public sector in Third World countries is best measured by the noticeable presence of parastatals in their economies. In India, the State as at 1967 owned 17 of the country's leading corporations, and State enterprises in Sri Lanka grew rapidly over the period 1956-1976. In 1956, investments in State enterprises stood at 359 million rupees, but by 1975 they had risen to 2,833 million rupees. In Brazil, 212 enterprises were controlled by the Federal government, in the form of public corporations or in joint ownership while in 1973, 1,123,000 persons were on the payroll of the Federal government out of which 483,00 were employed by public corporations and mixed capital companies (Carvalho, 1981). Of the 20 largest corporations in Brazil, 14 are government-owned. According to a research survey of 1975, of the 5,250 non-agricultural corporations covered, approximately 46 per cent of their net assets belonged to government enterprises, spanning various sectors of the economy. In Syria, as at 1977, the State fully controlled all the key industries and 65 to 70 per cent of all production capacity. Similarly, in Morocco, the State's presence is felt in every field, with the public sector constituting the main source of investment and employment. As at 1981, there were 460 parastatals in Morocco, apart from the 118 Public Establishments known as Agricultural Centres (Mdaghri, 1981: 41). During Sudan's ten-year Plan, 1961/62 - 1970/71, the share of the public sector amounted to 60 per cent, most of which were in infrastructural projects (Kursary, 1983:170). Taking the average for the African continent, 'at the beginning of the 1970s, government expenditure represented 20.3 per cent' (Stefanski, 1987:39).

The Tanzanian public sector is the most studied in Africa. The Arusha Declaration of 1967 gave added impetus to the growth of parastatals in the country, with the declared objective of building a socialist society. From only 43 in 1967, the number of its parastatals rose sharply to 85 within three years and by 1974, it has reached 139, spanning various sectors of the economy (Ake, 1981; Clark, 1978:62-65). As Table 3.3 shows, Tanzanian parastatals have been responsible for a substantial proportion of the total

TABLE 3.3

Parastatals and Gross Fixed Capital formation in Tanzania, 1966-1973

Year	Investment by Parastatals (Million Shillings)	Total National Investment (Million Shillings)	Parastatal Investment as Per cent of Total (%)
1966	91	910	10.0
1967	283	1086	16.1
1968	241	1182	20.4
1969	165	1101	15.0
1970	659	1879	35.1
1971	1084	2387	45.4
1972	118[illegible]	2308	51.4
1973	1170	2686	43.6

Source: Johns Saul (1979): The State and Revolution in Eastern Africa, N.Y. & London: Monthly Review Press; p.205 Table 2.

investment in the country especially since the implementation of the Arusha programme. Here, as in the rest of the Third World, the role of the public sector is seen too as a means of loosening the grip of foreign capital on the national economy.

Whereas the socialist agenda of the Tanzanian State is advanced correctly as the main explanation for the prominence of the public sector, development in other countries, such as those already cited, caution against genralisation on such basis. For example, Saudi Arabia and Kuwait both control over 70 per cent of their GDP, including the oil industry, through the public sector (Malki, 1986) and remain firmly capitalist oriented. This is the relevance of Blunt's (1964) thesis cited in Chapter 1 in which the ideological element is discounted. But Jones (1981) maintains the contrary position, from his study of the Commonwealth Caribbean, by insisting on the importance of the ideological factor because the use of public enterprise as a strategy of development is 'a deliberate political choice'.

Apart from the traditional arguments such as externalities, imperfect competition and decreasing cost industries, an additional case is often made for an active state sector in the underdeveloped economies (Jhingan, 1980; UNITAR, 1987; Dearlove, 1987). The most important point is the acknowledged structural weakness of their private sector coupled with the prevailing international division of labour which is heavily loaded against the Third World countries, both as the cause and a result of the low level of development of their productive forces.

Beyond the generalised analytical framework of authors like Musgrave (1969) and others in which the objectives of the State are presented as supra-class, with itemised programmes of action[2] in monetary and fiscal measures, we can identify four specific schools of thought on the role of the State in economic development, and by extension, the relationship between the public and private sectors. These are the classical/neoclassical, public choice, Keynesian, and Marxist schools.

3.1.1 The Classical and Neoclassical schools

The position of the Neoclassicists is lumped with that of the Classical school with respect to the role of the State for analytic similarities. In reality, however, neoclassical economics has not developed a coherent perspective on the role of the State (Whynes and Bowles, 1981). Twenty-five years ago, George Stigler observed that "the economic role of the State has managed to hold the attention of scholars for over two centuries ..."[3] but forgot to add, 'except those of the neoclassical persuasion'. In fact, whereas the classicists proper as typified by Adam Smith, John Stuart Mill, and David Ricardo regarded the notion of the State as fundamental to social analysis, the neoclassicists studiously avoided political and social topics such as this for over a century, and only grudgingly accept State intervention as a way of correcting market imperfections. This stay-off can be explained from the fact that whereas the classicists acknowledged the existence of social classes with different and possibly conflicting interests, the neoclassical paradigm insists on harmony of interests. Neoclassical economics thus devotes scant attention to the important question of income distribution, preferring to work on the apologetic assumption that factors are rewarded according to their marginal productivity. Furthermore, neoclassicism sees the State as the embodiment of public interest in a free market environment. What unites the classicists and the neoclassicists, and which constitutes the justification for their being lumped together, is their shared strong belief in the supremacy of market forces in economic processes.

To Adam Smith and his fellow classicists, the conduct of economic affairs is best left to private citizens. They reason that the pursuit of limited, selfish interest by individuals would end in accord with societal wish and good, even when there has been no conscious and explicitly formulated social goal (Wilson, 1976). This is a logical follow-up to their belief in 'invisible hand' and natural order, an innate harmony in the economic system to which State intervention or any form of artificial contrivance is an antithesis. This partly explains their militant opposition to the merchantilist advocacy of State support in international trade.

From the perspective of the sociology of knowledge, however, the substantive explanation for this economic liberalism was the coming of age of industrial capitalism. Hence, Smith's strong and emphatic case for the free market against State intervention (Roll, 1976:19).

From the foregoing, Adam Smith and his classical school can be seen as doctrinaire advocates of laisez - faire. But their defenders see this as the product of stereotype. Jacob Viner, for example, has argued that 'Adam Smith was not a doctrinaire advocate of Laissez - Faire', in fact 'he saw a wide and elastic range of activity for government ...' (Black, 1976). To James Buchanan also, 'Smith was not a doctrinaire libertarian' (Buchanan, 1976). Naturally, the existence of a market presupposes some rules of the game that have to be enforced by law. There has to be an appropriate socio-legal framework for market transactions. As Wilson (1976) put it, 'if Smith emphasised the market, he also emphasised the need for a system of justice without which neither market nor indeed, society itself could exist'. Of the three functions which Smith thinks the State should perform, the first two actually touch directly on creating a conducive atmosphere for business. These are defence and justice while the third function is "the duty of erecting and maintaining public works and certain public institutions, which can never be for the interest of any individual or small number of individuals to erect and maintain; because the profit could never repay the expense to any individual or small of individuals, though it may frequently do much more than repay it to a great society".[4] This perception gives an undefined latitude for the State to be involved in the process of economic development. Apart from advocating for the provision of social services, especially education, as a means of relieving the condition of the common people (Musgrave, 1976), Smith appreciated the possibility of divergence between private and social benefits (cost) and hence the inevitability of government intervention. This is an early appreciation of the market failure argument. In spite of this seemingly accommodating posture of the classicists, however, they remained fundamental protagonists of the minimalist state. In fact, Smith's expressed concern for the poor is not deeprooted, his faith was more in charity for the redistribution of income rather than 'a mandatory process of budgetary redistribution by the state' (Musgrave, 1976).

Adam Smith's commitment to minimum government derived partly from philosophical conviction about the 'natural order' and partly from his mistrust of the State. His suspicion was that State managers and bureaucrats might seek to use the State apparatus to their own selfish advantage. Strengthening this commitment in his belief in the efficacy of the system of natural liberty, with its emphasis on the right of the individual.

Mistrust of State managers is an unspoken acknowledgement of the non-neutrality of the State. Hence, unlike their neoclassical successors, the classicists did not conceive of a neutral State. In his Glasgow lectures, the partisan nature of the State was exposed by Smith as he revealingly submitted that "Till there by property, there can be no government, the very end of which is to secure wealth and defend the rich against the poor" (Onimode, 1986: 204; Therbon, 1976:86). Thus, without the State, private property cannot be guaranteed. In his words, 'it is only under the shelter of the civil magistrate that the owner of that valuable property ... can sleep a single night in security ...'

An important component of the truth of the matter is that the classicists lived in a relatively 'pure <u>laissez</u> - <u>faire</u>' age, which explains the wide acceptability of the Smithian thesis. As the contradictions of the capitalist system mature, more ground had to be ceded to the public sector. The presumed harmony and automatic equilibrium of the economy turned out to be a mirage. The classicists never envisaged the State directly underwriting private costs and socialising private losses at the level we witness in contemporary times, an enduring reality which the neoclassicists prefer to view as a temporary aberration. Even in Hong Kong that was once described as 'almost a realisation of the classical model' (Cheng, 1970), there is massive government investment in infrastructure, which goes a long way to facilitate private accumulation. In short, 'neoclassical theory has been one thing, but the hard reality of an interventionist 20th century State has been quite another' (Dearlove, 1987).

3.1.2 The public choice school

The Public Choice School (PCS) can be considered as the later day attempt to give content to the vague generalisations of the neoclassicists, through the adoption of the latter's assumptions and method. More recently, this school has come to the alternatively known as 'Economics of politics' a label popularised in the main by Jim Tomblinson (1981), seizing on the title of a collective effort.[5] This Tomblinsonian characterisation has since acquired currency as it is being increasingly adopted by other writers like Dearlove (1987). As evidence that the school has come of age, its most vocal and consistent spokesman, James Buchanan, won the Nobel Prize for Economics in 1986 "for his central role in the gradual transformation of the way economists and political scientists study governments and their relationship to the governed" (Romer, 1988: 167).

In essence, the Public Choice School operates on the principle that the analytical categories of economics should be applied to the decision-making process of the State, political as they may be. Hence the study of the public sector must be conducted in the same analytical framework that economists bring to the study of the private economy (Romer, ibid.). Anthony Downs (1957, 1960), for example, sees political parties and governments as maximisers of political support in the same way as economic agents (consumers and firms) are utility and profit maximisers, respectively. Citizens are presumed to vote for 'the party which they believe will provide them with more benefit than any other'. Similarly, in its bid to maximise political support, government embarks on public spending on the principle of getting most of the votes cast at elections.

Buchanan and Wagner (1977) consider public expenditure from the angle of deficit financing. Their argument is that budget surplus will have the effect of eroding the political base of any government because voters will interprete such fiscal policy as an increase in real taxes or a fall in real expenditure, that is a fall in their standard of living. Deficit financing is therefore considered more acceptable to voters as it is interpreted to mean relative cheapness of public sector services. This logically recommends an expanding public sector, the very consequence which the school detests, and so what it advocates in practice is balanced budgeting or fiscal conservatism.

As alreeady indicated, the school embraces the main assumptions of neoclassical economic theory, namely: (i) methodological individualism - in which the the individual constitutes the basic unit of analysis; (ii) maximising behaviour or rationality of the individual; and (iii) that all things being equal, the free market is indispensable as maximising individuals will be able to record gains from voluntary exchange. On the basis of these assumptions, an equilibrium analysis of the political process follows logically, though at the fundamental level the logic is defective, as will be shown shortly.

In Buchanan and Tullock (1962), there is a spirited defence of methodological individualism applied as to collective choice, with an insistence that a better understanding of public policy can be acquired not through the assumption of any collective acting as a decision group, but rather as individuals. In concrete terms, the role left for the State within this perspective is the elimination or at least neutralisation of externalities. This is the central theme of the individualistic theory of government finance, in which the individual replaces the Strate as the basic structural unit (Buchanan, 1960:8-12).

The Public Choice School suffers from the defect which afflicts all maximisation theories, especially with respect to the twin phenomena of uncertainty and ignorance. More concretely with regard to its assumption that only voters, political parties and a liberal democratic government exist on the political scene, a grave doubt hangs on the applicability of its model to a country like Nigeria and several other African countries where military intervention in the political process has ceased to be a passing aberration. The school analyses only voluntary acts of exchange within a liberal democratic political sytem (Shams, 1988), thus precluding all other extant political realities. But then it has been shown that its model can work in advanced capitalist countries under the special condition of economic expansion and prosperity (Mayherson, 1961). Related to this shortcoming is the school's blindness to the critically relevant question of power in society. The public choice perspective, like its neoclassical predecessor, has tended to over-generalise the perfectly competitive model wherein 'power is so widely and thinly distributed that its influence and very existence' is assumed away. Conceptually, perfect competition is the structure of a non-power society, a world in which everybody is a nobody (Winch, 1978). This omission of the power variable informs the dismissal of the model as 'offering little that is politically insightful or relevant' (Furniss, 1978).

Objectively, the PCS is pro-market and anti-State. It recommends the narrowing down of the areas of public sector operation (Tomlinson, 1981) usually on the ground that the public sector performs poorly. In response to this allegation which is being echoed by the IMF and the World Bank, privatisation is seen as the doctrinaire solution. In the fever of privatisation, however, consistency requires the analysis of the role of the private sector as a major cause of the poor performance of the public sector. It is illogical to view this reminder necessarily as a defence of the public sector, which is more of a Keynesian project.

3.1.3 The Keynesian perspective of the public sector

Keynesianism became the new orthodoxy in economic theory and policy after the Second World War. This marked the abandonment and, in fact, the direct inversion of the Classical supply-side approach in which, according to Say's Law, supply creates it own demand in the free market. This reversal shifted the debate on State intervention from the supply side of the economy by advocating a public policy of government demand management and expansion based on a theory of inadequate effective demand. The summary of the thesis is that an increase in demand will call forth a corresponding increase in supply (Holland, 1977; Frank, 1983). Keynesianism thus assigned to government, various responsibilities that are truly unorthodox by the standards of Classical and neoclassical thought and their Public Choice derivation. In the Keynesian perspective, in addition to the provision of public goods, government becomes the chief regulator of the economy (Afxentiou, 1980).

At the heart of the Keynesian perspective is the observation that left on its own, capitalism is an unstable economic system which cannot provide full employment or even socially adequate capital utilisation without State intervention through appropriate monetary and fiscal policies (Schott, 1982). The Keynesian affirmation is that government expenditure raises output and employment. Given the possibility of underemployment equilibrium in the classical world such that aggregate expenditure (consumption plus investment (C + I) equals output, but at a level where there would be unused capacity, State spending is required to bring about full employment. What public expenditure does is 'to fill the gap between private saving and investment, that is, adjusting the propensity to consume, on the one hand to the inducement, to invest, on the other' (Keynes, 1973:380).

Keynes' concern was with two policy issues - employment and equity - two areas in which the capitalist system scores very poorly. According to him "the outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes" (ibid). But Keynes considered the existing tax structure as adequate for redressing the inequitable distribution of wealth. In point of fact, he favoured <u>significant</u> inequalities in income and wealth, hence we are left with one challenge: how to ensure full employment. This calls for some 'central controls' which necessarily entail an increase of the traditional functions of government beyond the Classical conception.

The 'revolutionary' essence of the Keynesian interpretation of economic reality was the acknowledgement of the inability of market forces alone to guarantee the stability of the capitalist system, hence the need for conscious intervention by the State. This is a radical departure from the automatic coincidence of private and public interests that was supposed to be guaranteed by rabid individualism as optimistically posited by other liberal schools. For Keynes,

> It is not a correct deduction from the principles of economics that enlightened self-interest always operates in the public interest. Nor is it true that self-interest generally is enlightened; more often individuals acting separately to promote their own ends are too ignorant or too weak to attain even these. Experience does not show that individuals, when they make up a social unit, are always less clear-sighted than when they act separately 6 (emphasis in the original).

This sounds more like an endorsement of collective action through the State. In concrete terms, however, though ambiguously demarcated, the boundary that Keynes set for the public sector really covers a limited agenda of the left-over of the private sector or at best its complementary requirements. "The important thing for government", according to Keynes, "is not to do things which individuals are doing already, and to do them a little better and a little worse; but to do those things which at present are not done at all" (Keynes, 1972:289, my emphasis). Thus his view on the role of the State is hardly consistent, but rather ad hoc and eclectic. No wonder there is no attempt to integrate fully the role of the central authorities in his projected mixed economy vis-a-vis the three areas explicitly identified by him, namely, 'control of credit, control of investment, and control of population'.

This eclecticism has given rise to at least two tendencies in Keynesianism, which are distinguished by their differences on the form of policy range for State intervention. There is the Neoclassical Synthesis which settles for limited State intervention. This involves merely influencing private investment indirectly by managing aggregate demand, and it is associated with names like Tobin, Samuelson and Modigliani. Then there is Left-Keynesianism, which sees State investment as the principal driving force behind economic activity: Kalecki and Robinson are names often associated with this tendency (Schott, 1982). What remains unambiguous is that Keynes was a profound and effective critic of unregulated capitalism. Thus what the Keynesian framework has done is to legitimise fiscal deficits, by explaining the mechanisms whereby injections in spending power could promote employment and prosperity. The resultant 'stagflation' which emerged from the mid-1960s after the celebrated post-war boom, has been blamed on Keynesianism. Hence the all-round attack on Keynesian theory and policy, and the resurgence of conservative monetarism.

At the level of principles, Keynesianism unrealistically assumes a competitive and, therefore, responsive market situation (Frank, 1983:85). But the reality of the market structure of modern capitalism is dominated by oligopolistic and monopolistic economic units. At a more fundamental level, the Keynesian framework is blind to the class content of the components of the aggregate demand which constitutes the linchpin of its analysis. This has critical implication for what is produced. Secondly, because of this neglect, it could not appreciate the importance of production, and so total attention is devoted to the realisation, with the production problem assmed away (Sutcliffe, 1977).

3.1.4 The Marxist perspective on the role of the State

The Marxist School, notwithstanding its obvious and very serious differences with the Keynesian perspective on basic assumptions and consequent analytical procedure, nevertheless shares with the latter, an abiding interest in the nature and impact of State intervention in capitalist economies. The Marxist conception of the State is both historical and class-focused. It posits that the role of the capitalist State is best understood as a contrived mechanism of necessity for checking the tendency towards disorder and threat of collapse of the system (Heilbroner, 1968) in general and in particular, for protecting private property. Against this broad requirement, the role of the State translates concretely into the rationalisation of exploitation, the very primary objective basis for capitalist accumulation (Onimode, 1985). Issuing from this objective conceptualisation of the State are variants of specific Marxist themes (Jessop, 1977), ranging from the loose to the rigorous.

Thus Marx really did not develop a full fledged analysis of the role of the State in economic development: that is, he did not come to full grips with the interventionist role of the State in the process of capital accumulation and hence, the interaction between the public and private sectors. Instead, the focus of classical Marxism was on the instrumentalist role of the State as a general overseer of the collective interests of the propertied classes. According to Marx and Engels in the Manifesto of the Communist Party "the executive of the modern State is but a committee for managing the common affairs of the whole bourgeoisie" (1971:38). This proposition has led to an intense debate among Marxist scholars, climaxing in the 'relative autonomy' thesis of the State and the subsequent controversy it has generated (Poulantzas, 1969, 1973, 1976; Miliband, 1969, 1983; Block, 1980; Kovel, 1986). All these have the mature capitalist system as their focus. Alavi (1972) vigorously argued for the relative autonomy proposition with particular reference to post-colonial, peripheral capitalist countries, pointing to the multiplicity of dominant classes in them. The undecisive victory of a particular class as the ruling class, Alavi contends, creates room for the State, to enjoy some autonomy of action especially with respect to its central role of maintaining social cohesion. The tenability of the relative autonomy thesis can be demonstrated with special instances in which State policies go against specific fractions of the dominant class(es) or in fact the totality of the bourgeoisie. In The State and Revolution, Lenin's focus on the capitalist State is at the political level. This duality in the conceptualisation of the State's role (economic and political) accounts for much of the misunderstanding which is observable in the literature. It is not helpful analytically to see the State exclusively at the political level as separate and distinct from its role at the level of the economy. Its roles at the two instances are ultimately complementary, albeit in dialectical and often times, contradictory ways.

O'Connor's attempt (1973) is generally acknowledged to be the first major effort at grappling with the specific issue of public sector expenditure, within the Marxist paradigm. This pioneering effort has, however, been criticised by Mosley (1979) for limiting itself exclusively to the regime of monopoly capitalism. The central theme of O'Connor's thesis is that "the capitalist State must try to fulfil two basic and often mutually contradictory functions: accumulation and legitimization" (O'Connor, 1973:6). This implies that the State has to create the conditions for accumulation to take place in an atmosphere of social harmony. These functions of the State then determine the pattern and tempo of public sector intervention in the economy.

What emerges from the foregoing is that the State reflects and embodies the existing systems of property relations and, therefore, the resulting class struggles in the society. At the same time, the State allegedly functions to regulate the struggles between antagonistic classes utilising its various apparatuses at both economic, political and ideological levels. Collapsing these variants of the Marxist perspective, we get the picture of the capitalist state that is very different from the classicists' liberal characterisation in which the State is seen as "an independent institution standing above and outside the society". Instead, we have a State that is simultaneously an instrument of class rule even as it enjoys some relative autonomy from the ruling class. In other words, when State policies are presented as being in the 'national interest', at bottom, we find instead that they are synonymous with 'the well-being of corporations and financial institutions'. Hence Engels' insistence that it is normally 'the state of the most powerful economically dominant class' (Engls, 1972:231). This scenario, of course, accommodates the granting of concessions by the State to the economically and politically dominated classes, as reflected for example, in the welfare programmes of the advanced capitalist States. Infact, this makes it all the more possible for the State to fulfil its function of cohesion, and thereby, enhance its ability to contain class struggles as it succeeds in 'concealing its own class character from the dominated classes' (Paulantzas, 1973:189).

The Marxist perspective of the public sector has been subjected to two types of criticisms, one methodological, the other semantic. On the latter, there is the accusation even from Marxists that much of the Marxist debate on the role of the State in the economy, is esoteric and often inaccessible to those working in other traditions (Jessop, 1977). This criticism is re-echoed from the sidelines by a self-confdessed 'Left Keynesian', whose complaint is that "the Marxist Literature on the capitalist State is inward-looking, written by Marxists for other Marxists" (Heald, 1983:261). This semantic problem can be traced to the fact that for a very long time, Marxists constituted the main group that undertook any serious, comprehensive and sustained study of the State and hence for most of that period, the communication remained at the in-house level, where it could be safely assumed that members understood themselves.

The methodological criticism is championed by those who query the applicability of class analysis to the African social scene. Peter Ekeh represents the typical critic of this genre. This criticism starts by accusing Marxists of grafting analytical categories which flow from the European model on to the African reality. Thus, Ekeh (1985) contends that the African State has no ruling class which is "already formed, that controls the State apparatus for itself and for its international allies, in order to dominate society". Interestingly, Ekeh goes on to observe that "because private enterprise is severely limited in Africa, the State itself has come to be looked upon as a ready-made source of wealth". This much is conceded by this type of critique: the State is deeply involved in the process of accumulation and in fact constitutes the main source of private accumulation in African societies. This helps to explain why the State has become a major centre of intense political struggles as various groups scheme to capture State power. On the proposition that there is no ruling class in Africa, a practical challenge is, who rules? And what of class categories in African languages? At the theoretical and empirical level, there is the need to define class and operationalise it by its opponents. Unfortunately, those who deny the existence of classes in contemporary African and other Third World countries have not come up with a precise definition of their term. If we go by the Marxist conception of the class category, it is, without doubt, of pervasive applicability, including Africa.

The task of understanding the logic that underpins the involvement of the Nigerian state in the economy has two complementary aspects, the theoretical and the empirical. One immediate difficulty that arises is how to detach the public sector from the private sector as the two have become deeply interlocked at several instances, particularly given the entrepreneurial role which the State itself has assumed. In reality, as opposed to the idealistic theorisation of some schools, what exists between the State and the market is a dialectical relationship as "States and markets are bound together by inextricably symbiotic ties, while at the same time always standing in tension with each other" (Evans et al. 1985: 12). Contrary to the Classical and Neoclassical suggestion that the private sector desires for minimum state intervention, 'even multinational capitalists, who at first glance appear to strive for the freedom of statelessness, construct strategies of accumulation that depend on strong interventionist states' (ibid, 11-12).

Hence, our focus cannot remain at the normative level of "too much State" or "too much market" that has preoccupied all liberal theories from Adam Smith to Keynes. Rather, we must target what can help to explain the actual and possible role of the State. The appropriateness of this 'positive' focus is underscored by the dilemma encapsulated in the current thinking that both the market and the State, in turns, have "failed" in different circumstances as the leading agency of development. But one thing remains clear, namely, that it is a combination of economic and political factors that defines the appropriate or actual role of the State in the economy. At these broad interconnected levels of the economic and the political (including the ideological) at which the State intervenes, accumulation is the leitmotif. After all, the ultimate strength of the State derives and depends on the strength of the economy. The traditional arguments for State intervention, such as market imperfection, externalities and decreasing cost industries, have become miserably inadequate and at best a poor rationalisation for explaining and pervasive role of the State in the modern economy. This is particularly the case in Third World countries where the primacy of the challenge of underdevelopment defines a fundamental role for the State in the socio-economic system.

The centrality of the concept of accumulation in this study calls for a direct, explicit clarification of same at this point. Conventionally, accumulation is defined as the expansion of the productive potential of the economy. It is the process of production, realisation and re-investment in an unending spiral. This is the primary behavioural logic of a capitalist economy. Indeed, the inherent logic of capitalist production is valorisation; the expansion of value; more specifically, production is geared towards a continual increase of profits (Reuten, 1991). Thus, accumulation

> encompasses all the mechanisms and institutions involved, within a given structure of ownership of means of production, in the extraction of surplus from the economy, and in the mobilisation and channelling of the surplus in such a manner as to create and expand the productive capacity of the economy (Ekuerhare, 1984).

There is need to enter one caveat at this point. In this study, we do not adhere strictly to the conventional definition of accumulation as it is considered rather narrow. In this context, both actual and potential accumulation are taken into account, thus it is not limited to investment but includes unproductive consumption as well. This revision becomes necessary given the twin realities of capital flight and conspicuous consumption.

Notes to Chapter 3

1. His counter thesis is that "the growing proportion of national product spent through governments in the twentieth century cannot primarily be explained by their growing wealth or industrialisation. Nor can it be attributed ... to the political changes that follow from concommitant modernizations" (p.231).

2. Alexander Eckstein (1958) has a list of five far-reaching categories of action which the State may take on the economy, these are: (i) provision of social overhead, (ii) provision of economic overhead, (iii) application of direct and indirect levers of control, (iv) operation of enterprises extending beyond the overhead costs, and (v) central planning. For details, see his "Individualism and the role of the State in Economic Growth". Economic Development and Cultural Change, Vol. 6(2):81-87.

3. "The Economist and the State", AER Vol. LV(1), 1965:1-18.

4. Adam Smith, cited in Therbon (1976:85).

5. Buchanan et al: The Economics of Politics, 1978. London: Institute of Economic Affairs.

6. J.M. Keynes: "The End of Laissez-Faire" in Essays in Persvation, Collected Writings Vol. IX, 1972, p.288.

CHAPTER 4

THEORETICAL FRAMEWORK AND METHODOLOGY

The theoretical base of this study is twofold, namely, macrotheory and the theory of development.

These levels of economic analysis are highly interrelated, hence their harmonious blend for the study. The enquiry is not confined to the fate of specific individual units in the economy, rather, it is concerned with the logic of the macrosystem, in particular, interactions between the public and private sectors.

In all economies, there are market and non-market transactions. Most activities not passing through the market-place are conventionally excluded from national income calculations, though, where it is feasible, imputed incomes from such activities are included. Examples of these include wages in kind, rent from owner-occupied housing, etc. On the other hand, there are some types of income arising out of market transactions but which are not normally included in national income and output accounts, yet they could be significant. These include incomes from illegal activities (such as corrupt enrichment) and transfer payments, which come under the purview of the study, to highlight some relevant dimensions of the interconnection between the two sectors of the mixed economy.

4.1 Macrotheory and development

With the publication and wide acceptance of Keynes' General Theory[1], the capitalist system was no longer seen as self-regulating and equilibrium-guaranteeing; hence the intervention of the State in the management of the economy come to be seen increasingly as necessary to move and keep the economy at or near full employment.[2]

The economy is influenced and directed by the public sector through the monetary and fiscal policies it formulates and executes as such policies imply changes in the size and composition of the private sector's wealth. These in turn will change the private sector's demand for goods and financial assets.[3] More concretely and beyond the regulation of interest and foreign exchange rates, the public sector influences macro-economic variables through "the aggregate of orders of supplies" it makes which constitutes public procurement.[4] One principal instrumental function of public procurement is to influence directly the distribution of production and incomes through the structure of its orders.

The central thrust of Keynesian macrotheory, therefore, is that the rate of development achievable in a mixed economy rests critically on the activities of the public sector, whose impact is measured in terms of how it enhances or impedes the rate of accumulation in the economy. Accumulation constitutes the foundation of economic growth and development.

A study of accumulation is, epistemologically, a return to the best tradition of Classical political economy. Unlike their neoclassical successors, the classical economists gave prominent attention to the twin issues of accumulation and distribution. In fact, David Ricardo, a frontline classicist, insisted that political economy "should be called an equiry into the laws which determine the division of the produce of industry among the classes who concur in its formation" (Keynes, 1936:4). Adam Smith's Inquiry into the Sources of the Wealth and Nations (1776) is complementary to this. They both underline the centrality of the generation of value and its distribution in economic analysis and national development.

The limitations of the classical model of accumulation as typified by the contribution of Adam Smith viz the stationary State, engendered the dynamic extension of the Keynesian macrotheory as represented by the Harrod-Domar model which highlights the role of savings and the uses of economic surplus. The breakdown of this model as a result of its rigidity gave rise to the neoclassical two-sector growth model. But this also is handicapped inspite of its two-sector property by a number of limitations, including, (1) its unrealistic assumptions, e.g. perfect competition; (2) lack of concern about the problems of the Third World, primarily under-development, which defies the application of smooth production functions as analytical tools relevant only to mature economies; and

(3) no role for government. Hence, the adoption of a modified version of the Marxian Scheme of Expanded Reproduction (SER). The Marxian model has the appeals of: (1) two departments, I and II; () allowing for unemployment of labour; (3) incorporating necessity for technical progress, whose capital-intensity contributes to unemployment; and in particular; (4) emphasising the crucial importance of the uses of the state and economic surplus for accumulation.

The modified model conforms with the original two-departmental format but here the demarcation is not primarily along capital goods sector (Department I)versus consumer goods sector (as Department II), rather, it is along a public sector (as Department I)/private sector (as Department II) divide. Thus, we have:

Department I - corresponding to the public sector; and
Department II - corresponding to the private sector.

It is pertinent to note that the public sector is relatively more active in capital goods producing activities such as Iron and Steel, petrochemicals, etc. than the private sector, while the latter predominates in the consumer goods industries.

The importance of accumulation in the development process is central and some even hold the view that the core of the African crisis is the problem of accumulation from which other crises have taken roots (Hansen, 1988). Conventionally, accumulation is the capitalisation of surplus value. It refers to that part of the wealth produced which is devoted to the formation of stocks and capital equipment, or to investment. In Karl Marx's words, "Employing surplus-value as capital, reconverting it into capital, is called accumulation of capital" (Marx, 1977, Vol. 1, p.543). The strictly conventional definition of accumulation which is adding to the productive facilities of an individual or society, is inadequate or the purpose of this study. The concept of accumulation adopted here accommodates but goes beyond actual accumulation of the conventional interpretation to embrace potential accumulation.

A revision is necessary in view of the acknowledged attitudinal difference in investment behaviour of capitalists in the advanced countries and their counterparts in the Third World. In the advanced capitalist economies profit is systematically ploughed back into production for the purpose of expanding capital (Kay, 1975:56). The constant urge is to actualise accumulation. "Accumulate, Accumulate! ... Accumulation for accumulation's sake, production for production's sake ..."[5] serves perfectly as a sociological characterisation of typical capitalists. However, given the observed pervasive tendency among Third World and in particular, African bourgeoisies to devote a significant proportion of their surplus value to unproductive consumption (Amin, 1974), strict adherence to the conventional conceptualisation would be unrealistic.

The passive amasing of wealth, similar to hoarding, which "involves extracting wealth from circulation ... with the result that it cannot be employed to acquire more" (Kay, 1975:57), is a real phenomenon in African economies. This, of course, constitutes a fetter on development. It is not important here to determine the quantum of what goes into actual accumulation, focus is on the possibility and reality of surplus appropriation, i.e., potential accumulation, by private interests using the public sector as channel.

4.2 Choice of paradigm for the study

The concept of paradigm is meant to capture our perception of social reality or part of it. It is an expression of the unity and coherence of our system of ideas (De Vroey, 1980), so it touches on the very foundation of our system of enquiry. The significance of paradigm would be more readily appreciated if it is realised that a tome of facts on its own does not explain anything until they are given some explanatory frame of reference. After all, facts never speak for themselves. It is through a paradigm that we systematise our empirical data in this way.

The neoclassical paradigm is not adequate for our purpose for at least two reasons. First, neoclassical economics does not really have a coherent, distinct and identifiable theory of the role of the state in economic development. Implicitly, it assumes a minimal public sector in an unfettered and efficient market system. Hence, it exhibits an unrealistic vision of the world of contemporary capitalism, especially in Africa. This critique remains valid now that market orientation appears to have taken the initiative in public policy in most parts of the world. Thus Jallaideau (1980) observed that the neoclassical analytical framework "does not illuminate the relations between the economy and society". That is, "the neoclassical system is not a description of reality" (Galbraith, 1973:28). Second, the neoclassical paradigm is ahistorical, with a penchant for universalism and hence it does not give the necessary recognition to change. It takes the existing mode of production as external. Thus, for example, the initial endowment on which its general equilibrium theory is built is assumed, without being put in specific historical context. Yet, viewed dynamically, this bears on the important issue of primitive accumulation in underdeveloped countries like Nigeria.

The Keynesian framework is handicapped by similar shortcomings that afflict the Classical and Public Choice perspectives. They all concentrate on recommending 'smaller' or 'larger' public sector size without corresponding attention to the logic of the growth of the sector. Thus Adolph Wagner's much maligned Law that there is a tendency for public expenditure to rise as national income grows is superior analytically to the position of these other schools on the matter.

The Marxian paradigm has been adopted for this study as it approaches most closely to the requirements of the enquiry. This paradigm uses a multi-disciplinary perspective of social reality, for an integrated social science. This is central to the methodology adopted in this study. This paradigm acknowledges, for example, that the African crisis is not only economic but equally political as well as social and intellectual (Onimode, 1988:1-42). This unified social science approach is also the basis of classical political economy (De Silva, 1980:45). It conceives of human society as an interrelated system of both economic and non-economic elements. Domar (1952) voted for the same perspective with the observation that, "Economic growth is determined by the very essence of a society, and a comprehensive theory of growth should include physical environment, political structure, incentives, educational methods, legal framework just to mention a few". Other elements of this paradigm, which is also historical, include the conceptualisation of social reality not merely in terms of what it is but also in terms of its future tendencies based on historical antecedants and logical necessity. Furthermore, there is the requirement to view things in terms of form and content, acknowledging the possibility of divergence between the two; and finally, seeing social phenomena at both their general and specific levels as well as their constant interactions.

4.3 The Methodology

Our conception of methodology is not the narrow technicist one that is synonymous, in practice, with the particular technique of a given research as, for example, an econometric study using Two-Stage Least Squares. We share De Silva's misgiving on the tendency to an unnecessary mix-up on this issue. He observes that "the so-called methodology ... is nothing more than the use of simple, well-known, and fairly obvious techniques of measuring and summarising observable data" (De Silva, 1980:38). The conception of methodology adopted here is more philosophical and touches on the fundamental object of economic science.

In consonance with the logic of our chosen paradigm, we have decided to apply the method of Historical Materialism, which is basically comparative dynamics. Its essence is the acknowledgement of the permanence of change, deriving from the nature of dialectics. Historical materialism emphasises the relatedness of social phenomena vis-a-vis the economic, social and political structures of society. However, primacy of place is accorded to the economic factor in the development process, hence, the importance of the role of the State in the economy as the subject of analysis. Finally, this method acknowledges conflict of interests instead of the neoclassicals' social harmony, as the basis for explaining phenomena in a class society such as Nigeria. It will be recalled that Marx used the same method to develop his labour theory of value on the foundation laid by the classicists, and to build his model of capital accumulation.

We have, however, refrained from using the classical Marxist model of capitalist accumulation, though the conceptual categories and the broad accounting format of the model are utilised and generalised. But Marx's model of capital accumulation assumes an institutional basis in which the State plays no role in production, but merely maintains the class relations necessary for accumulation to proceed. It also assumes a social structure composed of only two classes, the bourgeoisie and the proletariat, that is, capitalists and wage labourers, respectively. This is why his effort has been described as the 'theory of a purely capitalist society' (Uno, 1980). A model which has social analysis as its core is considered more appropriate for this study for three important reasons.

First, the reality of the Nigerian social formation shows that while the capitalist mode of production is dominant, it is yet to effectively dominate all the productive sectors of the economy. For example, the agricultural sector is still predominantly a peasant economy. So the capitalist mode of production has not successfully supplanted all non-capitalist modes of production, hence the continued co-existence of precapitalist or non-capitalist modes of production such as feudal relationships in some parts of the country.

We are aware, of course, that the classical Marxist model also recognises the existence of other classes outside of the two (capitalists and workers) which the model incorporates explicitly. The other two reasons for not adopting the classical model are more practical and interrelated. One is that the status of the Nigerian economy within the capitalist international division of labour does not permit the operation of a closed model. This inevitably has implication for the process of accumulation as already highlighted in the introductory chapter. In the third place, we need a model that explicitly allows for the incorporation of the role of the State in facilitating or impeding private accumulation, given that this indeed is the central concern of the study. After all, it is the nature of the problem which determines the method of study.

Given the foregoing, we need to view the Nigerian economy within the context of the international economy. Within the national economy itself, we find the various interests which can be represented as a first approximation by the three branches of capital as well as labour and, in particular, by the reaction function of the public sector to the requirements of capital as a whole.

4.4 The Model

4.4.1 Closed economy conceptualisation

Abstracting from reality, and assuming a closed economy, the national income equation based on a two-sector model of public sector/private sector, can be expressed as follows:

Department I (Public sector): $W_1 = C_1 + V_1 + S_1$ ..... (1)

Department II (Private sector): $W_2 = C_2 + V_2 + S_2$ ..... (2)

where W_1, W_2 represent total output from the respective sectors; C_1, C_2 refer to constant capital while S_1, S_2 stand for surplus, covering interest, corporate profits, dividends and taxes in the respective sectors; V_1, V_2 being wage bills.

4.4.2 Open economy stylisation

A more realistic equation for the economy incorporates the external sector, giving:

$$W_1 = C_1 + V_1 + S_1 + (X_1 - M_1) + NKO_1 \quad \ldots\ldots\ldots\ldots \quad (3)$$

$$W_2 = C_2 + V_2 + S_2 + (X_2 - M_2) + NKO_2 \quad \ldots\ldots\ldots\ldots \quad (4)$$

W_i, C_i, S_i retain the arguments in equations (1) & (2); X_i, M_i and NKO_i stand respectively for exports, imports and net capital outflow in the respective sectors.

The openess of the economy is measured by

(i) $\frac{X + M}{W}$; the higher the value of the ratio, the more open and externally dependent is the economy; and where

(ii) $M > X$, it shows excessive imports, which has the tendency to lead to balance of payments problems.

Net Capital Outflow in the public sector (NKO_1) will be determined largely by external debt service, payment for imported technology, etc.; Net capital outflow in the private sector (NKO_2) will be determined largely by repatriations by multinational companies (MNC's), and capital flight.

4.4.3 <u>Inter-sectoral transfers</u>

Viewed from the private sector, its output is:

$$W_2 = h\ (K_2,\ L_2,\ T_2;\ W_1) \quad \ldots\ldots\ldots\ldots\ldots\ldots \quad (5)$$

where K_2. L_2, T_2 refer to capital (input), labour and technology, respectively, employed in Department II;

W_1 is the output from Department I, with specific focus on its potential and actual surplus, S_1.

The logic of the mechanism of transfer of surplus from Department I to Department II under the expanded reproduction indicates:

$$S_1 + \Delta S_1 = (\Delta S_{c1} + (\Delta C_1 + \Delta V_1) + \Delta' S_2 \quad \ldots\ldots\ldots\ldots \quad (6)$$

where ΔS_{c1} = consumption in Department I;

$\Delta C_1 + \Delta V_1$ = net investment in Department I; and

$\Delta' S_2$ = transfer to surplus or accumulation in Department II;

Hence,

$$S_2 + \Delta S_2 = f(W_2;\ W_1).$$

$$= W_2 - (C_2 + V_2) + \Delta' S_2 \text{ or } W_2 - C_2 - V_2 + \Delta' S_2 \quad \ldots\ldots \quad (7)$$

Equation (6) shows the changes in surplus in the public sector which constitute a basis for potential and actual accumulation in the private sector, as represented in equation (7), through a variegated network of transfers.

A sectoral disaggregation of these inter-sectoral transfers is represented as:

$$\Delta' S_2 = \Delta' S_{2A} + \Delta' S_{2I} \quad \ldots\ldots\ldots\ldots\ldots \quad (8)$$

where A stands for Agriculture and I stands for Industry. The equation indicates the incremental surpluses, $\Delta' \overset{S}{D}_2$, appropriated by the private sector in the agricultural and industrial sectors, - all from the public sector.

The mechanisms of transfer of surplus from Department I to Department II include the following:

1) Subsidies;
2) Credits, e.g. Agricultural and Industrial Credits;
3) Marketing Board Surplus;
4) Incentives;
5) Infrastructural provisions;
6) Corruption in public sector enterprises (PSE's); and others.

The equations (5) - (8) above are not specified as regressions, but as conceptualisations, hence they are not estimated. There are two reasons for adopting this approach, namely, (i) data limitation; and (ii) nature of methodology for the study.

Estimating the values of the inter-sectorally transferred surpluses requires computing the diverse components of the mechanisms of such transfers from the public to the private sector but on which data is not available. Besides, there are a host of measures routinely undertaken by the public sector to facilitate accumulation in the private sector and hence directly relevant to the subject of inquiry but which are not quantifiable. This in fact brings out the embrasive quality of the historical materialist method adopted for the study.

At the aggregate level of national income analysis, at which outputs from the public and private sectors, i.e. Departments I and II are put together, the equations (1) - (4) specified for the closed and open economy can be estimated[6], based on the data in The National Accounts of Nigeria, 1973 - 1975 presented in Table 4.1.

Our emphasis on the transfer of surplus from the public sector to the private sector is without prejudice to the reality of reversed transfer from the private sector to the public sector, as typified by the company tax which is a major source of revenue for the State.

TABLE 4.1

Aggregate Value-Added Account, 1973-74

(N'000)

	Component	Value (1)	% of Output (2)	% of G.D.P. (3)
(a)	Gross output*	15,178,767	100.0	133.7
(b)	Intermediate Consumption*	3,826,858	25.2	33.7
(c)	Gross Domestic Product*	11,351,909	74.8	100.0
(d)	Indirect Taxes Less Subsidies	182,497	1.2	1.6
(e)	Consumption of Fixed Capital	497,832	3.3	4.4
(f)	Domestic Factor Income**	10,671,580	70.3	94.0
(g)	Compensation of Employees	2,908,538	19.2	25.6
(h)	Operating Surplus	7,763,042	51.1	68.4

Note: *Valued at producer prices

**Compensation of employees plus operating surplus

Source: Derived from The National Accounts of Nigeria, 1973-1975 published by the Federal Ministry of National Planning, Lagos, Nigeria, p.117.

In terms of the variables of the Marxian system, the table can be translated into summary reproduction accounts as below:

Aggregate Reproduction Account, 1973-74

(N'000)

Table 4.1 Rows	Reproduction Account						
	Q	=	C	+	V	+	S
(a)	15,178,767						
(b) + (a)			4,324,710				
(g)					2,908,538		
(d) + (h)							7,945,539
	15,178,767	=	4,324,710	+	2,908,538	+	7,945,539

Notes to Chapter 4

1. John Maynard Keynes (1936), The General Theory of Employment Interst and Money. New York: Harcourt, Brace.

2. John Kenneth Galbraith (1973), Economics and the Public Purpose. Boston: Houghton Mifflin Company, p.13.

3. Rosalind Levacic and Alexander Rebmann (1982), Macroeconomics. London: Macmillan 2nd Edition; p.407.

4. See Claude Jeanrenaud (1984), "Public Procurement and economic policy", Annals of Public and Cooperative Economy, Vol. 55(2): 151-157.

5. Karl Marx (1977), Capital Vol. 1, p.558.

6. This is based on the pioneering effort of Eskor Toyo in the area of giving empirical content to Marxian accounting categories from dta on the Nigerian economy. Unfortunately, the source of this particular reference cannot be cited because of an imposed embargo.

CHAPTER 5

PRIVATE CAPITAL ACCUMULATION IN THE NIGERIAN NEO-COLONIAL SYSTEM

A model of accumulation in Nigeria must be premised on the fundamental structure of the country's political economy. This structure informs the nature and character of the State within its role in the accumulation process. In particular, such a model should reflect the neocolonial orientation of the State.

The indication of the status of Nigeria in world economy is meant to underline two important theoretical points. One is the assumption of the dominance of the capitalist mode of production (CMP) within the international economy, a point that enjoyed validity even before the recent developments in Eastern Europe. Second, the Nigerian economy is a dependent system in which the "accumulation and expansion of capital cannot find its essential dynamic component inside the system" (Weiss, 1985:123). The fact of its capitalist orientation seriously limits its potential for autonomous development in the global environment: an international devision of labour which is not just a functional division, but also a relationship of exploitation. Our plan is to further buttress the fairly well-known point that the Nigerian economy is a typical neocolonial system. This is so in the sense that while the country is officially independent with a relatively weak local bourgeoisie, the economic policies of the State tend, primarily, to entrench the position of the absentee metropolitan bourgeoisie and secondarily, that of their local, compradorial or merchant allies. This model depicts the peripheral capitalist State as relying on the international bourgeoisie for support while marginalising, as long as it can both independentnational capitalists and the mass of peasants and workers in its pattern of accumulation. This casts it as more servile to imperialism than either an 'intermediate regime' (that is ambiguously neither wholly capitalist nor socialist) or a 'developmental capitalist regime' which, while promoting capitalist accumulation in general, endeavours to assert some independence in relation to the various fractions of capital, foreign and local. It is of course a far cry from a 'national popular regime' of State functionaries in alliance with popular classes of the working people, and which expectedly has an obvious commitment to the path of independent national development (Weiss, 1988:161-2; Petras, 1978: 85-92). At best, a neocolonial state plays a mediating role in establishing the terms of exploitation of the working people. It pursues policies that objectively tend to deepen the dependent status of the economy. Its industrial policy for example, remains outward-oriented as the requirements of industrialisation derive largely from outside the system. This explains the relatively low level of the development of productive forces. The policy thrust, nonetheless, accommodates the granting of concessions to the local fraction of private capital, but such concessions ultimately consitute only a small fry when compared with the spoils accruing to transnational capital. In any case, any real concession that has the potential of threatening the long-term interests of foreign capital are revised sooner than later, if not completely revoked.

5.1 Social classes in Nigeria

The level of development of productive forces is the obverse of the coin depicting social classes in a given social formation. This is because classes are defined in relation to the extant social relations of production. But three elements define the productive forces of a society, namely, labour, the objects of labour and the means or instruments of labour. The objects of labour are the natural or man-made materials like land, forests, minerals, etc. which labour works upon for the creation of certain products, together with the instruments of labour e.g. tools, implements and machines for working on the objects of labour make up the means of production available to the society. Hence, labour and the existing means of production together constitute the productive forces of a given society.

We say that productive forces and social classes are two sides of a single coin because classes are best defined in relation to the means of production. This is not to be seen as a purely economistic conception of social classes, because it is necessary to conceptualise classes in economic, political and ideological terms. But there is a caveat, namely, the historical materialist position that endorses the determinant or primacy of the economic instance. In the long run, economics takes precedence over politics. But this does not warrant a rigid dichotomisation between the economic instance, on the one hand, and the political, and ideological instances on the other, in social analysis. According to V.I. Lenin, social classes are:

> large groups of people differing from each other by the place they occupy in the historical determined system of social production, by their relation (in some cases fixed and formulated in law) to the means of production; by their role in the social organisation of labour, <u>and</u> consequently by the dimensions and mode of acquiring the share of social walth of which they dispose (emphasis added).1

Two quick remarks on this definition are pertinent. First, it should be easy to perceive some interconnectedness between this definition and the classic definition of the object of economics. Both highlight the centrality of <u>social classes</u>, <u>production</u> and <u>distribution</u> in the analysis of human behaviour. Second, the real meaning of the primacy of the economic factor needs to be correctly appreciated. The determinant nature of the economic instance is to underscore the necessity for human survival. Furthermore, there is a full recognition of 'reversed influence'. Thus, political, ideological and in fact religious factors, which are normally in the superstructure of society, quite often determine what happens at the economic level or in the substructure of society. Thus, these superstructural factors may become dominant in some cases.

In analysing the capitalist mode of production (CMP), its relations of production should be considered from three different points of view: ownership, function and appropriation. These dissolve into the attempt to answer the questions, who owns what? who does what? and who gets what? These questions are interrelated, and in real life, we find that the State influences the practical answers to all of them.

One of the principal arguments advanced by those who object to the adoption of a class perspective in the analysis of African societies is the alleged non-existence of classes and hence class struggle in Africa. One dimension of the argument is that the class concept and hence class analysis is European or at least foreign to Africa. But in the first place, this argument is a distortion of African historiography, which could be a reflection of 'colonial mentality', but whose objective basis can be understood in terms of the technological gap between Europe and Africa. The denial of Africa's contribution to human civilization is unacceptable. The intellectual advancement of Africans well before European colonialism must be acknowledged. For example,

> African scholars like Ibn Khaldun were already steeped in materialist discourse several centuries before Karl Marx ... It is therefore ludicrous for anyone to argue that Marxist form of analysis is alien to Africa.2

The second response to the claim of inapplicability of class analysis to Africa is that it is a fact that Africa has undergone significant changes in modern times. So assuming for the sake of argument that there were no classes in Africa at some point in the past, it does not follow that the situation has not changed.

Classes and class conflict are a reality of contemporary Africa. In any case, we must face up to the fact that pre-capitalist African societies were not always characterised by peace and harmony, devoid of change and conflict. There may be questions as to which classes are in existence; a question with both theoretical and empirical dimensions.

Finally, on the class question, there is a suggestion that the ethnic factor has a superior explanatory power over class in Africa. Thus it is argued that workers display higher ethnic consciousness than class consciousness. Similarly, it is alleged that the African ruling groups or the petty-bourgeoisie, are guided by the principle of ethnicity when allocating resources socio-structurally and spatially. Ali Mazrui's summary of the argument is to the effect that "the post-colonial scramble for scarce resources is not an inter-class struggle but an inter-ethnic struggle" (Mazrui, 1983). This means that for any attempt to understand the behaviour of the public sector (State), it is recommended that the ethnic or nationality factor should be the guide, as against the class perspective. But the matter is not a case of either-or; both ethnic and class factors coexist and influence the pattern of public sector spending in Africa, Nigeria and elsewhere. One factor predominates over the other and vice versa. Infact, to understand the one may very well require a full appreciation of the role of the other. Thus, it is not possible to fully understand the ethnic phenomenon without reference to its class character. But ultimately, the class phenomenon asserts itself because the fundamental contradiction is between labour and capital, in which the State is enmeshed.

5.2 <u>The state and resource allocation in the economy</u>

The role of the State as an institution in the economy must be seen essentially in terms of facilitating the perpetuation of a particular economic and social system. The State or government is a class category and so, public sector policies cannot be class-neutral at the fundamental level of the relations between capital and labour, and hence in the accumulation process. The specific character of the role of the State in the economy is "largely a derivative of the socio-economic character of State-power" (Weiss, 1988:160). Through the public sector, the State directly controls a substantial proportion of the nation's resources, decides on their allocation under the influence of economic, social and political forces. Where there are conflicting interests, the State necessarily has to prioritise and this reflects the relative dominance of the contending interests.

The State may, in some cases, take measures which appear to, and may actually be capable of, compromising the immediate economic and political interests of the dominant class. This is not unusual and it may in fact be a tactical move to the strategic interests of the ruling group. It may also be done to ensure social cohesion. But the tendency that asserts itself must often is that of the class in power. The attempt to distinguish between the 'ruling class' and the 'governing class' is aimed at explaining the observed absence of a one-to-one correspondence on every issue between State action and the interests of the ruling class (Kasfir, 1983).

The perspective outlined here is for illuminating the behaviour of the Nigeria's public sector on a long-term basis. Our argument is that foreign capital exerts a dominant influence on the development of the public sector in the country.

The ruling class is the international bourgeoisie. The local petty-bourgeoisie governs while the international bourgeoisie rules.

The working people, or the narrower working class, the peasantry and other dispossessed groups constitute the exploited and dominated classes. Depending on the general state of the economy and the degree of class action which they undertake, the dominated classes may wring concessions from the State. In fact, concession-granting is part of the dictates of legitimation in order to maintain social cohesion and stabilise the system. This is because the power of the dominant class is not absolute.

The basic question of the accumulation process is that the underlying dominant motive of principal institutions in societies based on private property is dictated by the requirements of capital accumulation within the constraints imposed by the dynamics of class struggles. The Marxist model of accumulation derives from this principle. Its formulation utilises three basic accounting categories. These are: (i) constant capital (C), embracing equipment, machinery, and raw materials used in production; (ii) variable capital (V) which is the wage bill or the amount paid for labour-power; and surplus value (S), the excess of total value created by labour over the amount paid to labour. In this framework, therefore, the total value, W, of a commodity, or the output of a firm, sector or the economy as a whole, can be disaggregated into the three components of values, so that

$$W = C + V + S$$

For the purpose of this study, the interest is in surplus value, S, viz its origin, size and uses.

5.3 Significance and determinants of economic surplus

Economic surplus or surplus product, is the excess output of society at any given time over and above that which is required to sustain the lives of the producers.

> As long as a group of men barely produced enough to keep itself alive, as long as there was no surplus over and above this necessary product, it was impossible for a division of labour to take place ... and social differentiation within society is impossible. Under these conditions, all men are producers and they are all on the same economic level (Mandel, 1973:7).

One special significance of the surplus product or surplus value is that the manner of its appropriation defines, fundamentally, the character of the extant social relations in the society. It is the basis of the distribution of income among social classes in society. Surplus may be appropriated at rent, interest, profit, dividends or taxes; these are the categories of income which the Classical Economists referred to as "unearned income". The claims over surplus constitute, historically, the primary basis of conflicts between and within groups and social classes. Where the surplus is appropriated by non-producers, it is defined as exploitation. This is the common, basic attribute of all class societies.

The conventional accounting format of the typical capitalist enterprise does not correspond neatly with the above conception. For example, it is at best a first approximation to equate surplus value with profit as the two are quite different. In the labour theory of value, the accounting format highlights the phenomenon of exploitation in profit. The ratio of surplus value, S, to variable capital, V, measures the rate of exploitation or alternatively the rate of surplus value. The basic premise of the labour theory of value is that labour is the source of all value added. Constant capital merely transfers its value, and it is treated basically the same way as depreciation.

The rate of surplus value, $S' = \frac{S}{V}$ = rate of exploitation; this is determined by the productivity of labour and the wage rate. The rate of profit, on the other hand, refers to the ratio of surplus value (S) to the total cost of production; that is the sum of constant capital and variable capital, C + V. The rate of profit, $P = \frac{S}{C + V}$. Thus, the rate of profit is less than, but directly proportionate to, the rate of surplus value: $\frac{S}{C + V} < \frac{S}{V}$, $C > 0$. Also, the rate of profit is inversely proportional to the organic composition of capital or capital intensity, $\frac{C}{V}$. The simple proof, as given by Paul M. Sweezy (1974), is as follows: Let the rate of profit, $P = \frac{S}{C + V}$; rate of surplus value, $S' = \frac{S}{V}$, organic composition of capital, $O = \frac{C}{V}$. Dividing the numerator and denominator in the expression for the rate of profit by V, we get

$$P = \frac{\frac{S}{V}}{\frac{C + V}{V}} = \frac{\frac{S}{V}}{\frac{C}{V} + \frac{V}{V}} = \frac{\frac{S}{V}}{\frac{C}{V} + 1} = \frac{S'}{O + 1}$$

From which it follows that the rate of profit varies directly with the rate of surplus value and indirectly with the organic composition of capital.

In business accounting, the concern stops at calculation of the rate of profit; but this measure is not complete. In this business accounting, rent and interest are considered as costs, therefore forming part of the denominator in the calculation of the profit rate. The practice derives from the conceptual premise of representing labour as a cost of production rather than the source of value.

Generally, the amount of surplus that can be generated in a system depends upon the productivity of labour, which in turn rests on the technique and method of production. Adjoint to this is the 'enabling environment for business' which the State may create. This has implication for the absolute magnitude and distribution of the output generated and touches on the historic objective conflict between labour and capital. As Joan Robinson expressed it, eloquently, "the forces which govern the distribution of the product of industry between wages (labour) and profits (capital) are the central features of a capitalist economy"[3]. Moreover, as the Nigerian State is a major employer of labour, its role in capital-labour relations has a major impact on the resulting income distribution in the country.

5.3.1 Surplus as primary basis of accumulation

The specific form assumed by surplus and the degree of importance attached to its acquisition vary between societies, depending on the social structure of each society. Economic surplus may take the form of natural products or commodities to be sold, as in most pre-capitalist social formations, or as it does under the capitalist mode of production where surplus is in monetary form, it then becomes surplus value. It is under this capitalist mode of production that surplus assumes its most significant status. Capitalism is essentially a surplus producing system; surplus value is the basis of capitalist accumulation, engendering profit-seeking, competition, innovation, and class struggles which highlight the fundamental relation under the system: capital-labour relation.

The important point about Marx's theory of surplus value is that under capitalism, in contrast to all previous regimes such as slave and feudal orders, surplus is invested in the expansion of the productive base, thereby developing the productive forces of society. For the capitalist producer, the manufacture of commodities is not an end in itself, it is only a means to appropriate surplus value.

This surplus accrues to the capitalists by virtue of their ownership of the means of production. In this sense, the rights of private property, sanctioned by the legal system and buttressed by the power of the State, are the cornerstone of the capitalist system (Rousseas, 1979:11).

The primacy of surplus value can be seen in the process whereby, notwithstanding the continued practice of subsistence farming in most parts of Nigeria, the tendency is the submission of all economic units to the imperative of capitalist accumulation. The distinction between use-value and exchange value helps in understanding this process. Thus, even while the peasants still devote much labour to providing directly for their own requirements, particularly food, increasingly they are forced to create exchange value in order to sustain themselves. Capitalist production is not primarily for consumption but for the creation of surplus value. As soon as surplus is realised in money form through sales, it is made to begin its career as capital by first assuming the form of productive capital, comprising constant and variable capital, C + V.

The equation, W = C + V + S specified earlier for the gross output of a closed economy within the Scheme of Simple Reproduction (SSR), takes production to be limited to a constant stock of capital, without expansion, i.e. no accumulation. The Scheme of Expanded Reproduction (SER) on the other hand describes a situation in which an economy more than replaces the means of production currently used up, i.e. there is net investment and growth: $W_i = C_i + V_i + S_i + S_{ci} + S_{vi} + S_{oi}$. It means production with capital accumulating.

Table 5.1 shows the Turnover and Profit Before Tax (PBT) realised by nine companies in Nigeria for the two-year period of 1988-89. Profit before tax is the gross of the profit on enterprise calculation, and it is of less practical significance for accumulation purposes than net profit i.e. profit after tax. The gross profit is a closer, though far from being equivalent, approximation to surplus value than net profit. This is because tax merely constitutes a transfer, it remains a component of surplus. As the table shows, all the companies covered experienced substantive increases in both their turnover and profit before tax returns, in spite of the on-going Structural Adjustment Programme under which wages and salaries, V_i, have remained basically static, a pointer to the existence of a high degree of exploitation of the workers in these companies. It is also of interest to trace the pattern of allocation of the gross profit, S_2 between the State (as company income tax and defined by law) on one hand, and the balance, net profit - to be appropriated by the capitalist class. How this balance is allocated between consumption and investment is the key to accumulation. In general, the allocation of surplus between consumption and investment will be determined principally, by among

TABLE 5.1

Turnover and Profit Before Tax (PBT) of
Selected Companies, 1988-1989 (₦ million)

Company	Turnover (1)	Turnover (2)	Percentage Change: 1-2% (3)	Profit 1988 (4)	Before Tax 1989 (5)	Percentage Change: 4-5
John Holt Limited	406.096	765.173	+88	25.071	76.948	+88
Lever Brothers (Group)	601.436	1113.0	+85	111.035	248.244	+124
SCOA (Nigeria) Ltd.	803	1132.0	+41	9.3	38.1	*310
UAC of Nigeria Ltd.	976.702	1389	+42	145.63	250.506	+72
UTC Nigeria Ltd.	227.462	346.278	+52	14.678	18.644	+27
Ashaka Cement Company Ltd.	218.351	348.477	+60	54.789	103.409	+92
Berger Paints	56.634	79.369	+40	9.060	16.267	+80
Dunlop Nigeria Ltd.	157.353	252.996	+61	32.314	45.042	+39
Sterling Products (Nig.) Ltd.	50.984	97.028	+90	9.624	15.627	+62

Source: Annual Report of the Companies

others, (1) the extent to which society is fully capitalist in structure: the more developed, the higher the reinvested surplus. Conspicuous consumption by the rentier class of speculators, money lenders, landlords, etc., as in Nigeria, slacks the rate of capital formation in the economy. This is compounded by capital and profit-repatriation by foreign multinational companies (NNC's). An investigative Report by Morgan Trust Guarantee Bank of New York, U.S.A. showed that by 1990, Nigerian private holdings in secret account in foreign banks amounted to $33 billion. These are some of the ways by which surpluses generated locally are lost; (2) the rate of surplus value or expressed narrowly as rate of profit. Investment decisions are influenced by expected rate of profit, $I = f(\pi)$, higher rates of surplus value are usually associated with higher rates of investment; and (3) the scale of production/operation. Generally, the bigger enterprises invest a higher proportion of their profits than the small ones.

Granted the Nigerian State is itself a commodity producer through its parastatals in directly productive activities such as cement, beer, etc. ther value-added by this production constitutes part of the income of the country. The bulk of this value-added (income) from which public sector expenditures are funded does not however, originate in the production and sale of commodities by the State itself. Rather, it comes through direct and indirect taxes, which are constituents of surplus value, public loans and inflationary issue of bank notes. After juridical claim to these incomes, the government then proceeds to allocate them the way it considers fit, including the facilitation of private primitive accumulation in the agricultural, industrial and other sectors of the economy.

5.4 Private Primitive accumulation in Nigeria's agricultural sector.

Primitive accumulation refers to the period from and the process by which , capitalist accumulation begins; hence the alternative identification as original on 'primary' accumulation. It is the process by which the conditions necessary for the emergence of capitalism are created. This involves a combination of extended claim of ownership over assts by a rising class and the the surrender of ownership by small owners (Dobb, 1963: 178-185). It entails the seperation of the direct producers from ownership, control or access to the means of production, the concentration of such means in few hards and the generanisatic of markets for all products. It marks the emargence of a wage-earning class.

Karl Marx coined the concept, derived from what Adam Smith had called 'previous' accumulation, and gave it a detailed analysis in his Capital Vol. 1 part VIII. His focus was the experience of

England whee the process took the forms of enclosure movement and the dislocation of the agrarian population, monopolisation of trade and inflation of commodity prices, colonisation and forced labour, and theft, etc. This crucial historical process is explained away in neoclassical economics by assuming as given the 'initial endowment' of resources. Yet a history of this 'initial endowment' lays basis for the class relations of a society.

Since the capitalist system is relatively young in Nigeria, and has not in fact become 'pure', the process of primitive accumulation is still going on. It is generally agreed that there was no wage employment in Nigeria before the coming of the early European explorers; hitherto, the main occupation of the people was peasant farming which was carried out on a cooperative basis.

The on-going process of primitive accumulation, in which the State is deeply involved, takes the following routes: (i) under-pricing the product of the peasantry, i.e. unequal exchange; (ii) the enthronement of money as the most critical asset, hence the quest for, and the institution of various credit facilities; (iii) imposition of tax which necessarily forces people into the capitalist exchange network; and (iv) the increasing commercialisation of land, and the systematic marginalisation and victimisation of small independent agricultural producers.

Nigeria's agricultural sector is essentially peasant based, involving about 70 per cent of the country's economically active population. The sector presents a non-linear picture with respect to the manner of its surplus appropriation. This is because, the appropriators of the surplus generated are in most cases not involved in productive agricultural pursuit themselves. The manner of appropriation provides a key to a good appreciation of the vicissitudes of the sector and its peasants from colonial times to the present. By peasants we mean persons who, owning or controlling limited land and other resources, produce primarily agricultural crops on small plots, mainly for their own subsistence, but who also produce a surplus product, a portion of which is appropriated, directly or indirectly, by representatives of a larger economic system (Roseberry, 1976).

Our major concern here is the production of the peasants' output that enters into the world economy. The objective situation of the Nigerian peasant underlines the operation of the law of combined and uneven development under peripheral capitalism. Here, the precapitalist form of production is maintained even as its basis is being undermined in its interaction with the capitalist sector, both nationally and internationally. In reality, therefore, we are dealing with a sector which is neither completely precapitalist nor capitalist. The commodities involved are the well-known primary commodity export crops like cocoa, coffee, rubber, cotton, groundnuts and palm produce. One of the characteristics of this system is that the producers are price-takers in the international market, and confronted by unstable prices and deteriorating terms of trade.

From colonial times, especially from about 1940 to 1985, the major mechanism through which the surplus product of Nigerian peasants was appropriated was the Marketing Board System. We employ the term rent to refer to the appropriated product of the peasantry. This generic term covers ground rent as well as taxation of agriculture and the peasantry by the State. There is clearly a basic difference between the specific form which the exploitation of the factory worker takes, compared to that of the peasant. Whereas the former possesses only his labour-power, the latter owns and controls at least some of the means of production, such as land, farming implements, and seeds. Technically, therefore, the peasant enjoys greater freedom as he can decide what proportion of his land to devote to cash or food cropping, when and how much to work.

The fact of the existence of precapitalist elements in Nigeria's agricultural production processes and relations might, a priori, suggest a theoretical invalidation of the adoption of the format based on the accounting categories, C, V, S. This, however, is not correct. Their retention serves the purpose of vividly showing that the peasant may have access to portions of his surplus product, depending on the pricing policies of the State and its agencies. This in fact enables us to appreciate the distinction between the exploitation of the wage earner and the peasant better.

In any case, under whatever production arrangement, be it peasant, capitalist or socialist production, some costs are involved. For the peasant, these costs include the implements for cultivation, seed procurement, fertilisers, pesticides, etc. (which we group together as constant capital, C); and the family's subsistence component of the produce (which is taken as variable capital, V). Admittedly, the value of C will be modest for peasant. Utilising the expositional device of Roseberry (1976), we schematise three ways in which the peasants may be related to their surplus product. These represent three different degrees of their exploitation. For this analysis, the two key concepts or categories employed have a modified connotation. These are rent, denoted by S (standing for surplus value) and surplus product, denoted by P.

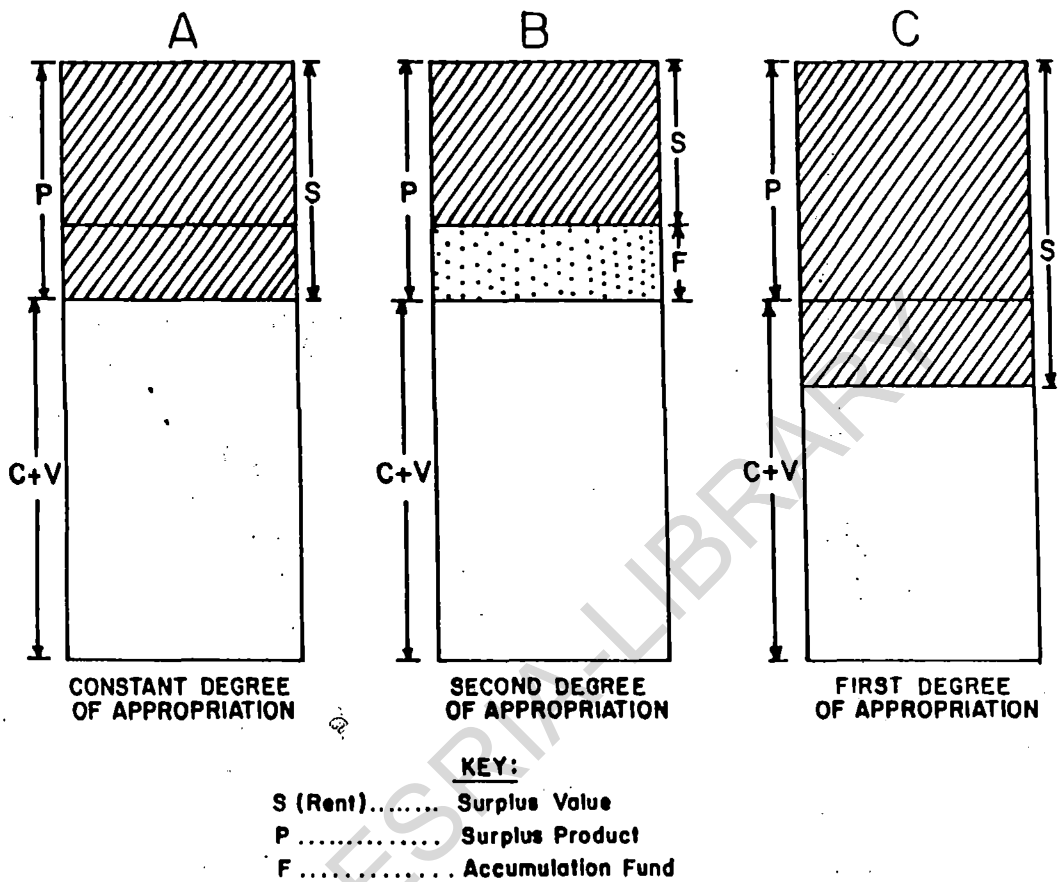

Fig. 1 : Three Scenarios of Appropriation of the Peasant's Surplus.

In the three composite diagrams (Fig. I), three different conceivable scenaries of the peasant's surplus appropriation are illustrated, representing different degrees of exploitation of the peasant. In the A scenario (Constant Degree of Appropriation), the Marketing Board buys from the peasant and sells on the international market, appropriates from the peasant, in value form, the exact equivalent of his surplus product, that is, S = P. This captures a situation where the peasant is left to operate at the level of simple reproduction, without the prospect of accumulation, hence no growth from year I to year II. That the direct producer has been denied access to his surplus product is not the evidence that a surplus does not exist; rather, it is that the relevant agencies (Marketing Board and Produce buyers) have appropriated it and now exercise authority over its deployment. This appropriated surplus may go into the treasury as export tax, or be privately accumulated as productive investment or consumption fund by Licenced Buying Agents. What the State does with its tax proceeds comes under the same broad analysis as other categories of government revenue: utilised productively or unproductively. Whichever way it goes this extraction process does not give direct room for the peasant to expand or accumulate.

Under scenario B (Second Degree of Appropriation) the Marketing Board or its agent appropriates only a portion of the peasant's surplus product. Hence $S < P$, the differential, F, $(P - S = F)$ gets back to the peasant. While exploitation is, nonetheless, present here too, it allows the producer access to part of his surplus which can form the basis of private accumulation, that is, it allows for private expanded reproduction. The peasant may, of course, decide to diversify into an entirely different activity such as trading or transport business. The important point is that the policy option enables the direct producer to accumulate. Of the three scenarios, this is the best regime for the peasant's surplus either for public accumulation or consumption.

Scenario C (First Degree of Appropriation) is an extreme case. Here, $S > P$, and represents a policy situation whose result is the excessive taxation of the producer as he is being pressed below the prevailing acceptable level of subsistence - burdened with debts and threatened with possible extinction. The choice before the peasant here is a desperate search for alternative means of livelihood, invariably outside the agricultural sector - becoming a hired labourer in agriculture, or migrating as seasonal or permanent labourer are the common options. In this sense, the role of the public sector in agriculture has been largely disruptive of the accumulation process.

The heuristic relevance of this scheme can be demonstrated through the consideration of the pricing policies of the Marketing Boards and their agencies over the years.[5]

5.4.1 Colonial agricultural policy in Nigeria

To understand the role of the agricultural sector in the process of private accumulation in Nigeria, it is appropriate to situate it historically within the policies of government. Our point of departure is that there is no substantive difference between the agricultural policies of the colonial and post-colonial governments in Nigeria. The objective result has been the subordination of the country's agriculture to the requirements of the advanced countries which constitute the centre of the world capitalist system.

The foundation of the Nigerian colonial economy rested on export commodity production by the peasantry; principally cocoa in the western parts, palm produce in the eastern areas, and groundnuts and cotton in the northern parts. The colonial State took over the marketing of cocoa directly in 1938 after the combined protest of African middlemen and producers against the underpricing of their produce, and the domination of the export trade by foreign (British) firms (Sara, 1984), notably the Royal Niger Company and the United Africa Company (UAC). Before the discovery of mineral resources in commercial quantities, it was agricultural exports that partly sustained British interests in the country since these primary products complemented the metropolitan manufacturing requirements.

A classic manifestation of the subordinate profile of colonial

Nigeria's agricultural policy is the redirection of emphasis from the production of food crops for local consumption to the production of export crops for Britain and the world market. What happened in essence was that,

> the food sector in Nigerian agriculture was systematically and severely attacked by the colonial government in order to dethrone it as one of the most important means of exchange and of the accumualtion of wealth by farmers, traders and food processors (Abba et al. 1985:20).

The colonial government carried out this subversion of indigenous food supply through a combination of strategies. These include a detailed study and understanding of the indigenous agricultural system and practice; imposition of tax on food items both to generate revenue for the colonial State and to discourage their production; conscious, deliberate and concerted promotion of cash or export crop production. Needless to point out, the colonial State did not bother to formulate any positive food policy for the country. Hence, there was little capital investment in food production; instead its erstwhile rate of growth was arrested even as population increased. The combination of all these was that export crops came to dominate the agricultural landscape at the expense of food crops; the focus was on the foreign market to the neglect of the home market (Onimode, 1983; Abba et al., 1985).

A year after the colonial government took direct control of the marketing of cocoa, it immediately agreed to buy the entire cocoa output of British West Africa. This responsibility was expanded to include other crops like groundnuts and palm produce, and it was passed to the West African Cocoa Board, in 1942. This was replaced by the Commodity Boards in 1947, then back to Marketing Boards in 1954 following the development of regionalisation. These boards were responsible for the setting of producer prices that rarely bore any relationship with the selling prices in the world market, except that the former was continuously on the lower side of the latter. Big foreign trading concerns, in particular The Royal Niger Company and the United Africa Company, pioneered and effectively monopolised import-export trade in Nigeria. These firms then recruited local licensed buying agents as junior partners. Such indigenous agents often got their trading capital from loans advanced by these foreign firms (Watts, 1987; Okolo, 1987). As would be expected,

> The subsequent development of the produce trade created multiple commercial opportunities for intermediaries, agents, and middlemen who were active in the sale and purchase of export commodities. A complex hierarchical edifice of traders emerged, linked through ties of credit and clientage (Watts, 1987:79).

The prospect for potential and actual accumulation was therefore, unequal for local and foreign traders involved in the commodity export business. Table 5.2 presents the situation that obtained in cocoa trade in the former Western Region, showing that the foreigners were at an advantage over their licensed indigenous

TABLE 5.2

Colonial Nigeria: Relative positions of foreign and indigenous Cocoa licensed buyers and purchasers, 1955-61

	Number of Buyers					Quantity Purchased (tons)				
Year	Total	For-eign	Nige-rian	Fore-ign %	Nige-rian %	Total No.	Foreign	Nigerian	Fore-ign %	Nige-rian
1955	37	14	23	38	62	83,579	65,535	18,044	78	22
1956	40	13	26	35	65	105,986	79,457	26,527	75	25
1957	41	13	28	32	68	128,418	87,848	40,540	68	32
1958	43	13	30	30	70	73,655	48,815	24,840	66	34
1959	46	13	33	28	72	131,510	74,094	57,416	56	44
1960	51	12	39	24	76	146m360	87,544	58,816	60	40
1961	75	11	64	15	85	181,915	96,203	85,712	53	47

Source: Western Nigeria Marketing Board; cited in Amechi Okoro (1987), Foreign Capital in Nigeria - Roots of Underdeelopment; Lagos: Heartland Publishing House; p.87.

counterparts for the period, 1955-1961. Though Nigerians enjoyed numerical strength, they handled a smaller volume of the trade.

Over time and under the excuse of price stabilisation, the Mafketing Boards accumulated "huge surpluses which were turned over to the colonial government" (Onimode, 1983:51). During 1947-1961, the various Marketing Boards at both commodity (1947-1954) and Regional (1954-1961) levels combined, extracted from the farmers a total surplus value of £238,284,100.[6] That was not all. Export duties and purchase tax were imposed on the farmers' crops and collected directly by the central government. This yielded another £231,184,200. Helleiner's (1964) calculation shows that,

> during the 1947/54 period, over 42% potential income earned from cotton, 40% of that from groundnuts, over 39% of that from cocoa, and over 29% of that from palm kernels and 17% of that from palm oil were withheld by the Government through taxes and Marketing Board trading surpluses.

Thus, the Marketing Boards acted as instruments of forced savings. Substantial proportions of the trading surpluses of the Regional Boards were used to facilitate private accumulation. For example, the Western Regional Marketing Board channelled over £3 million into equity holdings in private enterprises (quite apart from grants to Development and Finance Corporations, which were actually indirect investment in private enterprises). Similarly, the Eastern Regional Marketing Board acquired equity interest in private companies valued at more than £3.5 million by December 1961. In the same vein, the Northern Regional Marketing Board had £276,000 as outstanding loans to Nigerian private companies as at December 31, 1961.

The colonial government's agricultural policy did not lead to the conversion of most Nigerian peasants into wage earners since there was no emphasis on plantation agriculture and manufacturing was rudimentary. One plausible explanation for this lies in the fact that the status quo at that point in time suited the dominant faction of the British ruling class, as typified by the industrial bourgeoisie who required cheap imported raw materials that could be more readily got through unorganised peasant.

It was this colonially patterned agricultural structure, subordinated to and incorporated into the world economic system, the main burden of which fell on the peasantry, that the nationalist leaders inherited at political independence in 1960.

5.4.2 Agricultural policies in post-colonial Nigeria

The politicians and planners of post-colonial Nigeria continued the export-oriented agriculture in the colonial era. There was, however, some emphasis on plantations and farm settlements into which the regional governments poured a lot of resources. Then foreign experts got invited to help formulate agricultural policy for the country. Usually, such experts came out with reports[7] suggesting emphasis on export crop production, and their recommendations were followed religiously.[8] So, before long, there was a food crisis which necessitated massive importation of food items (Table 5.3 refers).

TABLE 5.3

Nigeria's Food Imports, 1978-1988

Year	Food Imports (₦ million)	Food Import bill as (%) of Total Imports
1978	1,000.2	12.0
1979	1,040.1	16.9
1980	1,416.8	15.6
1981	2,198.3	17.0
1982	1,426.9	15.5
1983	1,895.9	14.1
1984	843.2	19.0
1985	940.6	17.0
1986	802.1	13.4
1987	1,873.9	10.5
1988	1,948.5	9.8

Sources: (1) Rederal Government of Nigeria, Report on the Nigerian Economic and Statistical Review, 1983; Cited in Abba et al. op. cit., p.25.

(2) Union Bank of Nigeria, Economic Newsletter No. 40, 1990; p.9.

The oil boom that set in from the early 1970s made this massive importation of food possible and it became a highly lucrative business for urban food importers and distributors. Agriculture was neglected and became extremely unrewarding for local producers. But the situation could not be sustained indefinitely. The modernisation of agriculture, geaed towards higher productivity became a State policy. World Bank-sponsored Agricultural Development Projects (ADP's), supposed 'based on the needs of small-scale farmers' were embarked upon. These have since turned out to benefit mainly large-scale "progressive" farmers, rather than the majority of the peasantry. In fact, the programme has led to "large-scale land appropriation from poor peasant households in favour of rich peasants, traditional rulers, bureaucrats, top military officers and business tycoons" (Abba et al., 1985:29). These projects involved huge sums of public expenditures. Recently, the Federal Government earmarked ₦13.5 billion for the development of 21 projects under the programme. Part of this budget is meant for the purchase of spare parts and consultancy fees.

Similarly, the River Basin Development Authorities (RBDA's), were erected on the principle of large-scale irrigation with the objective of creating areas of year-round cultivation of crops such as wheat, rice, maize and vegetables. They started by supplying all forms of non-conventional inputs to the participating peasants albeit at heavily subsidised prices, so it is an expensive scheme. For example, the contract for the Bakolori irrigation project, that was awarded to a subsidiary of the Italian multinational, Fiat, gulped ₦300 million. Between 1981-85, the eleven River Basin Development Authorities cost the Federal Government ₦1.81 billion. Being so heavily capital-intensive, the programme is totally out of tune with the labour supply profile of the economy. Hence, it has entailed the employment of large numbers of expatriate workers who are paid abnormally high salaries and allowances along with generous permission to remit substantial proportions of their incomes home. Consequently, such schemes have a substantial importation and foreign exchange content, which amounts to gross misallocation of resources in the light of the uncertainties surrounding foreign exchange earnings (Akinyosoye, 1986). Now, under the Structural Adjustment Programme (SAP), the River Basin Development Authorities are to be reorganised with the privatisation of their movable assets. But the damage has been done. Both the ADP's and the RBDA's merely served as fertile sources of extracting economic surplus from Nigeria for accumulation by international business concerns and World Bank 'technical experts'. Nigerian agriculture has increasingly come to serve as an important "market for various types of industrial imports, including fertilisers, irrigation pipes and pumps, new hybrid seeds, tractors and earth-movers, technical consultants, etc." (Oculi, 1987:176).

The frantic effort under SAP to promote export crop production on the argument of the need to diversify the export base of the economy is another eloquent testimony to the perpetuation of neo-colonial development in Nigeria. The fragility of this approach registered itself within two years of its operation when the price of cocoa collapsed on the international market. Within the 1988/89 season, the price fell from N25,000 to N8,000 per ton.[9]

5.5 Private accumulation in the industrial sector

In Nigeria, private capital (foreign and local) holds away. "Industry is owned", observed Teriba and Kayode (1977:209), "largely by private enterprise in Nigeria". The situation has not altered radically, as Table 5.4 shows. At the vanguard of this dominance by private capital is foreign capital. In 1986, cumulative private foreign investment in Nigeria stood at N9.3 billion. Local capitalists appear to have accepted a subordinate role to their foreign counterparts. For example, the spokesmen of the local branch of capital have persistently been advocates of the need to encourage the inflow of foreign capital. An honorary life President of the Lagos Chamber of Commerce and Industry, member of the Nigerian Stock Exchange and 'Chairman of a number of Industrial and Manufacturing Companies',[10] has put forward some propositions concerning how the Nigerian State should treat foreign investors.

TABLE 5.4

Distribution of Equity Holdings in Quoted Companies as at end-year 1985

Type of Shareholders	Number of shares held	% of Total
Individuals	1,175,592,088	36.63
Foreign Investors	1,225,883,300	38.20
Private Pension Funds	39,665,533	1.25
National Pension Scheme	24,715,167	0.77
Life Insurance Companies	68,084,633	2.12
Commercial Banks	2,196,834	0.07
Merchant Banks	5,344,481	0.17
Development Banks	11,006,953	0.34
Official Institutional Investors	241,356,639	7.51
Federal Government	213,215,655	6.64
State Governments	201,963,373	6.29
Local Governments	303,034	0.01
Total Shareholds	3,209,327,690	100.00

Source: Securities and Exchange Commission, *Securities Market Journal*, Vol. 4 (1987) p.43.

They include the following:[11]

(1) We would need to <u>accept the major companies as a fact of life until such</u> a time as Nigeria has reached a point of industrial self-sufficiency;

(2) We would require to adopt a policy of cooperation, ... and <u>eschew a confrontation posture</u> in our dealings with major companies; and

(3) If we wish to acquire and adapt the technologies of the world's industrial nations, <u>we must be willing to pay for them</u> (emphasis, mine).

In a similar vein, the Chairman of UAC (Nigeria) Limited feels that foreign investment has not been accorded the red carpet carpet it deserves, complaining that

> Every succeeding Government has said that Nigeria welcomes and encourages foreign investment but if investment is to increase, there must not only be increased incentives but a stream-lining of the bureaucratic process, as it is believed there are too many regulations hindering the development of new companies.

Furthermore,

> It must be realised that every country in this world is our competitor with regard to attracting foreign investment. It is therefore of paramount importance that we should not only match what we are offering foreign investors but if need be, we should better them. 12.

The emphasis on the scarcity of foreign capital is very common among the Nigerian petty-bourgeoisie. A former Executive Director of the Manufacturers' Association of Nigeria, believes this as he avers that, "Investible funds are worldwide scarce. There is competition among developing and developed nations for these scarce funds ..."[13] Major-General Nwachukwu, as Minister of External Affairs, presumably expressing official stand, is of the same persuasion:

> My Ministry is fully aware that we are in a capital starved world, which has resulted in great competition for the little capital that is available (Giant Strides, Vol.2, 1988, p.68).

All the foregoing, notwithstanding, it would be incorrect to conclude that the Nigerian petty-bourgeoisie is homogenous and share this posture of rabid servility to, and deification of, foreign investment. The Chairman, Technical Committee on Privatisation and Commercialisation (TCPC), Alhaji Hamza Zayyad, is evidently not happy with the role of foreign investors in Nigeria. He forcefully expressed himself as follows:

> I want to say with all seriousness that Nigeria is suffering more for foreign investment than it is benefitting; the amount of looting our economy has gone through from 1973 to date in the hands of so-called foreign investors is really great. People have exploited us in the name of foreign investment. They came with nothing. The only people they had as friends are those in the banking system whom they either bribed or connived with to have their way, all in the name of foreign investment. 14.

Whatever explanation may cover these attitudinal differences on foreign capital among the local capitalists, the Nigerian State has consistently sought to lure foreign capital, in particular, as it promotes the interests of private capital in general. This high hope on foreign capital shows very clearly from the various industrial policies that have been adopted.

5.5.1 Industrial policy and foreign capital

The Nigerian State has never hidden its reliance on foreign investment as the catalyst of the industrial development of the country. It keeps canvassing for the entry of foreign capital. A paid advertisement in an American print medium in 1973 gives a very good picture of its commitment to foreign investment. Specific items of the advertiser's invitation contain the following claims:

(i) Abundant manpower is available at a rate as low as 7 U.S. cents per man-hour;

(ii) There is a stable environment;

(iii) Business is booming ...;

(iv) It is possible to get your investment back in less than three years; and

(v) People are earning huge profits in NIGERIA, why don't you![15]

The following year, on the occasion of the signing of the Investment Guarantee Agreement between Nigeria and the United States, the Federal Commissioner for Industries, Dr. J.E. Adetoro declared:

> We are conscious of the need for attracting investors of the United States into Nigeria. At our present stage of development, there is a great need for promoting industrial growth ... The Investment Guarantee Agreement provides immense opportunities for Americans to invest in the way they understand. 16 (emphasis mine).

The posture of deference to foreign capital has a long history in the country. At the constitutional conference of 1957, the regional governments submitted a declaration affirming their readiness to accord foreign investors very attractive inducements to invest in the economy. By the time the country attained political independence in 1960, a system of incentives described by many observers as very as generous had been provided to foster rapid industrialisation. These incentives are contained in various acts. Phillips' (1977) calculation shows that the Industrial Development (Income Tax Relief) Act of 1958 alone for the period 1958-1966, enabled the beneficiaries, mostly foreign investors, to enjoy a total tax subsidy of about ₦26 million. Independence changed nothing in this regard.

Since independence up to the early 1980s, a strategy of Import-Substitution Industrialisation (ISI) was pursued. It turned Nigeria into a dumping ground for all sorts of projects at exhorbitant cost. The industrial base of the economy remains fragile as private capital has concentrated on quick-yielding and heavily protected areas of light consumer goods such as food and beverages, tobacco, beer and soft drinks, and textiles. The manufacturing sector remains heavily import-dependent as can be observed from Tables 5.5a and 5.5b. At the export end, the contribution of manufacturing is abysmally low. In 1970, manufacturing accounted for less than 5 per cent of exports; by 1985 its contribution had fallen to less than 0.5 per cent of total exports. Crude oil alone accounts for about 90 per cent of the value of exports.

TABLE 5.5a

Nigeria-structure of imports, selected years 1970-1985 (% of total imports)

Year	Food Items	Fuel	Machinery & Transport Equipment	Other Manufactured Goods	Others
1970	8.3	3.2	37.4	35.7	15.4
1975	9.5	2.7	42.0	32.7	13.1
1980	12.8	1.5	40.9	41.3	3.5
1985	16.4	1.2	39.6	38.3	4.5

Source: ECA, African Socio-Economic Indicators, 1985.

TABLE 5.5b

Nigeria's imports, 1984-1988 (₦ million)

	1984	1985	1986	1987	1988
Manufactured Goods	8,460	1,263.5	1,237.1	4,484.8	5,650.2
Machinery & Equipment	1,604.4	1,892.8	2,277.8	6,828.1	10,282.5
Chemicals	656.4	868.9	1,039.0	3,016.6	4,383.0
Miscellaneous Manufactures	171.2	176.0	246.4	680.2	1,080.2
Food & Live Animals	843.2	940.6	802.1	1,873.9	1,948.5
Beverages & Tobacco	10.4	7.4	14.5	30.8	86.0
Durable Consumer Goods	102.1	127.3	302.9	839.5	249.0

Source: CBN, and Federal Office of Statistics, Cited in Union Bank, Economic Newsletter No. 40 (January) 1990; p.9.

More recently, under SAP, the hitherto existing laws designed to attract foreign investors have been refurbished and complemented with new and more seductive ones. The Second-Tier Foreign Exchange Market Decree of 1986 makes for unrestricted access to foreign exchange, enhanced profit and capital repatriation. The Nigerian Enterprises (non-voting equity) Decree of 1987 offers a series of incentives, which include the reduction of withholding tax in respect of the Exchange Control Act.

Other measures aimed at protecting foreign capital include Nigeria's accession to the convention establishing the Multilateral Investment Guarantee Agreement (MIGA) under the aegis of the World Bank, which is designed to minimise the risk faced by foreign investors.[17] The Foreign Currency (Domiciliary Accounts) Decree No. 18 of 1985 also effectively protects any money brought into the country under its terms. For the avoidance of doubt, section 1(7) of the Decree provides that:

> No money imported for the purposes of this Decree shall be liable to seizure or forfeiture or suffer any form of expropriation by the Government of Federation or State

During the official visit of General Babangida to France in late February 1990, he signed a Franco-Nigerian Investment protection agreement which provides for the protection of all new investments for 20 years, and old ones for 10 years.[18]

5.5.2 Industrial sector, foreign capital and surplus extraction

The perverse nature of foreign capital in Nigeria can be seen from its sectoral preference. It has concentrated mainly on light consumer goods producing activities, the services sector (banking and trading) and of course Mining and Quarrying. This perverse involvement constitutes the foundation of the disarticulation of the national economy in which there exists very low intersectoral linkages. The concern of foreign capital has been where the rate of surplus value is higher, where super profits can be made. Manufactured Value Added (MVA) per capita in Nigeria is still only 70 per cent of African average and it is about 35 per cent of the average level of MVA in the 'developing country group' thanks to an "easy" import substitution strategy (UNIDO, 1989:19).

So many advantages have been ascribed to foreign capital in Nigeria that the darker side of it is rarely evaluated. The foreign investor is a profit seeker; that is why, transnational corporations (tnc's) which constitute the quintescence of foreign investment, are identified by some as 'profit hyenas'. We cite Howard Sherman's incisive illustration:

> Suppose the United States invedsts (net) $100 million in (Nigeria) each year. Suppose the profit rate is 25 per cent. By the fourth year $400 million has been invested, so total profit is $100 million. In the fifth year total profit is $125 million, which is greater than the yearly investment of $100 million. For a profit as low as 10 per cent, the same phenomena occur; only profit does not begin to exceed investment until the eleventh year - the result, however, is the same (Sherman, 1972:161).

This is how, between 1970 and 1983, there was a net outflow of capital from Nigeria amounting to nearly $4.00 billion, according to data from the United Nations Centre on Transnational Corporations (UNCTC).

Given the fact that the foreign companies usually raise most of their initial capital from within the economy, this process of capital repatriation constitutes a double loss. One, because of their preference for light and quick return - yielding industries and in particular, trading and business services, the economy's future productive capacity-base is undermined, thereby perpetuating the dependency syndrome under which the economy remains a mere trading post for international monopoly capital. The profit after tax recorded by some of these companies, between 1983 to 1988 is shown in Table 5.6.

Second, and more important, the continued repatriation of substantial proportion of the total locally generated surplus constitutes a serious drain and a drag on accumulation and growth.

In spite of the long presence, technical experience, and the huge profits realised by these transnational companies annually, commitment to local Research and Development (R & D) is minimal. In 1980, when the Securities and Exchange Commission carried out a review of the accounts of 159 of these companies, they found that virtually all of them "made no provision for Research and Development" (Annual Report and Accounts, p.25). But R & D is very vital to the future business life and the declared policy of self-reliance of the nation. There is little prospect for a country to develop technologically without requisite attention to Research and

TABLE 5.6

Profit after tax and dividends declared by selected companies 1983-88(N000)

Company	1983	1984	1985	1986	1987	1988	Average Dividend(%)PAT for 1983-88
1.Berger Paints	1,440 (2,578)	1,440 (2,675)	1,656 (2,794)	864 (1,441)	n.a (6,068)	3,024 (5,128)	57.6
2.Food Specialists(Nig)Ltd.	4,219 (13,043)	2,869 (4,842)	6,750 (11,956)	8,100 (14,314)	16,200 (30,869)	14,175 (21,174)	54.0
3.Guinness Nig. Ltd.	19,034 (31,724)	16,187 (28,106)	22,700 (37,839)	20,280 (33,800)	13,020 (28,040)	n.a	56.7
4.Nigeria Bottling Co.	29,574 (49,402)	32,025 (55,358)	15,727 (26,544)	16,470 (27,567)	29,166 (48,651	62,430 (78,037)	62.8
5.Nigeria Bottling Co.	11,765 (24,241)	13,073 (27,538)	13,073 (24,657)	17,430 (29,879)	11,620 (39,198)	n.a.	47.4
6.Nigeria Tobacco Co.	3,250 (5,481)	5,000 (8,730)	8,250 (13,845)	10,000 (17,248)	13,500 (39,198)	n.a	53.6
7.Sterling Products (Nig) Ltd.	1,697 (2,829)	2,018 (4,041)	3,505 (5,158)	3,016 (5,158)	7,311 (9,134)	3,640 (5,545)	62.4
8.West African Portland Cement Company	6,594 (12,648)	7,114 (16,031)	8,222 (20,729)	10,402 (26,326)		16,281 (40,502)	43.2

Source: Annual Reports of the Companies

Note 1) 1st Row of each column contains Dividend Delared;
2) 2nd Row of each column Profit After Tax; 3) Averages are added by us

Development. In concert with their indigenous partners, the foreign investors pay more attention to the declaration of large dividends instead of reinvestment, for expansion. This is insidious and unhealthy for any economy; it is an unmitigated exploitative arrangement. As the report observed, "the urgency of the need to initiate more spiritedly research and development activities in Nigerian companies is indicated by the fact that imported technology has meant for our locally produced goods, higher unit costs, than the alternative of merely importing the relevant goods into the country". Table 5.6 carries the figures for profit after tax and dividends declared by some of these companies during 1983-1988. One thing stands out clearly from these figures, it is that these companies devote more of their surplus to dividends at the expense of direct and obvious reinvestment. It is pertinent to note that we should regard these declared values as a gross underestimation of the actual surplus being appropriated by the enterprises, through legal, semi-legal, and illegal means including piracy, under the very eyes of the government which creates and guarantees the 'enabling environment'.

5.6 The 'pirate capitalism' thesis

An important feature of Nigeria's capitalist system is that the State is the dominant source of economic surplus. This juridical concentration of surplus - potential and actual - affords those with access to State power an exercise of enormous influence on the pattern of resource allocation. The surplus comes mainly through direct and indirect taxes. The direct taxes include company income tax, petroleum profits tax and personal income tax; excise tax, import and export taxes are the indirect taxes. Both direct and indirect taxes jointly constitute the major source of the Federal government's total revenue. During 1976-1988, direct taxes constituted an annual average of 63.3 per cent of total government revenue. The surplus comes mainly, of course, from the oil sector. The role of the Nigerian State has been essentially that of a rent-collector in the petroleum industry which remains effectively under foreign control. Huge rents, royalties and fees are collected, annually by the government and then deployed according to the whims of the State managers within the context of the configuration of economic, social and political forces in the society.

Beyond financing State assistance programmes in aid of the private sector, such as credit schemes, subsidised estates and other cost-underwriting measures public sector surplus is also appropriated by private interests through various corrupt practices. This elaborate system of private appropriation of public sector surplus is what Schatz (1984, 1988) has described as 'pirate capitalism'.

The wheel of pirate capitalism revolves around the State and its manipulation for private acquisition of income and wealth.

Unlike 'nurture capitalism' (Schatz, 1977) which is geared towards economically productive activities, under pirate capitalism such appropriated surplus is usually diverted to unproductive ends. Instead of going for capital formation, it is drained out of the system. Public sector bureaucrats nurse this system through the execution of costly white elephant projects with little if any, economic benefits. Examples include the Festival of Arts and Culture (FESTAC) of 1977 and the huge, glamorous edifices put up at the Federal Capital Territory in Abuja. Such projects are deliberately sponsored and financed to facilitate primitive private accumulation under the guise of national development. The system operates as a huge network of contracting with heavy in-built of over-invoicing. Public funds are diverted to private pockets by highly placed and not-so-highly placed individuals and connected economic interests. The Assets Investigation Panel set up in 1975 by the Federal Military Government under Murtala Muhammed to look into the stewardship of State Governors came out with reports of high impropriety. The Military Governor of Bendel State, Samuel Ogbemudia, for example was found to have diverted a substantial amount meant for the University of Benin building and other public projects into building a private motel for himself. Several plots of land, developed and otherwise were discovered to be so fraudulently acquired by various other governors and top State bureaucrats.

Since most of these activities are fraudulent, it is normally considered safer to repatriate incomes therefrom resulting in capital flight. Here, capital flight is defined to mean capital outflows outside normal transactions. The reported "loss" of \$17 billion in the country's balance of payment accounts between 1979 and 1983 can thus be explained. Also, it makes sense to assume that a substantial proportion of the huge assets held abroad by private Nigerians came from such illegal activities. These and other related practices characterise and reinforce the development of pirate capitalism.

In the next chapter, we explore the implications of 'pirate capitalism' for the fiscal health of the public sector and the rate of accumulation in the economy.

Notes to Chapter 5

1. V.I. Lenin, Selected Works Vol. 3, p.248; cited in Issa Shivji (1976), Class struggles in Tanzania, London: Heinemann. p.19.

2. Abdurahman Mohammed Babu, in an interview, See Journal of African Marxists No. 11 (June) 1987, p.74.

3. See Joan Robinson in her Forward to Karl Kahn's (1979), Economics and Marxism; London: Macmillan; p.ix.

4. Cited in Nigerian Economist Vol. 3(24) (September) 1990, pp.6-7.

5. Various studies show, quite unambiquously, that historically the Nigerian peasantry has been exploited by the political - administrative class. See, for example, Helleiner (1964); Sara (1984); Watts (1983); and Williams (1985). In particular, See Bates (1981) and Appendix III V.A. of this work.

6. See G.K. Helleiner (1964); "The Fiscal Role of the Marketing Boards in Nigeria's Economic Development 1947-61", Economic Journal Vol. 75(295): 582-610.

7. For example the Report of the American Consortium for the study of the Nigerian Rural Development (CSND) in 1969.

8. See Hans-Otto Sano (1983). "The Political Economy of Food in Nigeria, 1960-1982", Research Report No. 65, Scandinavian Institute of African Studies, Upsalla; Okello Oculi (1979): "Dependent Food Policy in Nigeria", Review of African Political Economy (ROAPE) No. 15/16: 67-74.

9. For an on-the-spot assessment of the impact of the collapse in Ondo State, See West Africa No. 3795 (May 21-27) 1990: 838-9.

10. Chief C.O. Ogunbanjo (O.F.R.) is a founder-member and past President of the Nigerian - American Chamber of Commerce; one of the founder-members of the Nigerian Chapter of the following companies: Union Securities Ltd; Allied Biscuits Company Ltd; Smufit Cases Nig. Ltd; and Autotech. Nig. Ltd. This curriculum vitae, is contained in his book, Nigeria's Economic and Industrial Development - which way out? (1983); the then Vice-President of the Federal Republic of Nigeria, Dr. Alex I. Ekwueme, wrote the Forward to the book.

11. See Commerce and Industry in Nigeria (Official Organ of the Lagos Chamber of Commerce and Industry) January/June, 1979, pp.ii et seq.

12. Chief E.A.O. Shonekan, at a meeting of the Nigeria-American Chambers of Commerce; for excerpts from the paper delivered on the occasion, see New Nigerian, April 13, 1986; p.5.

13. Dr. Uma Eleazu on, "Strategies for Attracting Foreign Investment into Nigeria"; for more of the stuff, See Giant Strides Lagos: VBO International Ltd. 1988; Volume 2, pp.87-92.

14. Interview in Newswatch, April 30, 1990; p.14 titled, "Foreign Investment and the Big Rip - off".

15. New York Times February 4, 1973; cited in Okolo, op cit, p.223 (Appendix A).

16. See Nigerian Trade Journal, Vol. 21(3) (September) 1974, p.30.

17. It is significant that the guarantee offered by MIGA is available to nationals of host countries (as, in this case, Nigerians) who invest in their own countries. The only conditions is that invested assets to be guaranteed must have been transferred from abroad.

18. West Africa, No. 3785 (12th-18th March) 1990, p.425; It will be recalled that the "President's delegation included a number of private businessmen with strategic interests in France" (Concord, March 9, 1990).

CHAPTER 6

CRISES OF ACCUMULATION AND LEGITIMATION IN NIGERIA

The material reproduction of society is the starting point of development. In general, a disturbance of the reproductive process gets transmitted to various aspects and levels of the social formation, engendering crisis and social disequilibrium. In the modern closely, interdependent world, there are two distinct but interconnected levels at which the ensuing crisis may be initiated namely, the internal and the external. This conceptual approach which is adopted here, is particularly appropriate where the social formation is a peripheral, neocolonial one like Nigeria in which the essential characteristics are the typical attributes of under-development. The specific ways in which the pattern of accumulation in the country is affected as a result of its peripheral status within the international capitalist system, is the pre-occupation of this chapter.

The exploration here involves identifying the principal dimensions of the crisis of accumulation, locating the main contributory factors, and establishing the links between this crisis, and the crisis of legitimation which is manifest at the political, social, and ideological spheres of society. Thus, as we shall show, the Nigerian crisis "is not only an economic crisis but also a human, legal, political and social crisis".[1]

6.1 Indicators of crisis of accumulation in the mixed economy

Crisis of accumulation occurs when the condition for the continued extraction and realisation of surplus becomes very unfavourable. The specific causes and manifestations of crisis are dictated by the structure of an economy. In a mature capitalist economy, this crisis usually takes the form of overproduction, in which case there is inadequate demand, leading to lay-offs and a general down-turn in economic activities. That is, when capital loses, or there is a real threat to, its freedom for self-expansion. It is the crisis of accumulation which explains the trade cycles of capitalist economies.

The crisis of accumulation in Nigeria manifests itself in several forms. These include mass unemployment, slow-down in economic growth, balance of payments disequilibrium, and fiscal crisis of the State. Pehaps the most far-reaching results of the crisis is the virtual take-over of the Nigerian economy by the International Monetary Fund and the World Bank, under whose joint aegis the Structural Adjustment Programme (SAP) is being implemented. The crisis took some time to manifest.

During (1950-60) the Nigerian economy was growing relatively rapidly, at 4 per cent per year in real term; its export crops were in high demand and sold at rising prices; on the average 10 per cent of the GDP was saved, while investment grew from about 7 per cent in 1950 to just over 10 per cent in 1955, and to about 14 per cent in 1960 (First Plan, pp.7-8). Gross investment by major companies which in 1954 stood at £11.7 million, rose to £20.5 million by 1959-60, investments by other categories of investors were estimated to be £31.0 million and £52.0 million in 1954 and 1960, respectively. These magnitudes of private investment were due to the efforts of the public sector which laid the requisite infrastructural base (Ibid., p.9).

The growth of the economy remained high until the mid-1960's. For example, the target of £390.0 million fixed investment, set for the private sector in the First Plan, 1962-68, had been exceeded by about 64 per cent in 1966. Up to that time, agriculture remained the backbone of the economy. This, however, already indicated the uneven sectoral development of the economy. For example, the agricultural sector accounted for 65 per cent of GDP in 1962/63 and 63 per cent in 1966/67. On the other hand, industry's share grew from 5.3 per cent in 1962/63 to only 7 per cent by 1966/67. Mining, in which activities got most disrupted during the civil war, but which othertwise hat started witnessing rapid growth, accounted for 1.9 per cent of GDP in 1962/63 rising to about 3.4 per cent in 1966/67 (ibid., p.12). The projected capital expenditure of £3.192 billion in the Second Plan, 1970-74 turned out to be an underestimate, as the private sector alone made a capital expenditure of

£3.1 billion while the public sector's contribution was ₦2.237 billion. Similarly, the actual gross capital formation recorded in the Third Plan, 1975-80, exceeded the planners'projection. Total capital formation amounted to ₦42.289 billion, out of which ₦29.402 billion and ₦12.887 billion came from the public and private sectors, respectively, at an approximate ratio of 2:1. These impressive records of capital investment were made possible, of course, as a result of the oil boom.

The foregoing records of achievement in capital formation are, however, not outstanding when the performance of some other countries are considered. In any case, these absolute figures tend to conceal the serious disproportionalities embedded in the structure of the economy. And, over the past decade the performance has taken a downturn that started in the mid-70s. Indeed, the 1980s turned out to be a 'lost decade' for Nigeria as it was for Africa in general. Thus, between 1965 and 1989, Nigerian's Gross Domestic Savings decreased from 17 per cent to 10 per cent. This compares unfavourably with South Korea's savings which grew from 8 per cent to 13 per cent over the same period; or Indonesia's 8 per cent to 24 per cent, and India's 16 per cent to 21 per cent. Japan maintained a 32 per cent rate of Gross Domestic Savings over the whole period.[2] Combined with, and exacerbating this comparatively low rate of savings and, therefore, investment, is the huge external debt which the country has accumulated, especially over the last decade.

The result of this drastic worsening of the performance of the economy is the imposition of austerity measures which have increased the hardship on the citizenry. It has led to industrial crisis, with 87 trade disputes and 53 work stoppages, in 1986 alone. In the first six months of 1988, a balance of payments deficit of ₦6,599.9 million was recorded, as against ₦2,842.8 million recorded for the same period in 1987. From Table 6.1 we get a picture of the unstable but secular decline in the growth of the economy over the years. For 1975/76-1985, the proportion of capital formulation in GDP dropped from 23 per cent in 1975/76 to just over 9 per cent in 1985, having risen rapidly to 29.4 per cent in 1976/77. This again shows how the rhythm of the Nigerian economy is dictated by events in the petroleum sector, as reflected in the instability of the trend.

It is the earnings from oil that propelled the economy in the early 1970s, when other African countries were engulfed in the international crisis of 1974/78. Thus, the Nigerian economy merely had its base shifted from agriculture to petroleum, without any structural transformation. Given the high propensity to consume of the elite, the huge earnings from oil exports were rapidly expended on the importation of all sorts of manufacture goods. The public

TABLE 6.1

Gross Domestic Product and Gross Fixed Capital Formation in Nigeria, 1975/76-1985

(Current market prices)

Year	GDP (₦ million)	GFCF (₦ million)	GFCF as proportion of GDP (%)
1975/76	21,778.7	5,019.8	23.0
1976/77	27,571.5	8,107.3	29.4
1977/78	32,747.3	9,420.6	28.8
1978/79	36,083.6	9,386.3	26.0
1979/80	43,150.8	9,094.5	21.1
1980	50,848.6	10,841.2	21.3
1981	53,212.5	14,346.9	26.9
1982	53,847.5	12,001.2	22.3
1983	56,204.2	9,273.1	16.5
1984	60,797.7	6,974.1	11.5
1985	67,000.1	6,290.4	9.4

Note: GFCF = Gross Fixed Capital Formation.

Source: CBN, Nigeria's Principal Economic and Financial Indicators, percentages added sector also financed all kinds of unproductive projects, most of which were unviable and merely served as avenues for corrupt private enrichment. The process culminated in the crisis.

The socio-economic crisis started visibly during 1977/79 and the State, characteristically, took panic reaction measures. Import duties payable on an array of goods were hiked, some banned. This mild crisis resulted from a drastic fall in the price and output of crude petroleum consequent upon the 'oil glut' of the period. The import bill continued to rise, leading to a balance of payments deficit and sluggish industrial output. By December 1977, public sector debt had risen to ₦5,001.1 million. The Iranian crisis which coincided with the Second Republic of Nigeria, led to a reduction in the world supply of oil, and so helped to restore some equilibrium in the oil market.

This ameliorated the crisis but for only a short period, until the end of 1981 when oil prices collapsed once more and the crisis burst again, this time on a greater scale. The civilian regime initially denied that there was a crisis until April 1982 when it hurriedly put together the Economic Stabilisation (Temporary Provisions) Act 1982 containing some measures. These measures include: (i) reduction of Basic Travel Allowance from ₦800 to ₦500 per person of the age of sixteen and above, with no allowance for children under sixteen; (ii) pegging the number of pilgrims permitted to perform the Hajj in 1982 at a maximum of 50,000; (iii) reduction of business travel allowance from ₦3,000 to ₦2,500 per annum for registered companies; (iv) the centralisation of the registration for Form 'M' in the Central Bank's Headquarters in Lagos; (v) reintroduction of pre-shipment for spare parts, raw materials and books, and the introduction of pre-inspection for frozen and canned fish; (vi) banning the importation of a number of commodities, including frozen chicken and the upward revision of tariff on 49 other import items as well as imposition of compulsory advance deposits for imports of certain classes; and (vii) the imposition of new rates of excise duty on a number of commodities including cigarettes, towels, fabrics, cosmetics and perfumed, paper napkins, electric fans, locks, bicycles and motor cycles (Central Bank of Nigeria, Annual Report, 1982, pp.6-7).

This development again demonstrated the vulnerability of the Nigerian economy to external shocks, the impact of the collapse of the global oil market had enormous effect on government revenue. For example, the contribution of petroleum revenue as a percentage of total Federal government revenue which previously stood at 75.2, 63.1 and 81.4 per cent between 1977-79 respectively, suddenly plunged to 25.0, 18.4 and 25.2 per cent between 1980-82. Unfortunately, this sudden decline in the level of financial resources was generally believed to be shortlived, as a result, appropriate measures were not accordingly taken immediately to reduce public expenditure; consequently, huge domestic and external deficits were accumulated.

Most industries in the real sector began to experience negative or marginal growth rates. The standard of living took a nose-dive, public sector workers in most States were not paid for six months or longer and there was mass retrenchment. During 1980-83, about one million workers were estimated to have been retrenched from the industrial sector. For instance, in 1980-81, 35,000 textile workers lost their jobs. In 1983 alone, 10,000 workers of the metal industry were retrenched with another batch of 15,000 workers.[3]

However, while the entire 1980-85 period was characterised by rising unemployment, declining productivity and economic hardship, the distributional effect was uneven across the various socio-economic groups. The hardest hit was the urban wage earners whose real income fell by approximately $5\frac{1}{4}$ per cent by 1984 (Central Bank of Nigeria, 1990). Ironically, manufacturers of import based consumer goods were less adversely affected, while middlemen in the distributive trade and services sector thrived. Thus, the adopted policy measures succeeded really only in exacerbating the levels of unemployment, inflation, scarcity of essential commodities and economic hardsip, without making any positive contribution to the national economy. It is against this background that the Structural Adjustment Programme (SAP) was adopted in June 1986. Here, as under previous regimes, the fragile base of the economy and in particular, its disproportionality, was officially acknowledged.

6.2 Disproportionality and agrarian crisis

The economy suffers from three types of disproportionality. There is the basic disproportionality between the mining and non-mining sectors, with the petroleum industry effectively dominating the revenue base of the economy, and the other sectors marginalised. Second, there is disproportionality between agriculture and the rest of the economy. The third type of disproportionality is between the capital goods and consumer goods producing sectors, in which the former lags far behind the latter. Our immediate focus is the second type of disproportionality.

In the recent literature, disproportionality is analysed within the general rubric of the "dutch disease" thesis. The 'dutch disease' is conceived as the phenomenon of neglecting one sector because of another. Corden and Neary (1982) refer to it as "the co-existence within the traded goods of progressing and declining, or booming and lagging sub-sectors". Thus, the emergence of crude oil and its phenomenal growth led to the neglect of other sectors of the economy, especially agriculture. More specifically, the sudden increase in oil income led to a rise in public revenue and an increase in public expenditure; this allowed for increases in wages and salaries in the public sector, producing demonstration effects in the private sector (which predominates in agriculture). The massive investments in the public sector and the accompanying wage increases produced a multiplier effect in incomes which raised effective demand, resulting in high rates of inflation, with adverse consequences on the international competitiveness of agricultural goods (Tobi, 1988).

The acuteness of the peculiar disproportionality in the Nigerian economy can be gauged by the following two observations[9] made in 1966 and 1986, respectively. In 1966, Gerald Helleiner wrote, "Nigerian economic development has been based primarily upon expansion of peasant agricultural production for export". Twenty years later, in 1986, Nigeria's Petroleum Minister observed that, "Nigeria can aptly be described as an oil-related economy with a weak and neglected agricultural sector and a manufacturing sector dependent on imported raw materials". Before the emergence of petroleum as a prime mover of the economy in the early 1970's, agriculture provided the main engine of growth.

In 1960, the sector accounted for 63 per cent of GDP, employed over 80 per cent of the population and represented about 82 per cent of total export earnings. Nigeria's agricultural output started to decline seriously from around 1965, coinciding with the emergence of petroleum as a significant foreign exchange earner. By 1980, the share of agriculture in GDP had declined to 23 per cent, while it continued to employ about 60 per cent of the population, it accounted for only 5 per cent of total export earnings. Between 1960 and 1970, the sector grew at about -0.4 per cent per year, in part because of the civil war effect. But then, this growth compares unfavourably with 12 per cent for industry, 9.1 per cent for manufacturing and 4.9 per cent for services. During 1974-78 and 1973-83, agricultural output declined by 2.5 per cent and 1.9 per cent, respectively. The combined effect of relative stagnation in agriculture and the rising growth in demand turned Nigeria into a major importer of food by the mid-1970. Food imports rose 15 - fold between 1970 and 1978 and the inflation rate for food commodities alone ran at 25 per cent per year up to the early 1980s. In 1978, Nigeria imported 560,000 tonnes of rise, 75,000 tonnes of corn and 1.3 million tonnes of wheat. By 1982 rice imports rose to 600,000 tonnes while the import of corn went up to 400,000 tonnes, with wheat and wheat flour imports rising to 1.7 million tonnes. Thus, while food imports amounted to only ₦57.8 million in 1970, by 1980 the food import bill had risen to ₦1.56 billion. In short, in less than a decade Nigeria turned from a net exporter of agricultural products into one of its major importers in Africa.

There is a temptation to ascribe the agrarian crisis to inadequate financial support from the public sector. A consideration of the expenditure of the public sector, however, gives a different impression. The picture that emerges is that the resultant output does not justify the magnitude of expenditure. For example, during the First Plan, 1962-68, public capital expenditure was ₦52.623 million, rising to ₦8.828 billion in the Fourth Plan, 1981-85, out of which the Federal Government alone accounted for ₦5.4 billion.

From 1970 to 1989, Nigeria secured seven World Bank loans totalling ₦13.968 billion for the development of the agricultural sector alone. Between 1979 and 1988, the National Agricultural and Cooperative Bank (NACB) approved loans worth ₦928.9 million for farmers and people in agro-allied industries. In 1988 alone, the bank approved loans totalling ₦405 million. The Federal Government recently earmarked a total of ₦13.5 billion for the development of 21 projects under its World Bank - asisted ADP's, out of which the World Bank will contribute ₦4.845 billion. At the launching of its 'Green Revolution' in April 1980, the Federal Government released ₦18.3 million for boosting the production of food crops, fish and livestock.

How do we reconcile these huge public expenditures with the poor performance of the agricultural sector? The first point to observe is that some economic interests stand to benefit from

Nigeria being a net importer of agricultural items. From Table 6.2, we observe that the United States for instance, has been a major beneficiary of Nigeria's agrarian crisis. In 1980 alone, Nigeria's net import of agricultural products from there amounted to $274.0 million.

TABLE 6.2

Nigeria's agricultural trade with the United States, 1972 - 80 ($ million)

Year	Agricultural Imports	Agricultural Exports	Agricultural Trade Balance
1972	23	15	-8
1973	41	49	8
1974	82	54	-28
1975	97	31	-66
1976	151	66	-85
1977	212	65	-147
1978	301	112	-189
1979	212	70	-142
1980	348	74	-274

Source: FAO ' *Trade Year Book* 1979.

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Out of the ₦13.968 billion loans secured from the World Bank during 1970-89, ₦1.875 billion was spent on the import of fertilisers alone; the N4.845 billion matching grant which the Bank is providing under the ADP's project will go mostly into the importation of spare parts and payments to consultants. The controversy over the Kaduna State government's resistance under Balarabe Musa, during the Second Republic to the World Bank's terms of participation in the State's Integrated Rural Development Programme helped to expose the pillaging nature of foreign capital in its involvement in the country's agriculture. According to one of the terms, World Bank Technical Experts were to be paid ₦12 million per annum from a project whose total cost was put at ₦100 million (Oculi, 1987). Besides, most agricultural policies are not only poorly co-ordinated, anti-rural biased, but largely irrelevant to the country's developmental requirements.

For example, the peasantry, the actual producers remain effectively marginalised in the processes of agrarian decision making. The on-going policy of local production of wheat, spear-headed by the public sector has been likened to a trap (Andrae and Beckman, 1985). Eleven States of the Federation have embarked on the programme, with the State governments supplying seeds, fertilisers, farm chemicals, subsidized irrigation facilities, as well as organising seminars and workshops for farmers on the best

6.3 The fiscal crisis of the State

The Nigerian State was engulfed in fiscal crisis during the 197/79 and post-1980 crises. Thus since 1980, the Federal Government budget has consistently been in deficit, and its size keeps rising. From a shortfall of ₦901.5 million in 1977, the Federal deficit rose to ₦2.766 billion in 1981, by 1988 it had reached N8.95 billion and in 1989 it jumped to ₦15.226 billion as against the projected deficit of ₦12.4 billion. In the 1990 budget, a deficit of ₦10.8 billion was envisaged, but this actually turned out to be ₦22.3 billion.

Just as the decline in oil revenue during 1977-79 drove Nieria into the Euro-dollar market for a large loan, so did the crisis that riddled the economy in the 1980s drive it into internal and external debts.

6.3.1 External debt crisis and structural adjustment programme

The Nigerian State has, over the years, incurred huge debts, both internally and externally. In 1970, the domestic public debt stood at about ₦1.00 billion, rose to almost ₦6.00 billion in 1978 and then to ₦27.952 billion by 1985. The public internal debt at the end of 1989 stood at ₦47.051 billion with ₦47.031 in 1988, owed to banks and the non-bank public, as shown in Table 6.3. From Table 6.4 we observe that while GDP per capita consistently fell over the period, 1980-85, debt per capita rose. Similarly, the recurrent public expenditure as a proportion of GDP has continued to increase. The major factors in this domestic public debt are the gross neglect of the non-oil sectors particularly agriculture since the oil boom; the rapid expansion of the public sector with its involvement in many unproductive economic ventures in various sectors; execution of massive import-dependent projects; wasteful duplication of programmes; and corrupt inflation of contracts (Olashore, 1987: 6-8). The most durable explanatory factors seem to be a combination of the unstable and declining prices of crude oil as an exogenous factor and, the crisis-ladden dependent capitalist parth of development with its critical motive of corrupt private accumulation.

More ominous for the economy, however, is the country's external debt, the magnitude of which is already reaching alarming proportions, with a negative impact that borders on catastrophe. The current stock of external debt is put at about $36 billion. In the first quarter of 1990, the government spent $997.7 million, representing 43 per cent of the export earnings for the period, on external debt service. Of the N20.81 billion recurrent expenditure of the Federal Government for 1989, N8.8 billion (that is 42.4%) was earmarked for interest payment on foreign loans, and about 30 per cent of the country's total export earnings for the year, went into debt servicing. This results in a net outflow of capital to the

TABLE 6.3

Nigeria's domestic public debt and their sources,

1970-1988 (₦ million)

Year	Central Bank	Commercial/ Merchant Bank	Non-Bank Public	Total
1970	231.7	459.0	380.1	1,070.8
1971	342.6	328.0	447.7	1,118.3
1972	194.3	387.4	419.0	1,000.7
1973	222.4	387.4	541.0	1,061.2
1974	22.2	766.0	478.4	1,266.6
1975	313.7	801.3	563.9	1,678.9
1976	459.7	1,196.8	973.5	2,630.0
1977	1,683.1	1,672.9	1,279.9	4,635.9
1978	3,197.3	1,096.5	1,689.3	5,983.1
1979	2,549.2	2,416.4	2,316.7	7,282.3
1980	2,859.3	2,978.9	2,080.3	7,918.5
1981	6,046.6	2,155.2	3,243.7	11,445.5
1982	8,022.5	3,168.5	3,656.5	14,847.5
1983	11,347.4	5,459.7	5,417.2	22,224.3
1984	10,701.4	8,998.2	5,975.4	25,675.0
1985	11,521.9	10,669.1	5,761.0	27,952.0
1986	17,721.6	5,128.2	5,601.8	28,451.2
1987	19,197.2	8,400.4	9,193.0	36,700.6
1988	28,353.9	7,017.6	11,659.6	47,031.1

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

TABLE 6.4

Selected indicators of public domestic debt and GDP, 1980 - 85

Year	Total Internal Debts to GDP (%)	GDP per Capita	Domestic Public Debt per Capita	GDP Growth Rate	Current Expenditure to GDP
1980	25.0	368.37	93.38	-	19.0
1981	39.0	339.81	131.71	-2.6	17.0
1982	52.0	319.07	166.63	-0.8	17.0
1983	81.0	307.42	249.07	-7.9	42.0
1984	99.0	281.02	279.08	-6.6	38.0
1985	106.0	278.37	293.92	-2.4	46.0

Source: Oladele Olashore (1987): "Nigeria's Internal Debt - Structure and Implications", paper presented to the Workshop on "Public Expenditure Programming in Nigeria", organised by the National Centre for Economic Management and Administration, April 22, - May, Ibadan.

creditor nations of Western Europe and North America. This is a plight which Nigeria shares with other Third World countries. For example, in 1988, the total debt service of the highly indebted countries was $142 billion, resulting in the net transfer of about $50 billion to the industrialised nations.

Nigeria's external debt has grown rapidly since 1977. Table 6.5 shows the country's external debt stock and the growth rate of the stock between 1974, when the oil boom emerged, and 1990, the latest year for which reliable information is available. According to this table, the debt stock was just about $1,274.00 million in 1974, but by 1990, it had risen to $36.068 billion, indicating 25.5 per cent annual rate of growth, implying that the debt stock doubled almost every three years.

The first large external loans taken by the Obasanjo administration in 1977/78 were essentially to finance projects such as refineries in Warri and Kaduna, ports, pipelines and storage tanks. However, the pattern of foreign borrowing changed dramatically during the Second Republic as a substantial prcentage of the loans were for consumption and owed mainly to commercial banks in the London Club of Creditors. Up till 1977, Nigeria's external debt stock mainly composed bilateral and multilateral loans, which were cheaper, and which carried longer maturity and grace periods. Since that date, however, the proportion of official debts has declined

TABLE 6.5

Nigeria's external debt stock, 1974 - 90

Year	Debt ($ million)	Growth rate (%)
1974	1,274	-
1975	1,143	(10.3)
1976	1,906	66.8
1977	3,146	65.1
1978	5,091	61.8
1979	6,235	22.5
1980	8,888	42.6
1981	12,039	35.5
1982	12,908	7.2
1983	18,539	43.6
1984	18,537	(0.01)
1985	19,550	5.5
1986	23,580	20.6
1987	30,893	31.0
1988	31,540	2.1
1989	32,769	3.9
1990	36,068	10.1
Average		25.5

Source: The World Bank, World Debt Tables, various issues

Note: Negative values in parentheses.

substantially while the proportion of loans from private sources has increased phenomenally (See Table 6.6).

As from 1982, trade arrears and loans from the International Capital Market (ICM) constituted not less than 80% of Nigeria's external debt stock. This significant shift in the service-structure of the debt stock is also well reflected in the maturity-structure of the debt. Until 1981, there was no short-term loan in Nigeria's debt portfolio. Short-term loans emerged from 1982 and it represented increasing proportion of the total until 198 when it declined as the Babangida administration attempted to minimise the share of short-term debt in the total debt. However, by 1990, the proportion had again increased such that short-term loan represented 36.8 per cent of the total loan stock.

The effect of the external debt crisis on the balance of payments is direct. Under the current account, there was a net outflow of capital amount to $3.6 billion and $1.2 billion in 1986 and 1987, respectively. In Table 6.7, we find the amounts committed to external debt repayment and what it represents as debt service ratio for 1985-89. This, coupled with the increasing interest rates, erodes the country's foreign reserves, which in turn restricts the capacity to import intermediate inputs for production and capital goods for investment. All these deepen the crisis of accumulation. For example, the value of imports which rose by

TABLE 6.6

Source - structure of Nigeria's outstanding external debt, 1970 - 1989

Year	Percentage Share By Source				
	Bilateral Loans	Multi-Lateral Loans	Trade Arrears	International Capital Market	Other Sources
1970	20.5	7.8	0.0	0.0	71.7
1971	49.5	17.7	0.0	0.0	32.8
1972	47.1	38.8	0.0	0.0	14.1
1973	54.5	38.7	0.0	0.0	6.8
1974	56.7	37.8	0.0	0.0	5.5
1975	57.4	36.0	0.0	0.0	6.6
1976	62.2	31.9	0.0	0.0	5.9
1977	70.5	28.2	0.0	0.0	1.3
1978	16.6	12.2	0.0	50.6	20.6
1979	25.2	10.2	0.0	63.8	0.8
1980	25.9	9.7	0.0	58.4	6.0
1981	28.1	7.8	0.0	56.5	7.6
1982	1.9	6.0	22.5	62.1	7.5
1983	1.7	5.4	40.5	47.5	4.9
1984	2.4	8.7	45.3	41.5	2.1
1985	2.1	7.4	43.1	44.7	2.7
1986	2.8	11.3	30.4	52.4	3.1
1987	2.0	8.7	47.2	40.2	1.9
1988	2.5	7.5	45.7	40.0	4.3
1989	2.5	8.5	36.3	43.4	9.3

Source: Extracted and collated from CBN: Economic and Financial Review, (Various Issues).

TABLE 6.7

Nigeria's External Debt Service, 1985-89

$ million

Year	A Amount used to service debts	B Foreign Exchange Inflow	Debt Service Ratio A/B(%)
1985	3,169.56	7,246.36	43.74
1986	1,635.70	6,696.46	24.43
1987	959.82	3,417.70	28.08
1988	2,004.00	7,404.00	27.00
1989	2,300.00	6,679.00	34.00

Note: All figures for 1985-87 as well as debt service for 1988 are actual. But 1988 earnings and all figures for 1989 are provisional.

Source: CBN: Annual Reports and Federal Goverment Budgets.

47.4 and 42.0 per cent in 1980 and 1981, respectively, declined by an annual rate of 15 per cent from 1982 to 1986. Import compression led to severe reduction in development projects, curtailment of investment and domestic industrial production, resulting in spiralling inflation. With the exception of 1985, real GDP growth rates were negative from 1982 to 1986. Poor economic performance has worsened the unemployment situation and aggravated social problems.

It is these mounting external debts and the consequent large foreign debt service that led to the imposition of the on-going Structural Adjustment Programme (SAP), the counterpart of Ghana's Economic Programme of Recovery (EPR) and SAP in about 33 African countries.

The core of the philosophy behind the Structural Adjustment Programme is the deregulation of the economy. Economic deregulation under SAP centres around three elements; (i) the adoption of a 'realistic exchange rate' policy coupled with the liberalisation of the external trade and payments system; (ii) the adoption of pricing policies which put greater reliance on market forces and less on administrative control, in all the sectors; and (iii) the rationalisation and restructuring of the public sector through commercialisation and privatisation, to reduce public expenditure. These policy measures were expected to rationalise the use of scarce resources, especially foreign exchange, thereby enhance allocative efficiency, promote industrial diversificatio and stimulate domestic production. In pursuit of these objectives, the naira was effectively devalued through the introduction of a Foreign Exchange Market (FEM); imporft and export licensing were abolished; and export promotion drive was initiated; and the economy was further opened up to foreign capital through privatisation and a debt equity conversion programme.

Both the underlying philosophy and more especially the measures undertaken under SAP have been criticised for its economic unrealism and inadequate appreciation of the socio-political consequences. The massive devaluation of the naira has had serious repercussions on the economy because of the sharp increase in the prices of imported intermediate and capital goods required for domestic industrial production. This has led to retrenchment of workers, under-utilisation of industrial capacity and high inflation.

A simulated scenario modelled by the Federal Ministry of Industries in April 1991, at the 1985 exchange rate of N1.11 to the U.S. $, only N301.00 million worth of imported inputs was required. The same inputs would be worth about N2.74 billion in 1991 - that is, imported material inputs have increased 9.108 times. Clearly, this is a growth-stifling strategy; the foreign exchange that industries buy is in itself so expensive that the resulting industrial output is largely priced out of the reach of the vast majority of consumers. This is the source of the crisis of realisation (of surplus value) which Keynesianism seeks to resolve with its theory of effective demand but without requisite attention to the inflationary consequence.

In the 1989 budget speech, the president acknowledged that,

> tight monetary policy ... of the Structural Adjustment Programme has raised the cost of credit. This has seriously affected enterprises with high debt/equity ratios, some of which manage to remain in operation mainly to service debts. Rationalisation of enterprises has resulted in retrenchment and created social problems

By June 1989, the Federal government saw the need to announce a package of measures to ameliorate the social cost of structural adjustment, in the wake of mass anti-SAP protests. This entailed an extra budgetary spending amounting to N494.9 million.

The trade liberalisation policy has not been beneficial because of the protectionist practices of industrialised countries against exports of African countries like Nigeria; and also because of the adverse effects of foreign competition on domestic infant industries. The economy has theefore become a dumping ground for foreign manufacturers. The liberal atmosphere and incentives for foreign capital has added impetus to capital flight.

The Economic Commission for Africa (ECA) has faulted this orthodox SAP on both theoretical and empirical grounds in an alternative package, 'African Alternative Framework to Structural Adjustment Programme' (AAF-SAP), containing three broad policy instruments, namely; (i) strengthening and diversifying production capacity; (ii) improving the level of income and pattern of its distribution; and (iii) maintaining a suitable pattern of expenditure for the satisfaction of needs. These call for land and agricultural reform; allocation of credits to favour the good production subsector and manufacturing of essential goods; selective nominal interest rates which penalises speculation, etc. Since the debt crisis is the harbinger of SAP, its management constitutes a practical challenge.

In order to manage the external debt, succeeding Nigerian governments have instituted various traditional debt management methods. The Buhari regime, for example, employed the counter-trade and "a high debt service posture". The Babangida administration has embarked on SAP with massive defacto currency devaluation to discourage imports, with rescheduling and debt conversion. In September 1989, the bulk of Nigeria's foreign debt was rescheduled, including $12.5 billion to the Paris Club and $5.4 billion to commercial debts, rescheduled over 20 years. But the debt service has kept rising; after all, rescheduling is at best a postponement of the evil day, a mere temporary purchase of time for some policy manoeuvres. The fomer Finance Minister, Chief Olu Falae, recently confessed the irrelevance of rescheduling as an effective debt management tool. The external debts keep mounting because of several factors: capitalisation of interest on the loans; changes in exchange regimes and fluctuation in exchange rates; denomination of the debts in various currencies; and as well as debt rescheduling. It has been estimated that by 1992, over $5.00 billion will be required to service the foreign debt. The former Finance Minister now supports the formation of an African Debtors Cartel, projecting that Nigeria cannot feasibly pay the debts in the future as and when due.[6]

6.3.2 Private accumulation and the economic crisis

One noticeable way in which the processes of private accumulation generate national economic crisis is through the contract system. Every major programme normally turns out to be an avenue for private enrichment as contracts are flagrantly inflated. To cite a recent example, according to the report on the December 12, 1987 Local Government elections, the printing of envelopes was contracted at various prices ranging from 25 Kobo to 55 Kobo per envelope, "depending on the influence of the contractors" when the same envelope was selling between 5 Kobo and 10 Kobo in the open market. The construction of each polling booth was reported to have cost the National Electrocal Commission, N150.00 in most States and N250.00 in Kano State. It was independently estimated that a completed booth should cost between N50 and N60 (Nigerian Tribune, January 4, 1988). In Kwara State, the booths were constructed with grass. In a Government Report,[7] it is acknowledged that,

> Award of a contract has come to be regarded generally in this country ... as a very lucrative transaction. So eager is everyone in the hierarchy of any organisation to engage in the transaction that no matter how perfect and

> corrupt-proof the procedures laid down may appear on paper, some subtle devices are thought out to defeat their purposes ... contracts provide the most popular avenue for acquiring wealth by corrupt and fraudulent means.

Yusufu Bala Usman (1986) and Alkassum Abba et al. (1985) have demonstrated with figures how, under the guise of providing social services, the Nigerian ruling group actually only provide "a convenient cover for those who control the government to make, and enable their business patrons and partners also to make huge profits" (Usman, 1986:40).

This accounts for the high cost of project execution in the public sector. Table 6.8 gives a comparative picture of the cost of irrigation in four West African States, including Nigeria.

TABLE 6.8

Unit cost of irrigation schemes in West Africa, 1977-78

	Country		Cost of Completed Irrigation Scheme per Hectare
1.	Liberia		₦ 250.00
2.	Ivory Coast		500.00
3.	Ghana		1,068.00
4a	Nigeria	(Average)	2,470.00
4b	Nigeria	(Bakolori)	7,540.00

Source: Report of the Ministerial Committee on the causes of the excessively high cost of government contracts in Nigeria, Cited in Abba et al. (1985:31), Y.B. Usman (1986:170).

During 1979-83, the Federal Ministry of Works and Housing alone lost a total of N99.6 million to the so-called mobilisation fees that contractors usually get; another N143.3 million was accumulated as "liquidated damages for project awards" by the Ministry. On the whole, the government has lost about one billion naira through the granting of mobilisation advances and questionable contract awards. This is how the fiscal crisis of the State gets fuelled, ultimately culminating in a genralised economic crisis.

This pattern of private accumulation leads to two main inter-related consequences. One, the budgetary allocation of the public sector is strained and distorted. Inflated costs of public projects constrain accumulation in that sector, and with negative multiplier effects on the rest of the economy. Second, because the contract system is very lucrative, private entrepreneurs prefer the service activities of purchasing and supplying to meet public consumption demands, to the neglect of the productive sectors. Thus, the fragility of the economy's base is not redressed, rather, it is further exacerbated and perpetrated. This should be considered along with the fact that some of these contracts involve imports, as for example, defence and security hardware. These constitute a leakage from the economy, while the foreign trading partners earn the beneficial multiplier effects. As the foreign exchange reserve is depleted, balance of payments disequilibrium results, thereby fuelling crisis in the economy.

The crisis of accumulation is also compounded in particular by the perverse role of foreign capital in the Nigerian economy and the logic of private accumulation in general. For example, beginning from 1988, Nigerian banks were given the freedom by the Federal Government to participate in the equities of non-bank companies engaged in manufacturing or agricultural production, and preferably in Small-and Medium Enterprises (SME's). By May 1990, three foreign-controlled banks, namely, United Bank of Africa, Afribank and First Inter-State Merchant Bank had made investment totalling more than N43.4 million in various companies. But the investments of the three banks have not been in Manufacturing, Agriculture or SME's, in violation of government's policy directives. Instead, they went into merchant banking, oil marketing and trusteeship which they consider more lucrative. The economy is the worse for it.

6.3.3 Corruption in the public sector

One of the reasons behind the difficulty surrounding the study of corruption is the loose way it is often defined, making it so all-encompassing that it loses its capacity to serve as a 'principle of differentiation' (Staats, 1972). Some authors take it on the level of cost-benefit analysis, as if it is a project on its own. Salim Rashid (1981) has even gone ahead to argue that in certain circumstances in the Third World, "corruption is pareto-desirable, provided it can be kept within some limits". Similarly, Steven Staats (1972) in his comment on corruption in the Soviet Union surmises that, "in certain circumstances, corruption on a limited scale may make an important contribution to organisational efficiency and goal-fulfilment".

Samuel P. Huntington's definition of corruption as "behaviour of public officials which deviats from accepted norms in order to serve private ends (Staats, 1972:41), may give the impression that corruption is limited only to the public sector. Leslie Palmer (1978) correctly appreciates the fact that corruption, which is "the use of one"s office for private advantage", "can occur in both State and private office, but the public is naturally more interested in the former". In fact, as Adedotun Phillips (1979:19) tersely put the Nigerian situation, "Corruption has reached dizzying heights in the private sector". Actually, Aina's argument (1982) is that, in Nigeria,

> businessmen ... are the most important cause of corruption in relation to government purchases and sales. Businessmen prefer to encourage corruption because they gain special benefits from the practice. For example, a commodity which is worth N12,000 could be sold N13,200 in order to get an extra commission of 10 per cent of N1,200

In other words, corruption in the public sector simultaneously involves the private sector as well. Whatever the origin, the relevant point is that such corrupt activities, the full scale of which may never be known, contribute to the fiscal crisis of the Nigeria State.

Corruption in Nigeria has become so pervasive that we can dub the economy a system of 'pirate capitalism'. Among the nine-point programme for transition to civilian rule of the Gowon Administration announced on October 1, 1970, was 'the eradication of corruption in our national life'. According to Murtala Muhammed, on his assumption of office in July 1975, the government planned to set up and entrench in the constitution a permanent Corrupt Practices Investigation Bureau. His regime later confiscated fraudulently-acquired properties from some State governors and other officials - but unfortunately these have been fully or partially returned to the culprits.

From the Auditor-Generals' Reports at both Federal and State levels, we are provided with some insight into the scale, albeit the tip of the iceberg of the corruption in the Nigerian public sector. Table 6.9 gives a summary of a dimension of public sector corruption between 1975-88.

All the foregoing is without reference to the more celebrated cases involving the setting up of Commission of Enquiry. During the Second Republic, Nigeria lost conservatively, as much as N12.5 billion in the oil industry through fraud, involving the illegal sale of Nigerian crude oil and refined products. The syndicate

TABLE 6.9

Losses of cash and stores in Federal institutions in Nigeria, 1971/72-1988

Year	No. of Cash Losses	Amount (₦)	No. of Store Losses
1971-72	39	67,846.00	80
1972-73	33	236,604.00	40
1973-74	24	240,196.00	59
1974-75	35	1,228,904.00	74
1975-76	29	177,283.44	69
1976-77	36	296,631.69	39
1977-78	38	531,361.65	52
1978-79	35	376,705.92	27
1979-80	35	571,714.63	45
1980 (April-Dec.)	8	166,551.44	17
1981	24	4,863.243.15	40
1982	21	16,900.253.98	35
1983	18	1,181,547.21	39
1984	20	1,828,806.31	25
1985	13	1,400,667.18	19
1986	13	2,067,571.30	17
1987	25	1,296,053.82	15
1988	26	527,899.82	29

Source: Annual Report of the Auditor-General of the Federation (various years).

culprits involved Nigerians and foreigners. The Irikefe Probe Panel that looked into the allegedly missing N2.8 billion oil money was told of how some ships lifted oil without clearance from the inspectorate division of the Nigerian National Petroleum Corporation (NNPC). A Greek ship, the MV Trans was reported to have illegally lifted 2,300 metric tonnes of Nigerian crude oil from Dawes Island berth in Port Harcourt on September 12, 1983, only to be arrested in Italy. The value of its stolen cargo was put at $1.3 million.

Over the four-year period of the Shagari regime, corruption in the petroleum industry resulted in revenue losses to the treasury amounting to nearly $4.00 billion a year. In addition, another $17 billion was looted from the country's external accounts. Evidently, like what Kameir and Kursany (1985) found in the Sudan, corruption has become a 'fifth' factor of production, a veritable source of income generation in Nigeria.

6.4 Labour and capital, the state and the legitimation problem

In Nigeria, as in all other social formations in which the capitalist mode of production is predominant, capital and labour constitute the fundamental and antagonistic social forces. While capital corresponds to the petty-bourgeois class, labour corresponds to the working people. The objective and essence of capital is continuous self expansion through maximum extraction of surplus in the production process in which labour is the subject of exploitation. Labour endeavours to get its own special commodity, labour power priced high through increased wage rate and general improvements in conditions of service. At the individual enterprise level as well as on the aggregate profits and wages stand in mutual self-negation. An increase in the wage rate, other things constant, depresses the magnitude of surplus value and hence, profit. Similarly, a rise in the rate of profit, other things constant, means a reduction in real wages. The struggle between labour and capital occurs constantly, but most of the time, silently. At times, the contradiction matures beyond immediate containment and the struggle becomes open, as typified by a strike action.

The role of the State in the unending conflict between labour and capital is defined by the very character of the State, which in turn flows from the structure of the prevailing socio-economic system, viz the extant relations of production. In Nigeria, the State is a major employer of labour, hence it constitutes a branch of capital; in this context, the State is very directly involved in the unfolding capital-labour conflict. This inevitably touches on the legitimacy of the State itself - a basic requirement for the continuation of accumulation and the ultimate survival of the economy. There is no known unique formula by which States assert their hegemony, hence accumulation may take place under various forms of State control. For example, in South Korea which has been one of the fastest growing economies in the world of recent times, the overall health and safety conditions of the industrial workers are reported to be critical and worsening. Thus, "Korean workers work longer hours than those of any other country recorded by the ILO. They suffer one of the highest industrial accident rates in the world. Occupational diseases are rampant" (Teal, 1988). Labour movements are surpressed by the South Korean State through the enactment of anti-labour laws as well as authoritarian corporatism and other measures geared towards preventing the development of an independent labour movement whose action may jeopardise investment and capital accumulation.

Strike action or threats of it by workers serves as barometer for gauging the tempo of conflict between labour and capital. Going by the information in Table 6.10, conflict is very real on the Nigerian industrial landscape. Insightful as those figures may be however there are a number of dimensions of industrial conflict which cannot be captured by figures alone. This is yet another instance of the limitation of the neoclassical analytical framework which attaches near-absolute exclusiveness to quantitative measurement to the almost total neglect of the specificity of the socio-political millieu that inevitably determine the quality of industrial relations; hence the more relative alternative, political

TABLE 6.10

Industrial disputes and strikes in Nigeria, 1979-90

Year	Trade Disputes	Work Stoppages	Workers Involved	Man-days Lost
1979	155	755	204,742	2,038,855
1980	355	265	221,088	2,350,498
1981	258	234	323,700	2,218,223
1982	341	253	2,874,721	9,652,400
1983	184	131	629,177	404,822
1984	100	49	42,046	301,809
1985	77	40	19,907	118,693
1986	87	53	151,165	461,345
1987	65	38	57,097	142,506
1988	156	124	55,620	230,613
1989	144	80	157,342	579,968
1990	174	102	254,540	1,339,105

Source: Central Bank of Nigeria, Annual Report and Statement of Accounts (Several years).

economy approach adopted here. In this context, with public sector as the largest single employer of labour, the State is deeply involved in industrial relations. It regulates a wide range of matters relating to labour, part from its privilege to set up independent commissions and establish on-going wage rate including minimum wages. Industrial and other policies of the State affect different social groups differently; hence, the differential reactions to the Structural Adjustment Programme by the State. While some factions of the petty-bourgeoise have hailed the programme, some trade union leaders describe it as 'a curse to workers'. At the continental level, the Organisation of African Trade Union Unity (OATUU) has called on African governments to terminate the programme. In 1980, the Nigeria Labour Congress (NLC), in its Charter of Demand, maintained that:

> It is well known that the "laissez-faire" formula-of development through profit and competition has created growing and unacceptable inequalities ... Government should increase public sector investment in services designated to improve the economic and social infrastructure so as to benefit the workers, farmers and the toiling people of the country ...

This is in direct opposition to the preference of the capitalists for privatisation, the rolling of the public sector back and the enthronement of market forces.

The State is historically anti-labour. For example, under its Amendment to the Trade Disputes Decree of 1976, "any employee who engages in a strike may lose his wages and entitlements during the period of strike". Every subsequent administration since colonial times tends to hold workers responsible for the economic crisis of the country. Routinely, especially under the military, we hear:

> This administration will not tolerate any irresponsible and recalcitrant behaviour among the country's workforce. In the face of the downturn in Nigeria's economy, we cannot afford the loss of productivity arising from indiscipline and disruption caused by strikes.8

There have been instances where public sector workers' salaries were cut or frozen by fiat. As workers were being retrenched since the imposition of SAP, private companies continue to reap super-profits and dividends. This contradiction is an outcome of the collaborative role of the State with capital, to exploit labour; and it belies any claim to neutrality.

In its guides on incomes policy for 1983, the Federal government stipulated that

> no revisions of fringe benefits or introduction of new ones would be valid unless approved by the Ministry of Employment, Labour and Productivity <u>after having satisfied itself that there was enough evidence of improved labour productivity and higher profits in the affected firms</u> (CBN, <u>Annual Report</u>, 1983:9; emphasis mine).

Similarly, in 1984, the government froze increases in wages and salaries in both the public and private sectors, and prohibited a "revision of old or the introduction of new fringe benefits ... except with prior government approval" (CBN, <u>Annual Report</u>, 1984:10). Simultaneously, new incentives are worked out periodically for foreign and local private investors. Thus, recently, the Federal government passed a legislative instrument, the new Investment Code (Benefits to Existing Enterprises) Regulations, 1990 which exempts enterprises imports meant for rehabilitation and expansion, from customs duties and other related charges on plant, machinery, equipment and accessories, for a four-year period, Ist January, 1988 to December 31, 1992. In 1989, the Ogun State government evolved a scheme "to speed up the completion of priority projects, save cost and lessen the contractor's burden" by purchasing building materials, e.g. cement and iron rod, for distribution to contractors at prices lower than the market value. These and other measures help to facilitate private accumulation, either through the weakening of the fighting potential of workers and thereby enhance their exploitability, or through defence and promotion of capitalist interests, or both.

At the political level, the State seeks to marginalise the working class. The politial Bureau set up in early 1986 recommended a socialist ideology preferred by the working class, but the government rejected it. In the transition programme to the Third Republic, as in previous arrangements, the wage earner must resign his appoinment to participate in active politics. In the current dispensation, a public official cannot even be a party member.

SAP has accentuated the hardening of cleavages as the gap between the poor and the rich widens. Small-scale business entrepreneurs are crying under the yoke of high interest rates, their businesses threatened with collapse. There is a generalised feeling of insecurity; the population of beggars roaming the streets increases by the day,

> largely the result of the nation's economic misfortunes ... The several programmes of austerity and adjustment, ... have inadvertently resulted in loss of jobs, reductions in incomes and living standards and aggravated poverty (Concord, Editorial, June 6, 1990).

The fact is, as Harvey Glickman (1988:230) observed, "austerity undermines authority in circumstances where legitimacy in great part depends on distributive capabilities" of the State, opening up "new opportunities for ethnic and class conflict". It may even assume a religious dimension. Suppression of such conflicts may entail the use of force, creating an atmosphere of uncertainty and fear, elements that are least conducive to business and hence private accumulation.

In the Workers Charter of Demands (NLC, 1980:5), there is the awareness that "we the workers of Nigeria (who) by our manual and intellectual labour create the wealth of our country". But there is also the frustration over the fact that,

> There has been ... a tendency, to place emphasis and priority on national projects and pursuits which satisfy primarily the prestige-hunger and show-manship of those at the top as against the basic but essential and urgent needs of the teeming millions of our country-men and women. The result is that the common people had been robbed an opportunity of developing a feeling of belonging and of having a stake in the fate and fortune of the country. A feeling of resentment has, therefore, replaced willing cooperation in the onerous task of nation building (Workers Charter of Demands, p.38).

The Nigerian State evidently has a crisis of legitimacy on its hands.

Notes to Chapter 6

1. African Charter for Popular Participation in Development, (Arusha), 1990, P.17; Onimode (1988:1-2) has conceptualised the crisis on the African (Continental) level within the framework of the problematic of underdevelopment, maintaining that "the crisis is basically structural and historical".

2. See the Nigerian Economist Vol. 3(8)(June 11) 1990, p.21 which got the data from the World Bank representative in Nigeria.

3. Adebayo Olukoshi (1989), "The impact of IMF-World Bank Programmes in Nigeria", in B. Onimode (ed.), The IMF, The World Bank and the African Debt - Vol. 1; London and New Jersey: IFAA and Zed Books Ltd., p.228.

4. Cited in R.A. Akindele and Bassey E. Ate (eds) (1985), Nigeria's Economic Relations with the Major Developed Market-Economy Countries, 1960-1985; Lagos: NIIA, p.54.

5. See, for example, R. Ayo Dunmoye (1989), "The Political Economy of Agricultural Production in Africa - State, Capital and the Peasantry", Development Studies Review, Vol. 3(1 & 2) (June - December), pp.1-14.

6. For details, See Guardian (Lagos) and Tribune (Ibadan), both June 6, 1990.

7. Report of the Working Party on Statutory Corporations and State-owned Corporations, 1968; Cited in O. Oculi (1987).

8. General Muhammadu Buhari, Cited in A. Olukoshi, op cit; p.230.

CHAPTER 7

SUMMARY AND CONCLUSION

This study is designed to redress the observed peripheral treatment given to the role of the State in the process of economic development, within the dominant neoclassical paradigm. In particular, the study has been concerned with exploring the rationality of public sector involvement in the Nigerian economy. Our main objective is to demonstrate that the Nigerian State operates essentially to facilitate private capital accumulation.

Our inquiry took as its point of departure, the framework of the three branches of capital that coexist in a typical peripheral mixed economy: State capital, private local capital, and foreign capital. The format serves as a basis for understanding the development orientation of the Nigerian State viz its perception of the role of the three branches of capital in the process of national development. Though the various policies of the State, including its patterns of expenditure, its true character is apprehended.

7.1 Summary of findings

From the preceding analysis, several findings emerge concerning the relationships, both between the public and private sectors, and between the more visible social forces within the system.

The Marxian paradigm, serves a much more useful tool than the largely prescriptive (rather than analytical) Keynesian framework, for conceptualising the role of the public sector in development. The emphasis of the Keynesian paradigm is more on what the public sector should do instead of what it does; this limits its theoretical usefulness. And this arises from the neutrality of the State implicit in Keynesian analysis. The neoclassical perspective is basically irrelevant to Nigerian-type social reality, in particular, and the contemporary international economic system in general. The fact of asymetrical distribution of power both within and between nations is ignored in the optimality model of the neoclassical analytical framework; bence its implicit assumption of non-power structures and the non-existence of exploitative relationships. It further assumes unrealistically that the State is non-partisan. By contrast, the Marxian perspective, which highlights the class element, facilitates our appreciation of the partisan role of the State and its public sector vis-a-vis national policies.

The study shows that in the immediate post-colonial period, the Nigerian State exhibited an ambiguous relationship with foreign capital even as it consistently declared its faith in the latter. With time, and especially with the heightening of the fiscal crisis of the State, both State and private local capital have become increasingly submissive to the dictates of foreign capital.

The neocolonial orientation of the State, as revealed in its industrial and agricultural policies, has correspondingly accentuated, rather than abated. The agricultural policies of both the colonial and post-colonial governments are found to share similar attributes in their basic thrusts. These policies objectively direct the country's agriculture towards meeting the reproductive requirements of the advanced countries, to the neglect of national requirements; this is the primary explanation for the agrarian crisis. The latest agricultural policies of the government under its Structural Adjustment Programme is firmly within this neocolonial tradition. The huge expenditures on agriculture by the public sector have not been matched by corresponding increase in output, largely because of the disarticulate profile of the economy, and the consequent marginalisation of the majority of direct agricultural producers. The main beneficiaries of these expenditures are by local farmers, foreign agribusiness and their technical experts.

Nigeria's industrial policy also serves mainly to further entrench foreign capital in the national economy. In spite of the indigenisation programme, the influence of foreign capital remains pervasive and equally perverse. Over the years, there have continued to be outflows of capital to the advanced countries of Western Europe and North America. Private accumulation, especially by foreign capital, has become the primary focus of official policy, especially since the 1980s under SAP.

It has become evident that there is a dialectical, organic link between the process of private accumulation, on one hand, and the fiscal deficits of the State, on the other. The economy, with its special network of mismanagement, deserve the label, 'pirate capitalism'. Corruption, inflated contracts, and outright theft of public property are the hallmark of the system.

Evidence was adduced to show that the Nigerian petty-bourgeoisie is not unanimous in its attitude to foreign capital. One faction unconditionally endorsed an increased role for foreign capital, another is suspicious of this role in the development process of the country. It can be inferred from the thrust of the public sector policies that the pro-foreign capital faction exerts a major influence on the structure and process of decision-making in the Nigerian public sector.

Flowing from the neocolonial development orientation of the Nigerian State, is a palpable feeling of alienation among the working peoploe, and this tends to create and compound the crisis of legitimacy for the State. This is because the State exhibits a pro-capital and anti-rural and anti-labour stance.

7.2 Policy implications

The processes of accumulation in the broad twos sectors of the Nigerian economy are conditioned critically by the location of foreign capital and its interactions with State and prival local branches of capital. The policy makers and planners must make this a cardinal reference point both explicitly or implicitly. Since it has been demonstrated that the present role of foreign capital results in the decapitalisation of the national economy, the need to review this role it evident. The fact that government has, with its adoption of SAP, voted for an enhanced role for the private sector and therefore for the foreign capital that dominates the private sector, obviously makes the necessary process of policy reversal difficult. A fresh and more critical reappraisal of the whole programme of SAP and national development, therefore, becomes imperative.

Sectorally, evidence has been marshalled to show that the country's agrarian crisis is less the outcome of natural factors than the logical consequence of the structure of the economy and its management. Hence, broadening the export-base of the economy is quite laudable, but for durable success, it must be pursued as selective export diversification and outside the framework of a dependent adjustment programme. This raises the issue of appropriate technology. The highly capital-intensive agricultural programmes that is used to rationalise the continued domination and effective control of the country's oil sector by foreign transnational companies. If the State must take effective control of this vital sector as it must, a more nationalistic, co-ordinated and long-term programme of subsequent total control of the sector should be pursued.

7.3 Conclusion

The analysis of public sector and private accumulation is inherently multidimensional, and inevitably involved with issues that are central to national development. In a mixed economy, the interactions of the public and private sectors can assume various forms. In the Nigerian case, where the public sector massively subsidises the private sector, where the nature of the mix involves foreign control of the economy, and resulting in persistent repatriation of extracted surplus value, the ensuing crisis of accumulation is easily explicable. But it is not so easily resolvable.

If the dominant faction of the Nigerian petty-bourgeoisie is pro-imperialist, it cannot be relied upon to fashion or pursue a truly authentic programme of national development. In this context, the legitimacy of the State thus becomes contentious. If the Nigerian State has been consistently anti-labour and neocolonially oriented as we have maintained, then the social relevance of the State to the resolution involve so much foreign exchange without proportionate increase in output, needs to be reassessed. This technology question also bears on other sectors of the economy.

In the manufacturing sector, the preponderance of light consumer goods, which reflects the disproportionality problem, spills over into the accumulation process as the country spends heavily on imported capital goods. A vigorous policy of developing the capital-goods sub-sector is overdue. The recent attempt of the World Bank to disuade the government from further execution of the iron and steel project should be seen as part of the imperialist strategy of perpetuating the country's prostrate external and technological dependence. "Learning by doing" is an unfailing strategy.

Technology transfer has been exposed to be a myth; there is urgent need, therefore, for greater and consistent attention to Research and Development (R & D). Currently, the country devotes to R & D much less than the recommended allocation under the Lagos Plan of Action, and this needs to be redressed urgently. Indigenous technology must be revived and developed, and the aid of modern or imported technology that must be adapted to national needs. It is already known that there is undue, usually deliberate mystification, of technology, especially in oil prospecting, exploration and refinery. This mystification of the current crisis becomes programmatic.

In spite of doctrinaire privatisation, there is no blue print for the ideal location of the boundary between the public and private sectors, that is valid for all times without reference to the specific historical context in which the two sectors emerged, developed and must function. The uncritical adoption of the IMF/World Bank - inspired classical rationalisation of minimum government, may reveal, on closer examination, a grand design to make the public sector serve private and large foreign - as opposed to national - interests.

It is contradictory, however, to be celebrating the infallibility of market forces in resource allocation, and refuse to acknowledge that increasingly, in Nigeria, the public sector is being converted into an easier conduit for private accumulation, even as the State is allegedly being rolled back. More critical is the fact that, it is illogical to specify self-reliance as a national objective while concretely working to deepen the dependent status of the national economy as the on-going SAP typifies with its liberalisation theology. Does privatisation lead to greater on less control of the economy by Nigerians? Which social force is best placed, objectively and subjectively to control the commanding heights of national development?

The African Charter for Popular Participation in Development States that "nations cannot be built without the popular support and full participation of the people", but the Nigerian State moves on to alienate the vast majority of the working people. The nature of this State, and hence the specific role of the public sector, and the dynamics of its interactions with the private sector, thus appear destined to remain on the agenda of economic theorising and political struggles for some time to come.

7.4 Suggestions for further research

There are three broad directions in which future research on the topic of this study can be carried out, namely:

(i) The other sectors that are not covered in this study can be incorporated, using our suggested framework;

(ii) More elaborate analysis of the role of foreign capital in Nigeria's accumulation and national development;

(iii) Systematic integration of the analysis of the crisis of accumulation, underdevelopment and political crisis of legitimation or the current worldwide democratic evolution.

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Appendix 1

Public Enterprise Reform in Nigeria

CATEGORY I

ENTERPRISES IN WHICH EQUITY HELD SHALL BE PARTIALLY PRIVATISED

Enterprises	Present Federal Government Holding	Maximum Federal Government Participation as % of Equity (after privatisation)
Development Banks		
Federal Mortgage Bank of Nigeria	100%	Not more than 70% by the Federal Government and its agencies.
Nigerian Industrial Dev. Bank Limited	100%	Not more than 70%
Nigerian Bank for Commerce & Industry Limited	100%	Not more than 70%
Federal Savings Bank	100%	Not more than 70% by the Federal Government and its agencies
Oil Marketing Companies		
Unipetrol	100%	Not more than 40%
National Oil & Chemical Marketing Co. Limited	60%	Not more than 40%
African Petroleum Limited	60%	Not more than 40%
Steel Rolling Mills		
Jos Steel Rolling Mill	100%	Not more than 40%
Kastina Steel Rolling Mill	100%	Not more than 40%
Oshogbo Steel Rolling Mill	100%	Not more than 40%
Air & Sea Travel Companies		
Nigeria Airways Limited	100%	Not more than 40%
Nigerian National Shipping Line Limited	100%	Not more than 40%
Fertilizer Companies		
Nigerian Superphosphate Fertilizer Company Limited	100%	Not more than 40%
National Fertilizer Company Nigeria Limited	70%	Not more than 40%

Appendix 1 Contd.

Enterprises	Present Federal	Maximum Federal Government Participation as % of Equity (after privatisation)
Paper Mills		
Nigeria National Paper Manufacturing Co. Ltd.	86.5%	Not more than 40%
Nigeria Newsprint Manufacturing Company Limited	90%	Not more than 40%
Nig. Paper Mills Limited	90%	Not more than 40%
Sugar Companies		
Savannah Sugar Co. Limited	75.4%	Not more than 40%
Sunti Sugar Company Ltd.	90%	Not more than 40%
Lafiagi Sugar Co. Limited	70%	Not more than 40%
Cement Companies		
Ashaka Cement Co. Limited	72%	30%
Benue Cement Company Ltd.	39%	30%
Calabar Cement Co. Ltd.	68%	30%
Cement Co. of Northern Nigeria Limited	31.53%	30%
Nigerian Cement Company Limited, Nkalagu	10.72%	10%

CATEGORY II

ENTERPRISES IN WHICH 100% OF EQUITY HELD BY THE FEDERAL GOVERNMENT SHALL BE FULLY PRIVATISED
(exclusive of those privatised by the supervising Ministries)

1.	Nigeria Hotels Limited	51%
2.	Dubar Hotels Limited	100%
3.	Aba Textile Mills	70%
4.	Central Water Transportation Co Limited	100%
5.	National Cargo Handling Limited	100%
6.	Nigerian National Fish Company Ltd.	55%
7.	Nigerian Food Company Limited	56%
8.	National Grains Production Co. Ltd.	100%
9.	National Root Crops Production Co. Ltd. and other such food production companies	100%
10.	Nigerian National Shrimps Co. Ltd.	86%
11.	New Nigerian Salt Company Limited	100%
12.	National Fruit Company Limited	–

Appendix 1 Contd.

13.	National Salt Company Limited, Ijoko	100%
14.	Specomill Nigeria Limited	60%
15.	South East Romanian Wood Industries Ltd. Calabar	16.27%
16.	Nigerian Romanian Wood Industry Ltd. Ondo	25%
17.	Nigerian Yeast & Alcohol Company Ltd. Bacita	51%
18.	Nigerian Film Corporation	100%
19.	Opobo Boat Yard	35%
20.	Ore/Irele Oil Palm Company Limited, Ondo	60%
21.	Okomu Oil Palm Company Limited, Bendel	60%
22.	Road Construction Company of Nig. Ltd.	60%
23.	Impresit Bakolori Nigeria Limited	60%
24.	North Breweries Limited, Kano	50%
25.	West African Distilleries Limited	100%
26.	Nigeria Engineering Construction Co. Ltd.	60%
27.	Tourist Company of Nig. Ltd. (Owners of Federal Palace Hotels)	100%
28.	Electricity Meters Company Ltd., Zaria	60%
29.	American International Insurance Co. Ltd.	49%
30.	Guinea Insurance Company Limited	25%
31.	Sun Insurance Company Limited	49%
32.	United Nigeria Insurance Company Limited	42%
33.	United Nigeria Life Insurance Limited	33%
34.	Niger Insurance Company Limited	100%
35.	Mercury Assurance Company Limited	40%
36.	Crusader Insurance Company Limited	49%
37.	Royal Exchange Assurance Company Limited	49%
38.	NEM Insurance Company Limited	47%
39.	Law Union & Rock Insurance Company Ltd.	39%
40.	Presige Assurance Company Limited	49%
41.	British American Insurance Company Ltd.	49%
42.	West African Insurance Provincial Co. Ltd.	40%
43.	Kaduna Abattoir & Kaduna Cold Meat Market	N/A
44.	Ayip-Eku Oil Palm Company Limited	60%
45.	Ihechiowa Oil Palm Company Limited	60%
46.	Sokoto Integrated Livestock Company Ltd.	80%
47.	Motor Engineering Services Company Ltd.	100%
48.	Flour Mills of Nigeria Limited	12%
49.	Nichemtex Industries Limited	10%

CATEGORY III

PARTIAL COMMERCIALISATION

1. Nigerian Railway Corporation
2. Nigerian Airport Authority

Appendix 1 Contd.

3. National Electric Power Authority
4. Nigerian Security Printing & Minting Co. Ltd.
5. Anambra Imo River Basin Development Authority
6. Benin-Owena River Basin Development Authority
7. Chad Basin Development Authority
8. Cross River Basin Development Authority
9. Hadejia Jama'are River Basin Authority
10. Lower Benue River Basin Development Authority
11. Niger Delta Development Authority
12. Niger River Basin Development
13. Ogun-Oshun River Basin Authority
14. Sokoto-Rima Basin Development Authority
15. Upper Benue River Basin Development Authority
16. National Provident Fund
17. Ajaokuta Steel Company Limited
18. Delta Steel Company Limited
19. Nigerian Machine Tools Limited
20. Federal Housing Authority
21. Kainji Lake National Park
22. Federal Ratio Corporation
23. Nigerian Television Authority
24. New Agency of Nigeria

CATEGORY IV

FULL COMMERCIALISATION

1. Nigerian National Petroleum Corporation
2. Nigerian Telecommunications Limited (NITEL)
3. Associated Ores Mining Company Limited
4. Nigerian Mining Corporation
5. Nigerian Coal Corporation
6. National Insurance Corporation of Nigeria
7. Nigerian Re-Insurance Corporation
8. National Properties Limited
9. Tafawa Balewa Square Management Committee
10. Nigerian Ports Authority

SOURCE: Guidelines on Privatisation and Commercialisation of Government Enterprises.

Appendix II

Proceeds Collected as Privatisation Revenue as at November 30, 1990

(Naira)

Enterprise Privatised	Gross Proceeds	Expenses of Sales	Net Proceeds
Flour Mills of Nig. Ltd.	6,240,000.00	1,097,943.71	5,142,056.29
African Petroleum Ltd.	32,832,000.00	1,786,574.77	31,045,425.23
National Oil & Chemical Marketing Company Ltd.	33,600,000.00	1,950,951.43	31,649,048.57
United Nigeria Insurance Company Ltd.	17,568,000.00	1,370,461.65	16,197,538.35
Federal Ministry of Agric. (Proceeds of Privatisation Prior to TCPC)	18,604,497.11		18,604,497.11
Sales of Infected Cattle at Mambila Cattle Ranch	18,273.80		18,273.80
Nigerian Yeast & Alcohol Manufacturing Co. Ltd	3,213,000.00	621,093.50	2,591,906.50
Ashaka Cement Company PLC	39,000,000.00	2,252,854.58	36,747,145.42
Niger, NEM & WAPIC	8,678,283.90	1,029,964.05	7,648,319.85
BAICO, Law Union, Guinea Crusader & UNLIC Insurance	11,338,324.50	811,443.87	10,526,880.63
The REAN, AIICO, Orestige and SUN Insurance Companies	25,853,125.00	1,418,227.08	24,434,897.75

Appendix II Contd.

Enterprise Privatised	'Gross Proceeds'	Expenses of Sales'	Net Proceeds
The Okomu Oil Co. Palm PLC	17,139,006.88	1,403,438.82	15,735,568.06
RBDA Non-Water Assets	18,576,005.37		18,576,005.37
Subtotal	232,660,516.56	13,742,953.46	218,917,563.10
Interest Earned to Date	15,631,652.94		15,631,652.94
TOTAL	248,292,169.50	13,742,953.46	234,549,216.40

Source: Technical Committee on Privatisation and Commercialisation, Fifth Progress Report. Lagos, The Presidency. November 1990, P.8.

Appendix III

Value of Nigerian Producers Export Products Appropriated by Marketing Boards, 1947-1977 (as % of International (f.o.b.) Price)

Year	COMMODITY				
	Groundnuts	Cocoa	Cotton	Palm Kernel	Palm Oil
1947-48	36	35	-	64	62
1948-49	52	39	-	40	46
1949-50	58	29	-	42	39
1950-51	56	37	84	36	39
1951-52	45	34	83	45	36
1952-53	58	32	84	41	40
1953-54	52	30	83	38	-17
1954-55	49	51	80	31	3
1955-56	39	34	80	32	19
1956-57	48	29	80	34	38
1957-58	44	24	78	32	40
1958-59	35	52	76	37	33
1959-60	34	42	72	52	43
1960-61	46	38	75	53	37
1961-62	42	48	80	40	41
1962-63	49	41	82	46	47
1963-64	52	43	81	52	46
1964-65	52	11	79	54	52
1965-66	53	55	79	55	55
1966-67	50	55	77	49	46
1967-68	54	60	76	52	45
1968-69	59	64	73	55	9

Appendix III Contd.

Year	COMMODITY				
	Groundnuts	Cocoa	Cotton	Palm Kernel	Palm Oil
1969-70	60	55	68	41	9
1970-71	63	50	64	48	51
1971-72	63	38	54	26	44
1972-73	65	42	57	59	NS
1973-74	58	50	NS	60	NS
1974-75	50	37	NS	48	NS
1975-76	17	28	NS	-50	NS
1976-77	-20	34	5	-30	NS

Notes: (1) NS means No International Sales for the Year.

(2) Negative Value means The Producers were paid above the International Price by the proportion of the accompanying figure.

(3) The figures for 1965/66 - 1968/69 are the averages two Independent Calculations (Onitiri - Olatunbosun; The World Bank) (see source).

Source: Calculated from, Richard H. Bates (1981). Op cit. Appendix B.

15. ANTICIPATED AND UNANTICIPATED GOVERNMENT EXPENDITURE ON INFLATION RATE: