ILLUSIONS AND SOCIAL BEHAVIOUR

Inaugural Lecture delivered at the University of Ibadan
on 9th March, 1978.

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1978

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First published 1980

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ISBN 978 121 076 1

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ILLUSIONS AND SOCIAL BEHAVIOUR

Mr Vice-Chancellor, Deans of Faculties, Distinguished Ladies and Gentlemen.

IT is a great pleasure for me to have been called upon to deliver an inaugural lecture on behalf of the Faculty of Social Sciences as part of the 1977—78 inaugural lecture series. In accepting the intivation, am fully conscious of the fact that I would be the second Professo of Economics to participate in the new series since they were instituted in 1972—73. And I do so with all academic humility.

My predecessor in office took advantage of the occasion of his Inaugural Lecture five years ago to give a comprehensive history and review of the Department of Economics and of its impressive record of progress and creditable achievements. I am happy to report that the Department has continued to make progress, ever since, and, that, building on the very solid foundations inherited from our 'founding fathers', we have blossomed into one of the best on the African continent. Professor Ojetunji Aboyade is already well known in this country as a first class economist and as the dynamic Vice-Chancellor of one of the country's Universities; but it is particularly in respect of his contributions as the first Nigerian Head of the Department of Economics of this University and, in many ways, the architect of the Department in its modern form that I wish to acknowledge and pay tributes to him on this occasion.

When I joined the academic staff of the Department, thirteen years ago, in December 1965, Mr. Vice-Chancellor, there were two visiting Professors of Economics, both Americans, and eight other members of staff, of whom only four were Nigerians. The current academic staff of twenty is entirely and wholly indigenous, and at least thirteen of this number are former students of the Department and products of its programme of postgraduate training and staff development. Apart from graduating an ever-increasing number of students for the Bachelor of Science degree in Economics, we currently offer a sub-degree professional diploma in Statistics, a virile postgraduate programme and are about to embark on a new programme of post-graduate professional training in Business Administration, all within the umbrella of the Department of

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Economics. In this regard, I am inclined to agree with those who have argued that, at Ibadan, ours is more of a School of Economics than a Department of Economics. I have had the privilege of watching the continued development of the Economics discipline at Ibadan in the last six years or so and the good fortune of working with good, capable and devoted staff as colleagues in the cause of progress of the Department. Mr Vice-Chancellor, all this is merely by way of a short preamble, however.

In coming to grips with today's lecture, I should perhaps start by emphasizing the obvious: that the world in which we live is full of illusions. And, indeed, there are some who will argue that illusions are as old as mankind itself. For, as long as man's perception of himself and/or his environment is faulty and involves delusions or false irrational beliefs which are opposed to, or constitute gross distortions of reality, there will always be illusions. To say, therefore, that social behaviour is predicated often on illusions is probably not saying much that is novel or spectacular. What is important, in essence, is the nature of illusions, their distance from reality and the steadfastness with which they are maintained in spite of contradictory evidence or experience.

In my choice of the topic 'Illusions and Social Behaviour' as the theme of this lecture, I have decided to follow simply in the tradition of my predecessors in the Faculty of the Social Sciences. That tradition had usually conceived of occasions such as this as providing a unique opportunity to reflect on matters which, though of philosophical and academic interest, are of momentous importance and contemporary concern to the wider society as well. With almost two decades of development planning behind us, the end-result of which is largely a catalogue of disappointed hopes and unfulfilled expectations, it seems to me that there is no issue more pressing for us today as a nation than that of providing insights as to why we have performed so poorly. And illusions would seem to me to be one of the key factors.

Illusions have indeed always occupied a central place within the explanatory framework of such social science disciplines as sociology, social psychology and political science. In political science, for example, some of the very strange behaviours of Kings, Presidents, and Emperors have through the ages been explained largely on grounds of some messianic illusions of power and/or grandeur, or the illusion of divine rights. The psychologists

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see in visual illusions a ready tool for the analysis of socio-psychological disorders and aberrations. The sociologist, and even the human geographer, see in the illusions that individuals or groups of individuals have a better social life in the cities as one of the prime causes of rural-urban migration, and the disillusions which often follow as a root-cause of some of the social vices and alienation for which many of the overcrowded cities of the world are noted.

Mr. Vice-Chancellor, although I am a social scientist, I lecture here this evening not as a geographer or psychologist, not as a sociologist or political scientist, but as an economist, and I hope you will readily understand if, in the course of this lecture, I have chosen to confine myself mostly to that sub-set of social behaviour known as economic behaviour rather than attempt to embrace the whole gamut of social behaviour. I have no doubt, however, that much of what I have to say about economic behaviour is of relevance to social behaviour as a whole. Hence, "Illusions and Social Behaviour".

II

Obsession is admittedly an occupational disease of the economist, but illusions have never been one of such obsessions. This is understandable since the assumption of rationality is central to the core of economic reasoning, and the 'economic man' is assumed to be free of illusions. The real world of economic phenomena is an extremely complicated sub-terrain, saturated with a mass of data, ranging from the meaningful to the not so meaningful, and it has always being the job of the economist to make meaning of this morass of data and impose order on it. And, in the process of explaining various aspects of human behaviour, the economist has found it necessary to attempt to reduce the complexities of the real world to manageable proportions either by means of theoretical abstractions or by means of statistical methods. But, whatever the methodology, one enduring assumption in economics and, therefore, of economists is that of rationality, and nowhere is this more evident than in the realm of consumer behaviour.

The postulate of rationality is indeed the customary point of departure in the theory of consumer behaviour. According to this theory, a consumer attempts to allocate his limited money income

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among available goods and services so as to maximise his satisfaction. For each consumer, a rank ordering of the bundles of goods available within the commodity space is established both by his fixed money income and by relative commodity prices. As a rational human being, he must select the most preferred bundle of goods in the commodity space, given his budget. These are the combination of goods from which he derives the highest level of satisfaction. True enough, his income is limited, and he is not able to purchase unlimited amounts of all commodities. But his basic problem, within this constraint, is essentially one of maximization.

From the analysis of utility maximization, demand curves can be and have indeed been derived, and one of the presumed properties of such demand functions is that they are homogeneous of degree zero in prices and money income, i.e., if all prices and money income change in the same proportion, the quantity demanded remains unchanged. This is the famous postulate in economics, knowns as the *homogeneity postulate*, a terminology derived from the mathematical expression for a relationship in which a proportionate change in all independent variables has no effect on the dependent variable. The classical and neo-classical economists not only subscribed to the no-money illusion assumption of the homogeneity postulate, they incorporated it also into their labour market equations. According to the classical economists, the demand for labour as well as the supply of labour are a function of the real wage rate, and it is this specification of the labour supply function which constitutes one of the radical points of divergence between classical and Keynesian macro-economics.

The origin of the concept of money illusion or, rather, the positive assertion that people suffer from money illusion is traceable to Professor Irving Fisher in a book titled *The Money Illusion*, and published half a century ago. In its original formulation, Fisher maintained that money illusion exists in a persistent "failure to perceive that the dollar, or any other unit of money, expands or shrinks in value" and the corrollary tendency to speak as if prices of commodities all happen to rise or fall at the same time by coincidence. We simply take it for granted that a dollar is a dollar, that a franc is a franc (and may I say in the context of the Nigerian society of today, that a naira is a naira) that all money is stable, just as centuries ago, before Copernicus, people took it for granted that this earth was stationary, that there was

really such a fact as sunrise or sunset. We know that sunrise and sunset are illusions produced by the rotation of the earth around its axis, and yet we still speak of, and even think of, the sun rising and setting" (Fisher, 1928, p. 4). According to Professor Fisher,

> we need a somewhat similar change of ideas in thinking about money. Instead of thinking of 'a high cost of living', as a rise in price of many separate commodities which simply happen, by coincidence, to rise at the same time, we should accept instead that it is really...the money unit which varies. (Fisher, 1928, p. 4).

Here, the concept of money illusion is used to refer to ignorance of price-level variability and the inability to see through the "veil of money" to real magnitudes. Thus, by definition, an individual is said to suffer from money illusion if an increase in his monetary means causes him to feel better off and spend more regardless of what has happened to prices. For such an individual, the excess-demand functions for commodities will not depend solely on relative prices and real wealth, inclusive of initial real balances (Patinkin 1956, p. 22); and higher money wages are always considered a good thing regardless of what is happening to prices.

The concept of money illusion is also widely believed to have featured later in Keynesian economics which was propounded eight years after Fisher first wrote about it. According to Keynes, the demand for labour, but not its supply, is a function of the real wage rate. Workers bargain for money wages rather than real wages, and whilst they will normally resist a reduction in money wages, it is not their practice to withdraw their labour whenever there is a rise in the price of wage goods (Keynes, p. 9). From this explicit postulation of worker acquiescence in declining real-wage rates concomitant with a rising price level, several money illusion interpretations of the General Theory have been made even though the term itself is nowhere to be found in the book (Aschheim, 1977, p. 323 - 327). Keynes' treatment of the demand for money, i.e., the speculative demand function, has also been interpreted as containing elements of money illusion as reflected, for example, in the assumed tendency on the part of individuals to react to changes in money balances even when these changes are accompanied by equivalent changes in prices. Thus, while the doubling of both the stock of money and prices should reduce the

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demand for real speculative balances, some proportion of the increased money supply will seek an outlet in the purchase of bonds, thereby permanently depressing the rate of interest (Patinkin, 1976, p. 119).

Although the concept of money illusion has featured more prominently in the discussion of consumption theory and has been more critical in describing individual and household behaviour, with regard to the commodity and financial markets, there is no reason why it cannot analytically be generalised and extended equally to the realm of group behaviour, involving such corporate units within the economic system as business enterprises and the government. Firms, no less than individuals or households, can be assumed to be subject to or free from money illusion depending on whether or not their supply and demand functions are dependent on or independent of relative prices and the real value of assets.

In all, the role of money illusion brings about an interesting symmetry in which its presence is as crucial as its absence concerning some aspects of theoretical analysis in economics. But the relevant empirical question to ask at this stage, Mr. Vice-Chancellor, is the applicability of illusions to the mode and tenor of economic and social behaviour in our society. The postulate that people suffer from money illusion certainly implies a relevant and empirically testable restriction on economic behaviour. It means that individuals or groups may behave as if they were richer (or poorer) in terms of real income or wealth even though their money income and prices might have risen (or fallen) in the same proportion. The central thesis of this Lecture is that the main strands of socio-economic behaviour in Nigeria have been overwhelmingly dominated by an interplay of illusions. The money illusion, the buoyancy illusion, the planning illusion, the naira illusion, the manpower illusion, the foreign exchange illusion, the contract illusion, the development illusion, the illusion of figures - all these have had their field day in the arena of socio-economic behaviour in this country. If, in the course of this Lecture, the primary focus is on the behavioural consequences of only a few of these illusions, and mainly, in as much as they relate to the public sector, it is principally because the illusions are themselves often inter-related in their manifestations, and are more dramatically illustrated by reference to the behaviour of public sector institutions.

III

Given the dynamics of wage-price adjustments in Nigeria, whereby only marginal, if any, net gains accrue to wage and salary earners from the exercise of wage reviews, it is easy to conclude from the enthusiasm shown by the Nigerian working population for the exercise of general wage and salary increases that they suffer from money illusion. Quite apart from the impact of higher wages and salaries on labour costs as components of production costs, general wage and salary awards are known to have a veritable *announcement effect* on prices in Nigeria. No sooner is there a declaration of intention to grant general wage and salary increases than prices of goods and services jump up in anticipation, often out of proportion to the proposed or expected awards. When the awards are eventually paid, the consequent increased demand arising from them usually leads to even further increases in prices, while the price increases in turn give rise to further distortions. By manipulating the prices of goods and services, Nigerian entrepreneurs, the speculators among them in particular, often succeed in taking back much of the increased wages and salaries which have been handed out to workers in the first instance. In this regard, the role of market women, the landlords and the distributors of essential commodities as agents of the announcement effect of wage and salary increases on the price level is particularly significant.

Nigerian workers, it would appear, are in apparent ignorance of the circular behaviour of wages, costs and prices and, in consequence, often demand and, when they get it, rejoice at new rounds of wage increases which in reality bring them little or no real increase in standards of living. Nowhere is this more exemplified than in the jubilations and euphoria of "we have never had it so good" that followed the Udoji awards.

The recommendations of the Udoji Commission were in themselves extravagant and overgenerous in many aspects, but the Military Administration at the time, given its waning popularity simultaneously with its apparent desire to extend military rule beyond 1976, decide to enlist public support by outdoing that Commision's recommendations. The result was that wage and salary earners in the public sector had their salaries and money wages doubled or trebled overnight, with stupendous arrears, while substantial increases in wages and salaries were also

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promptly applied in the private sector. Predictably, price increases followed sooner than later but, because of money illusion, the immediate effect of the Udoji awards was to encourage individual wage and salary earners to live and want to live more expensively than before. Under the illusion of a larger pay packet, Nigerian workers inundated the consumer-durable goods market with unparallelled demand. The electrical applicances and electronics market was probably the worst hit, and examples abound of Nigerians who, in the process, had acquired television sets, fans, radios or some other electronic gadgets only to be forced to sell at half the purchase price a few months later in order to make ends meet. The forces of money illusion were short-lived, in this particular case, but not until some severe structural harm had been done to many families and households.

The major lesson arising from the fore-going is not that the main corpus of economic science no longer provides insights into economic processes simply because they are developed on the assumption of an illusion-free world, but that we recognize, more explicitly, the limitations of the behavioural assumptions often made in the process of abstraction and generalisations in the social sciences. In economics, the *ceteris paribus* stance of pure theory is always such that we need to move on to applied theories and further empirical studies in the process of designing specific policies to influence or guide social behaviour.

IV

Mr. Vice-Chancellor, there is another dominant illusion to which the Nigerian body politic has been enslaved, particularly in the planning context. This is the "buoyancy illusion". Briefly defined, the buoyancy illusion consists of the mistaken identity of mere financial buoyancy or newfound riches with economic buoyancy, and the interpretation of such a fantasy or 'magical influx of wealth' as a sufficient pre-condition for the take-off into self-sustained economic growth. The illusion is of recent origin in Nigerian history, both in its causation and in the weight of empirical relevance. It dates back only to the 1970s and is not to be confused with the boom in the export of primary products of the 1950s

Before the Nigerian civil war, and even during the initial period of post-war reconstruction, finance was seen and identified as the

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major constraint to development planning. In the First National Development Plan, for example, public sector programmes, in spite of their modesty, were expected to be constrained by an uncovered gap of a substantial magnitude, amounting to some ₦127.4 million. Even the Second National Plan was drawn against a background of fear of resource shortages. The economy had only just emerged from a civil war, and there was an immediate need not only to rescue the economy from the economic abberrations and defects arising from war disasters and ravages, but to evolve also a new basis for development. The prospects of oil were at that time certainly brighter than before, but OPEC had not acquired the pre-eminence that it did a few years later as a cartel, and the view that was generally taken of the petroleum resource by planners at the time was that of a wasting asset, which should not be relied on as the engine of growth. According to the Second National Development Plan (p.135),

> an unregulated activity in the mining sector could lead to a situation where, because of current limited absorptive capacity, the country misses the opportunity to optimise the returns from a process of rapidly extracted mineral resources, while in the future with better absorptive capacity, the returns are then no longer there because the resources have been exhausted. The Government would strive for an optimal trade-off between the desire for an immediate utilization of the commercially valuable mineral resources and their rates of extraction. The Plan document went further:
> 'This is particularly true of crude oil mining. Unless a judiciously formulated policy is adopted and followed, the country will suffer seriously from what is fast becoming an oil illusion ... It is often forgotten that oil is an expendable resource, and that the more it is exploited, the less there is for use in future...

Mr. Vice-Chancellor, that was in 1970.

By the time it came to formulating the Third Plan, however, Nigeria was already in the grips of the buoyancy illusion. While observing that quite often, the development of most developing countries was hampered by a trinity of constraints: savings, foreign exchange and executive capacity, Nigerian planners, blinded apparently by the phenomenal revenue increases of 1974 and 1975, had come to believe that, in the case of Nigeria, there will be no

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savings and foreign exchange constraints to the development efforts during the 1975-80 plan period and beyond. Even their recognition that "manpower or executive capacity remains a bottleneck to the development of the nation" was meant to operate more as a guide to policy measures and institutional building for subsequent manpower training and development rather than as a constraint on the size and composition of public sector programmes in the Plan. In the event, the nation has been stampeded into yet another illusion, *the Man-power Illusion,* whereby proliferation of institutions of post-secondary education in the country is equated with manpower development. That education is at best only one input or element in the matrix of manpower training and industrial discipline and culture required for manpower development is demonstrated, however, by the fact that while more and more Nigerians are getting educated and, may be, even over-educated, the critical manpower bottlenecks have remained as ever.

Between 1970 and 1973, the importance of petroleum mining in Nigeria had substantially increased and the sector was seen and accepted by many to have become the main engine of growth and the one that would launch the country into an era of unprecedented prosperity. The combination of increased production and increases in the price of crude petroleum products brought this about. During the 1975-80 plan period, the expectation of the planners was that petroleum would account for about 40 per cent of our GDP and contribute approximately 85 per cent of foreign exchange earnings and government revenues. From a production rate of 0.77 million barrels per day in 1963, production of crude oil had risen to 2.0 million barrels per day in 1973 and this was expected to rise further to 3.0 million barrels per day by 1979-80. With oil revenues expected to accrue in such unprecedented proportions, there was an obvious need to utilise the money fast before inflation eroded its value.

It was probably with this deep sense of monetary dynamics that Nigerian planners came to the conclusion that the main strategy of the Third Plan should be to expand development efforts along all lines. What was forgotten was that the pressure of a steeply increased aggregate demand associated with the process of internalising development through the use of rapidly increasing oil revenues would necessarily by itself fuel inflation at home if and

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when it was out of step with the nation's absorptive capacity. Whilst the basic planning problem of the first half of the 1970s was seen as that of moving an economy that had recently gone through the crucible of a long and wasting civil war on to a new basis for development, the objective of the Third Plan was seen essentially as moving the economy on to a new level of development through the use of a seemingly inexhaustible reservoir of oil funds. And the bigger the Development Plan, the better it was thought, particularly since the burden of financing the component programes and projects had been so deceptively lightened, almost to the point that many policy makers were beginning to see it as a zero burden. Such that even when the opportunity for plan revision presented itself in 1976, following the change of leadership in the military government, the overall size of the Plan, rather than diminished, further increased from ₦30 billion to ₦43.3 billion.

The idea of a massive and accelerated rate of investiment through state intervention as a means of promoting economic development is not without support in economic development theory. According to the "stages-of-growth" theories of the 1950s and 1960s, the chief proponent of which was Professor Rostow, the main constraint or obstacle on development was the relatively low level of new capital formation or investment, and the trick of economic development was simply a matter of how to increase savings and investments. Since, by some Providence, there was the massive accrual of savings and foreign exchange earnings from oil revenue, the task of development in Nigeria, according to this theory, would simply be interpreted as that of accelerated investments. The behaviour of Nigerian planners is also explicable by the "Big-Push" theory propounded by Professor Rosentein-Rodan some years ago. According to this theory, a high initial amount of social overhead capital is required for development to take off, and accelerated investment is therefore a necessary tool of economic development. The same can be said of the theory of unbalanced growth", in terms of the blessings and approval that it seems to confer on the Nigerian development strategy embodied in the Third National Development Plan. One of the crucial roles of the state in the theory of unbalanced growth, as propounded by Professor Hirschman, is to deliberately induce disequilibria as a means of stimulating economic growth, and Nigerian planners could rightly claim that, that was precisely what they set out to do

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in the Third National Development Plan. But the repairing of disequilibria is equally, also, according to the same theory, another vital role of the state in the development process.

The criticisms of the "Stage-of-Growth", "Big-Push" and "Unbalanced Growth" theories are well elaborated in the literature on development. It is sufficient for our present purpose to indicate that they provide a weak pivot on which to hang the development question, and should in no way be seen to constitute an unqualified or unique guide to development policy. In any case, Mr. Vice-Chancellor, it is one thing to argue that a course of action pursued in the past has some basis in theory, and quite another to prove or conclusively demonstrate that a causal association exists. What was particularly wrong with the Nigerian development strategy of the 1970s was not whether it was founded on the right or wrong set of theories, but that its manner of application was unsuited to the country's economic and social environment. Behind every development theory is an implied or stated set of economic conditions needed for the success of its prescribed strategy of development. It is nothing but a 'planning illusion' to embrace paths to development for which the appropriate economic and cultural milieu do not exist.

The point about relating government policies to the general context of development theory, as done above, is merely to invite the attention of policy-makers and planners to the need to be guided by consistent and comprehensive, rather than partial, analysis of the development problem. The pursuit of a rapid and sustained economic development has more than an investment or monetary dimension; accelerated expenditure of revenue from oil, in that pursuit, represents only but the tip of the ice-berg of the overall development question as to what combination of resource policy, reform of attitudes and incentives, and which legal, social and cultural institutions are necessary.

For a developing country, and indeed for any country, there are always policy options and, therefore, crucial policy decisions to be made at each structural turning point, concerning the limits of possible gains from particular strategies; the risks, and costs involved; and, the merits of alternative strategies. Under the buoyancy illusion generated by the oil boom, Nigerian policy-makers seemed to have abdicated the responsibility for critical social appraisal and action, and to have developed yet another

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illusion, the *Naira Illusion*. They suddenly came to the conclusion that we had the money to do everything under the sun and to solve all problems of underdevelopment immediately, with the result that, in place of serious decision-making and conscious choice among alternatives, the nation was made to embark on a spending spree, by merely throwing money at problems. For example, programmes such as the permanent Trade Fair Complex in Lagos, FESTAC, OFN, Federal take-over of Universities, state take-over of secondary schools and private hospitals, the introduction of medical schools in all Universities, to mention only a few, were embarked upon without detailed analysis of total benefits and costs. It is true, of course, that analysis causes some delay in action but it may minimise waste of resources. However, if all projects were to be executed in a hurry, little of value tends to be accomplished, and the little that is accomplished may not even justify the costs to the nation. Important as money is in economic development, it does not, and cannot, by itself, and on its own, develop a nation. Money is no more than a financial asset or tool, and people make use of it, for good or for bad, in the pursuit of economic development and social change. This is all well brought out in the fields of monetary and development economics in which specialize.

Under the buoyancy illusion, however, we seem to have forgotten that nature does not make a jump; that time is an important element in the development process; and, that, just as Rome was not built in a day, there was no way in which a nation could have accomplished the required transformation of its economy overnight, in spite of the good fortunes and magical influx of oil revenues.

As it is, development is a continuous process, not a once-and-for-all affair. It proceeds in stages even though the stages may never quite approximate the historical determinism of Rostow's Stages. This is true in spite of the historical lessons of the Chinese experience, the uniqueness of which we must admit, but which some of Nigeria's most ardent socialists often deny by giving the impression that Nigeria could perform the Chinese feat overnight. It is important to emphasize the above points because it is only against the background of the canker-worm of a buoyancy illusion that it is possible to appreciate and evaluate the magnitude of the Third Development Plan which, both in its original and

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revised forms, has now turned out to be too large in size and unduly linear in strategy in the light of experience.

Some of the implications and limitations of a planning strategy whereby, under the guise of a buoyancy illusion, the public sector seeks to undertake within a plan-period a volume of investment and administrative activities for which the economy lacks the absorptive capacity are fairly obvious. Economic waste and corruption, resulting from spending huge sums of money in haste, and an endless proliferation of a multiplicity of hollow-shell institutions that achieve or are capable of achieving so little, is one; inflation of costs is another. In the contemporary Nigerian case, the emphasis on completion time as the key factor in project implementation has meant that the bulk of public sector programmes are concentrated in the hands of a few supposedly super-efficient foreign contractors who are naturally quite willing, and, given the prevailing circumstances, have been able to use their oligopolistic structure to dictate and inflate the costs of development projects in geometrical progression. These two forces not only negate the overall economic gains of the economy from development activities, they have resulted in a lot of cheap money floating around and the accrual of soaring profits to consultants, suppliers and contractors, most of who are foreign - with all the attendant implications both for the economy's future development and sustained growth as well as for social equity among Nigerians and between Nigerians and foreigners.

One further element in the endless chain of waste, arising directly from the dramatic shift in the country's fiscal landscape and increased centralisation of public sector activites and programmes in the 1970s but ultimately traceable to the buoyancy and planning illusions, needs to be mentioned as well. Associated with the dominance of the fiscal landscape by revenues from petroleum activities was the growth of a vertical imbalance in revenue allocation between the Federal and State Governments whereby the Federal Government had at its disposal, relatively large fiscal resources while some State Governments hardly had enough statutory revenues to spend even on current accounts. Ordinarily, there is a natural propensity for a strong (and especially military-directed) centre to usurp the normal responsibilities of States in any federation in the guise of the national interest. In Nigeria, this propensity has been strengthened in the 1970s both by

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the fiscal dominance of the Federal Government, and the buoyancy illusion generated by it. The result is a virtual take-over of many of the normal functions of the lower tiers of government by the Federal Government, with the resultant fiscal implications of waste and the high costs of project execution direct from Lagos. The State Governments themselves, with their new-found art of competitive deficit budgeting to attract Federal funds, have contributed in no small way to the spiralling process of inflation and fiscal distortions, all of which raise the price of development.

In Nigeria, the buoyancy illusion has been compounded by a faulty perception and a lack of full appreciation of what development is, and the problem of under-development in particular. Development, it would seem, is seen and measured by our policy-makers planners and administrators in terms of concrete structures and infrastructural facilities. This is evidenced by the sheer weight of the construction sector and its sub-components in the 1975-80 plan, and the excess-demand generated for construction materials far in excess of domestic availability and external procurement through imports. In turn, the emphasis on complex structures has tended to encourage over-dependence on foreigners, given the popular belief in our society that foreign companies are far more capable of building faster and better than their Nigerian counterparts.

The truth of the matter, however, is that economic under-development goes far beyond deficient growth rates of output and mere unavailability of gleaming structures, majestic buildings, dual-carriage roads and overhead bridges. Economic underdevelopment reaches, unfortunately, very deep into the very thinking process, beliefs and basic attitudes, as well as the social values and the way of life of a people. In the circumstances, it may very well be that institutional re-organization and the reorientation of the entire economic and social system rather than mere accretions of value-added by concrete structures in the narrow national income accounting sense is what defines the essence of development.

In many Third World countries today, and even among development economists, there is a growing disenchantment with the emphasis on growth in GDP, a lot of which is unaccompanied by development. In place of the exclusive focus of the '50s and '60s on the rapid growth of the GDP as the objective of economic

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development, emphasis has increasingly and perceptibly shifted to such additional objectives as income distribution and social equity, poverty reduction and the quality of life. In essence, there are many today who will argue that the condition of the poor is about the only legitimate overall focus of development, and that development performance should be measured by the extent of success in poverty reduction and improvements of the social conditions of life. In Nigeria, our pattern of development in the '60s and '70s has been such that neither poverty nor inequity in income distribution has been mitigated. If anything, they have been aggravated. Here, we need only to recall a few critical factors such as the current food shortage, poor housing conditions and environmental decay in the cities, and pervasive unemployment and underemployment almost everywhere. The realities of the plight of the average Nigerian in the 1970s is what some have aptly referred to as "Nigeria's Neglected Rural Majority" and the urban poor.

The intense pluralistic nature of the Nigerian society with its cultural diversity and its heterogeneous and multi-ethnic groups partly defines the complexities of its underdevelopment problems. This feature of the society, together with an absence of industrial discipline and a patent inability to usefully absorb, digest and manage modern technology, specify the nature of the positive challenges of economic development and of social change facing the country. Thus, while development is ultimately a pragmatic exercise, it is necessary that affairs relating to it are conceived, designed and conducted in a philosophical context that seeks to combine deep thoughts with wise actions, rather than routinized as a bureaucratic art-form of merely signing contracts and farming out turn-key projects to contractors. As a nation we need to get out of the 'Contract Illusion's whereby everybody wants to be purveyors, commissioned agents and contractors of some kind, because of the quick profits that accrue, while few are prepared or encouraged to soil their hands in the critical and arduous tasks of real production and development engineering. We need to realise that it is futile to the extreme to simply subcontract the implementation of substantial and critical programmes of development to foreign countries and their nationals since, for the most, that would be the surest way of undermining from the outset the growth-promoting impacts of such investments.

To the extent that the overall objective of economic planning is

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development, a planning illusion would necessarily generate a 'development illusion', even though the latter may in fact linger on after the demise of its parent illusion, just like the scattered flames that persist after a devastating fire. In a sense, it is the development illusion which defines the current regime as one of frustrated expectations and unfulfilled hopes and dreams in Nigeria. And it is this same illusion that has goaded us on to a high propensity of conspicuous consumption as a nation. Given the grandiose and impressionistic magnitude of the Third Plan, both in its original and revised forms, the huge sums of public funds devoted to myriads of projects and programmes, and the resulting increase in the circulation of money in the economy arising from the rapid monetization of government receipts from oil, most Nigerians have come to believe and behave as if their country already had a place in the hierarchy of developed nations, and that only prophets of doom would caution and plead the contrary. They measure development in terms of the soaring magnitudes of public spending and are overly impressed by the billion-naira programmes of public spending devoted to road construction, public buildings and the expansion of consumption demand. The over-flowing of tiny and narrow city roads with motor cars of all brands, the flood of electronic gadgets, can-beer and, at one time, champaigne and sparkling wines, into our markets are seen and accepted as indications that we have indeed arrived as a nation. The social expectations of Nigerians, it would seem, have been clouded by a constellation of illusions, most of which are unreal and unrelated to the realities of underdevelopment.

Government itself, through some of its policies and actions in the past, has given the impression that Nigeria is already a rich and developed country and that the economy could expand satisfactorily along all sectors to meet all current needs of the Nigerian public. Shortages of consumer goods, for example, have been viewed, not strictly in a structural sense, but in terms of supply and distributional aberations to be remedied by massive importation from abroad and price controls at home. The futility and high cost of enforcement of price controls in the face of severe and acute shortages is now, of course, common knowledge but price control efforts have stubbornly persisted under the illusion that the economy is basically able to meet the pressure of uncontrolled demand and that hoarding is the real culprit. From the

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study of economics, we know of course, that hoarding never causes real scarcity; it merely exercerbates it. With soaring fortunes in export earnings from oil, it was all too easy for the country to abandon its policy of rigorous foreign exchange controls of the '60s, and to open wide the flood-gates of imports. This 'foreign exchange' illusion has necessarily been short-lived, however, given the realities of the foreign exchange bottlenecks facing a country which devotes more than a quarter of its gross domestic expenditure to imported consumer goods alone and has to rely on importation as well for its intermediate and capital goods.

The real position is that Nigeria is an underdeveloped country and has indeed remained one of the poorest nations of the world. And scarcity, not affluence, is the very essence of underdevelopment. The impression that Nigeria is now a rich country and that the economy is growing rapidly is based on the reported performance of our GDP in recent years. This impression is, however, largely illusory for a number of reasons. First, there is the illusion of figures, arising from the absolute size of the GDP as reported for the '70s, even in real terms, but partly also from the very unreliability of national income accounting underdeveloped countries. According to the Central Planning Office of the Federal Ministry of Economic Development, the real GDP of Nigeria in 1976/77 amounted to ₦16,905 million. But how reliable are figures of this nature when the very basis of their calculation is mostly guess-work and therefore highly suspect? Of what use also is quantitative growth in GDP if and when it is unaccompanied by qualitative development? The seemingly high overall growth rate of 16.4 percent recorded for the economy in 1976/77 is deceptive also because of the preponderant share of it contributed by petroleum. From less than 1 per cent of the GDP in 1958, the contribution of mining production reached a peak of 45.1 per cent of the GDP in 1973-74, and this was largely as a result of the rapid growth in petroleum. But petroleum, as development economists know very well, is by itself more an engine of structural inflation than of economic growth.

Given Nigeria's vast and rapidly increasing population, it is not surprising that income per capita in the country is still one of the lowest in the world, and is far from the top as far as the African continent is concerned, despite the impressive rates of increase recorded in the GDP in the recent past. This is shown clearly in

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Tables 1 and 2. From Table 1, it can be seen that the GND per capita for Nigeria in 1974 was less than five percent of the GND of most of the developed nations of the world and constituted no more than a fifth of the world average. Table 2, on the other hand, has the interesting revelation that at least fifteen African countries have GNDs per capita that are higher than Nigeria's and among these are nations that are non oil-rich.

In any case, it is wishful thinking to talk of economic advancement when most of the economic activities in the modern sector are trading activities in the manufactured products of other countries which, though highly remunerative in terms of quick profits, are not necessarily the foundations for economic take-off into sustained growth; when the list of truly 'Made in Nigeria' products is very short and the few industrial activities centre on consumer-goods manufacture from imported intermediate and capital goods; or when the real critical engineering sub-sectors which are the life-blood arteries of industrial transformation, or, if you like, the nuts and bolts of structural change, notably the manufacture of agricultural and specialised industrial machinery, metal and wood working machinery, transport equipment, etc., are yet to be firmly established on the ground. In growth terms, the truth is that Nigeria's diversified natural resource base is yet to be

TABLE I: NIGERIA'S GNP PER CAPITA IN RELATION TO THE WORLD IN 1974 [FIGURES IN U.S. DOLLARS]

1.	THE WORLD AVERAGE	1,422
2.	EUROPE AVERAGE	3,313
3.	SWEDEN	7,240
4.	SWITZERLAND	7,870
5.	CAMEROUN AVERAGE	2,323
6.	U.S.S.R.	2,380
7.	E.E.C. AVERAGE	4,656
8.	UNITED KINGDOM	3,590
9.	AISIA AVERAGE	479
10.	JAPAN	4,070
11.	LATIN AMERICAN AVERAGE	953
12.	CENTRAL AMERICAN AVERAGE	972
13.	CANADA	6,190

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14.	U.S.A.	6,670
15.	THE CARIBEAN	912
16.	AUSTRALIA	5,330
17.	NEW ZEALAND	4,310
18.	AFRICA AVERAGE	366
19.	*NIGERIA*	*280*

Source: *World Bank Atlas* (Washington, 1976). Quoted in V.P. Diejomaoh, "Planning for Balanced and Basic Needs: Relevant Ideas for Nigerian Planning in the 1980s and Beyond", Paper presented at the *National Workshop on Planning Strategy for the 1980s,* NISER, Ibadan, 1977.

TABLE 2: GNP PER CAPITA OF AFRICAN COUNTRIES; 1974
[*U.S. Dollars*]

1.	LIBYA	4,440
2.	SOUTH AFRICA	1,210
3.	ALGERIA	730
4.	ANGOLA	710
5.	TUNISIA	650
6.	ZAMBIA	520
7.	RHODESIA	520
8.	CONGO	470
9.	IVORY COAST	460
10.	GHANA	430
11.	MOROCCO	430
12.	LIBERIA	390
13.	MOZAMBIQUE	340
14.	SENEGAL	330
15.	MAURITANIA	290
16.	*NIGERIA*	*280*
17.	EGYPT	280
18.	CAMEROUN	250
19.	TOGO	250
20.	UGANDA	240
21.	SUDAN	230
22	CENTRAL AFRICAN EMPIRE	210
23	KENYA	200

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24.	SIERRA-LEONE	190
25.	MALAGASY	180
26.	TANZANIA	160
27.	ZAIRE	150
28.	MALAWI	130
29.	BENIN	120
30.	GUINEA	120
31.	NIGER	120
32.	ETHIOPIA	100
33.	CHAD	100
34	BURUNDI	90
35.	UPPER VOLTA	90
36.	MALI	80
37.	RWANDA	80

Source: (Same as Table 1)

harnessed and exploited fully for industrial development, and most of the activities in the industrial sector are still not manufacturing in the true sense of the term but mere assembly lines of imported components behind tariff walls. And this is why, unlike other countries that have experienced a real industrial revolution, the forward and backward linkage effects of our industrial efforts of the last few years have accrued more to the foreign suppliers of our raw materials, intermediate and capital goods than to the domestic economy.

VII

Mr. Vice-Chancellor, I have endeavoured during the course of this lecture to establish the simple point about the dependence of most of our current economic behaviour as individuals, groups and even as a nation on illusions and to underscore the implications of the persistent and growing distortions in the country's development process. Given the very nature of illusions, the predictable end-result of whatever social behaviour that are predicated on them is bound to be frustrated hopes and disappointed expectations. The relevant and, indeed, the logical question to ask then, at this final stage is, where do we go from here and how do we get out of the tempestuous jungle of illusions and re-order our

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social and economic priorities and behaviour such that we cease from chasing the shadows of development? How do we, as a nation resolve the economic and social crises arising from the prevailing 'oil flu or fever' such that a gloomy future is not ours?

Under the illusion of buoyancy, the economy has been overstretched beyond reasonable limits, so much so that, as a nation, we seemed to have gone out of our depths. Our value system, nay, our ways of life, all these have changed almost beyond recognition and for the worst in the brief era of post-Udoji inflationary spiral, and this has gone to the extent that nothing seems to work or function well today within our economic system-water: electricity, telecommunications, transportation, to mention a few. The result is that generalised shortages are the rule rather than the exception.

Projections of the nation's financial situation, covering the next half a decade, or so, indicate however that the honeymoon of oil euphoria may be over and that the situation would be particularly gloomy in the early 1980s due to predictable depressions in the world market for oil. By the middle of 1975, for example, following recessions in the advanced industrialised countries, Nigerian oil production had already dropped to 1.4 million barrels a day from the peak figure of 2.3 million barrels per day in 1974 - a far cry from the planners' projections of 3.0 million barrels per day. And only modest increases have been recorded ever since. Since the buoyancy illusion was predicated on the resurgence of relative financial prosperity associated with the oil boom of the mid-1970s, it is only fair that its natural death should accompany the declining rate of growth in oil revenues. Hopefully there is some indication that the government itself is starting to appreciate this. We probably now know better, as a nation, that phenomenal increases in government financial resources and in foreign exchange earnings at the disposal of the economy are not *per se* a sufficient condition for economic transformation; that the efficiency and wisdom of resource allocation matters more than anything else; and that economic transformation, by definition, is hardly achievable overnight even if there were to be no financial constraints.

If the economy is to cease from being overheated by uncontrolled demand, the next Plan will have to be less ambitious than its predecessor. The crucial lesson to be learnt by all those who manage public resources is that the Federal Government must never again, as it did under the Third Plan, arrogate to itself those social and economic development functions of the State which are better and more efficiently performed by lower levels of government; that the public sector as a whole should learn to resist the temptation of biting more than it can chew, and should never attempt a volume of investment and administrative activities for which the economy lacks the absorptive capacity. Indeed, the exercise in connection with the Fourth Development Plan should be seen as an opportunity for re-thinking and consolidation rather than for embarking on grandiose schemes which are bound to further result in the dissipation of public funds and public sector efforts.

We must learn to lower our currently inflated expectations and hopes regarding the massive power of government for rapid social action in solving all development problems. This we must do, not necessarily because there is an innate ineptitude on the part of those who manage the state appratus, but in recognition of the constraints and obstacles facing the economy at our present stage of development. In cutting back on public spending and programmes, however, we must avoid the danger of indiscriminate and across-the-board prunning. The current impression that public spending could be restrained uniformly all round, without structural distortions to our development efforts, is no less illusory than the erstwhile attempt to use oil revenues in solving all development problems in double quick time. There are the issues of priority, and of the hard choices to be made among alternative uses of limited resources which no nation can avoid or ignore without courting disaster.

The existing structure of demand was cultivated and nurtured by the illusion that ours is already a rich nation. With the infrastructure on which to build a modern economy yet to be fully assembled, and, with genuine doubts regarding our sustained ability to maintain and service such a superstructure, it is evident that our present level and pattern of demand cannot survive without severe demage to the economic system. In addition to the current

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efforts at expanding supply to meet the ever-rising expectations of the public, the management of demand should henceforth receive more attention. Shortages, as we have seen, are the very essence of underdevelopment, and no amount of price control efforts could obscure this fundamental axiom. There is no way in which all the current needs of the Nigerian public could be met at our existing level of development, hence the need to curtail excess demand in general and tastes for non-essential commodities in particular as a means of ensuring an equilibrium of demand and supply. In this regard, what is needed is not to control the prices of non-essential commodities, which has almost invariably resulted in the past in the maintenance of artificially low prices, but to decontrol prices, the effect of which will be to hold demand in check. Increased taxation and compulsory savings, though unpopular, are also some of the other measures that could be used to curtail the pressure of consumption demand, dampen inflation and force people to bear more of the real burden of development.

But, above all, we need to re-order our priorities such that the production capacity for goods that satisfy the basic needs of the vast majority of the population is enhanced. We also need to plan to spend money more wisely and to avoid waste in all areas of public spending both by curtailing expenditures on complex structures, luxuries, cultural fiestas, festivals and various other types of white-elephants, and by reducing costs, particularly contract prices. In this regard, the new low profile stance of the present Military Administration is in the right direction but needs to be generalised and extended to the private sector through a combination of fiscal and monetary policies rather than in terms of pious hopes of emulation through demonstration effects.

With the susceptibility of Nigerian workers to money illusion, it would seem logical to encourage gains in productivity to accrue to them largely through lower product prices, improved working conditions and fringe benefits rather than through higher money wages. This is necessary for avoiding the vicious circle of endless wage-price inflation and the drastic erosion of the value of the naira. But it also means that the wage increases that are forestalled by the present policy of freezing wages would be passed on indirectly to consumers instead of serving as a prop for declining productivity.

Mr. Vice-Chancellor, I have deliberately devoted the latter part of

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this lecture to some of the positive actions that can be taken to cure this nation of some of its illusions and rescue it from the consequences of the illusions of the past. I wish to emphasize that the overall goal should be to place the economy in a position of self-sustaining growth. And I believe we can achieve this objective basically, as Mabogunje has argued, "by doing things our own way and at our own level and pace" (Mabogunje, 1977). Henceforth, our emphasis should be on self-reliant development rather than dependence on others for solutions to our basic economic and social problems. We need to plan for our own technological development and to develop pride in things that we actually produce, in our own culture and social values, the lack of which, in the past, has bred nothing but a "dependency illusion." We cannot run away from the fact that development is a multi-dimensional process which must be founded basically on a country's own capabilities and domestic resource base; such that whatever foreign assistance is available in the pursuit of that objective is nothing but supplementary. To proceed otherwise is to allow the development tail to wag the dog, rather than the other way round.

Talking about structural and social change, and of the policy imperatives, I would like to end this lecture, Mr. Vice-Chancellor, by emphasizing that the social consensus for and the political acceptability of the required change in policy direction would depend in part on good leadership. Far too often, in underdeveloped countries, development problems are diagnosed and expatiated upon *ad nuseam* but nothing concrete gets done about them in the end by way of policy reforms; the critical dilemma being the classic case of who amongst the decimated community of rats is to bell the cat. I would like to believe and hope that this is not the situation in our country today.

The prospects for structural change depend also in part on the development-oriented attitudes of the generality of the population. To generate these attitudes, is not easy, but we have no choice as a nation but to try. Here I believe the University has a vital role to play. It can help directly with the important function of shaping and influencing rather than accommodating and servicing existing societal attitudes. It can also help directly with political education or providing the fulcrum for such education. But, above all, the University must cure itself of its own illusions. It is not an ivory tower. It is part and parcel of society. It must put its own house in

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order. It must relentlessly involve itself in socially-relevant research, advisory and consultancy services.

Mr. Vice-Chancellor, we in the Faculty of the Social Sciences have already made a beginning in that direction. In the Department of Economics, in particular, some of the staff research in recent years have increasingly focussed attention on the development process and the different manifestations of structural distortions in Nigeria's economic development. Between us and our sister Department of Geography, a Planning Studies Programme, with both a training wing and a consultancy arm, was established almost five years. ago. There is no reason why these efforts cannot be intensified provided there is encouragement from the University Authorities, not only in terms of funding but also in terms of the recognition and appreciation that policy-oriented research and economic consultancy are time-consuming, and are as valuable, if not more valuable, than basic research in the course of economic and social transformation, even though they may not necessarily be the most glamorous aspect of productive scholarship.

Vice-chancellor, Deans of Faculties, Ladies and Gentlemen, thank you all for listening.

9th March, 1978

Owodunni Teriba

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