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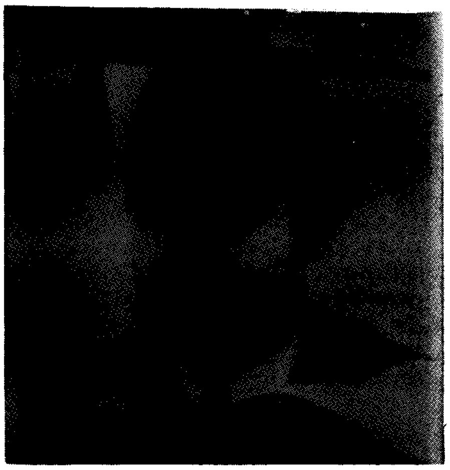
# EVALUATION OF PRICE CONTROL AND PRICE INTELLIGENCE AGENCY AT WORK

INTRODUCTION:

Since 1970 Nigerian Government has used a number of measures in its attempt to moderate the rate of inflation in the country. One of these measures is the direct regulation of prices of selected commodities. To give effect to this regulation (otherwise called price control) the Federal Government promulgated a decree - the price control decree 1970. This decree listed twenty-three categories of commodities for which the government, through the Price Control Board, determines the prices. The operation of the price control, as set out by the 1970 decree, had been amended several times before it was replaced with the price control decree No. 1 of 1977. Both versions of the price control decree provide for a Price Control Board at the centre and Price Control Committees in each state of the Federation. The Price Control Board is charged with the task of fixing the prices of selected commodities and of supervising its officials and agents in the task of price enforcement. The Price Control Committees are set up to enforce price control at the state level and to assist the Board generally. In 1975, an Anti-Inflation Task Force which was set up by the Federal Government, recommended the establishment of Price Intelligence Agency. The government accepted the recommendation and subsequently set up the Agency which is charged with the task of studying and interpreting price movements on a continuing basis and of carrying out other duties that may be assigned to it from time to time.

This paper attempts to assess the effectiveness of this price regulation in the country and the part played by Price Intelligence Agency in this regard with a view to offering suggestions for improvement. In order to carry out this assessment, the remaining part of this paper is divided into three sections thus: (i) a brief survey of the concept of price control; (ii) operation of price control in Nigeria and (iii) assessment and suggestions for improvement.



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A BRIEF SURVEY OF THE CONCEPT OF PRICE CONTROL

In order to assess the effectiveness of price control in Nigeria it is necessary to examine the theoretical basis for it. Price control is resorted to when the price determined by the inter play of supply and demand is considered too high or too low. In the former case the price fixing authority uses a maximum price in order to protect buyers from exhorbitant prices while in the latter it fixes a minimum price in order to encourage producers and sellers. This paper, however, focusses attention on maximum price regulation, hence the term in-price control - in this paper refers to it.

This theoretical survey is meant to answer two main questions. The first one is: What determines the level at which price is controlled? Equity is usually the criterion for determining the level at which price is controlled. Equity price is taken to be fair to both the seller and the buyer because at that price the seller earns only normal profit while the buyer allows just that. But normal profit is not easy to specify. According to J.L. Hanson normal profit is "the amount of profit required to keep an entrepreneur in a particular line of production". It is the minimum profit which an entrepreneur is prepared to accept for parting with his commodities but what this minimum profit should be is a subjective issue and its interpretation varies from one firm to another. Conventionally, normal profit is regarded as part of the cost of production or distribution hence, average cost, which is the yardstick for measuring "equity price", contains normal profit. However, as the normal profit cannot be exactly defined, this yardstick can be looked at as an incomplete guide in determining the level at which to control price.

The second question to be examined in this theoretical appraisal is to find out how effective price control is as a system of determining prices. Many economists are not optimistic about the result of price control. Those who favour price control at all qualify it with many "ifs" that are difficult to realise. The economist's idea about the result of price control is clearly illustrated by the following prédiction of economic theory:

> "The setting up of maximum prices will cause a shortage of the commodity and reduce... the quantity actually bought and sold...."

Before we can examine this prediction it may be necessary to find out the reason for fixing a maximum price at all. We should realise that if competition exists in its pure form in any economy there will be no need for maximum price regulation which seeks to fix prices at the equitable level (usually where only normal profit is made). This is because under pure competition the existence of supernormal profit (usually accompanied by high prices) will attract new firms. The entry of new firms will then increase the industry's supply and thereby compete away the supernormal profit of the existing firms. This means that each firm will be earning only normal profit and hence the need to reduce price by price control will be removed. But under pure monopoly, oligopoly or monopolistic competition the imperfections of the market structure, will not allow the supernormal profit to be competed away. However, neither pure competition nor pure monopoly exist in real life. What we have are various forms of oligopoly (mainly at major manufacturing level) and monopolistic competition (at the level of retail and service operations). It is the resultant high prices occasioned by the imperfections of these market structures that make the government attempt artificial price regulation which we call price control. If we realise therefore, that the reason for fixing a maximum price is that the one determined by the price system is considered too high, then we should expect the controlled price to be lower than the free market price. With lower price new consumers are expected in the controlled market while old ones may increase their demand because of the purchasing power released by the price control assuming that the commodities do not have exceptional demand. On the other hand producers and sellers who had been making super normal profit at the pre-control prices may find themselves making only normal profit or even losses at the controlled prices depending on the costing system of the price fixing authority. Losses or even reduced profit is likely to discourage at least some of the sellers from supplying the usual quantities of their commodities at the controlled prices. If the quantity supplied at the controlled prices falls, the quantity actually bought is correspondingly reduced and excess demand piles up, hence the prediction mentioned above is logical. If excess demand exists, the price control authority is faced with two major problems - how to keep price at the controlled level and at the same time ensure an orderly distribution (or rationing) of the scarce commodities among increased number of buyers or even the same number of buyers with enhanced demand. If price enforcement is not effective, sellers can still sell above the control price openly and escape punishment but when it becomes very difficult to sell above the control price openly without being caught some of the commodities are likely to disappear into the black-market where they are sold at prices higher than the control level. This view is reflected in another prediction by Richard G. Lipsey thus:

"The potential for a profitable black market will always exist whenever effective price ceiling is imposed".

According to him (Richard G. Lipsey) the policy of keeping prices down is "a failure to the extent that the black market succeeds in raising prices and a success to the extent to which transactions take place at the controlled prices". Another economist - Kenneth E. Boulding has noted that some factors can prevent the failure of price control - namely the control of production and consumption by price control authority and keeping the controlled price close to the free market price. This is clearly brought out by this passage from his book - Economic Analysis:

"......any attempt to fix a price by authority without control of either production or consumption is doomed to failure, unless, of course, the price fixed happens to be close to the price which could have been established in the unregulated market".

This is the view of many economists and was partially shared by H.T. Koplin who declared in his book — Micro Economic Analysis, thus:

"In fact, to be effective, price control almost always must be supplemented with regulation of output (for example rationing)".

The validity or otherwise of these assertions with respect to Nigeria can be discovered by examination of the working of price control in Nigeria.

## OPERATION OF PRICE CONTROL IN NIGERIA

The Price Control Board, assisted by the State Price Control Committees, is the authority entrusted with the task of fixing the prices of selected commodities in Nigeria and ensuring that the prices are observed In order to carry out these functions, the Price Control Board makes use of economists, accountants, and statisticians for price fixing and price inspectors (assisted by the police) for price enforcement while the law courts determine cases that inevitably arise in the task of controlling prices. According to the current price control decree, the number of categories of controlled commodities has been increased to twenty-five. These commodities can be regrouped into seven thus:

GROUP A — PETROLEUM PRODUCTS
(i) Petrol
(ii) Kerosine
(iii) Diesel oil
(iv) Fuel oil

GROUP B — BUILDING MATERIALS
(i) Cement
(ii) Roofing materials
(iii) Building materials (miscellaneous)

GROUP C — HOUSEHOLD NECESSITIES
(i) Salt
(ii) Flour
(iii) Milk
(iv) Sugar
(v) Matches
(vi) Tinned meat
(vii) Tinned fish
(viii) Textiles and clothing

GROUP D — VEHICLES AND ELECTRONICS
(i) Motor vehicles & spare parts
(ii) Motor cycles & spare parts
(iii) Bicycles & spare parts
(iv) Tyres and inner tubes
(v) Electronics

GROUP E — DRINKS
(i) Beer and stout
(ii) Soft drinks

GROUP F — EDUCATIONAL MATERIALS & MEDICINE
(i) Educational materials
(ii) Pharmaceuticals

GROUP G
Tobacco

It may be necessary at this stage to examine the following aspects of Nigeria's Price Control experience in respect of the commodities mentioned above: (a) Price determination, (b) Price enforcement, (c) Punishment for Price Control offences, (d) Price Control and Price Intelligence Agency, (e) Effect of Price Control on inflation in Nigeria, (f) Relevance of economic theory to Nigerian experience in price control.

### (a) PRICE DETERMINATION

The pricing system of the Price Control Board has been amended several times since its inception. In its present form it involves the fixing of a basic price and then adding to it a permitted variation in order to get the controlled prices. The basic price represents "the cost of production plus manufacturers' profit" for locally produced commodities and

"the duty-paid landed cost in Nigeria plus the importers' profit"

for imported goods. The permitted variation includes the transport cost and other approved cost plus the distributors' profit. . In practice, what the Price Control Board (through its experts) does in the case of controlled locally produced commodities is to study the cost structure of the firms producing them. This study enables it to get the cost per unit of the commodities. To this unit cost is added the manufacturers' profit which is also determined by the Board. Then the cost and reward of distribution are fixed (and added to the manufacturers' unit cost and profit) in order to get the controlled prices at various levels of distribution. In a similar way the Board determines the importers profit as well as the cost and reward of distributing imported commodities.

One of the major obstacles in this exercise is that the Price Control Board has not got adequate manpower. Apart from the Chairman, the Executive Secretary, a Senior Assistant Secretary, an Assistant Secretary and some part-time members, the Price Control Board and the newly affiliated Price Intelligence Agency had only seven price study and price fixing experts comprising one economist, three accountants and three statisticians by July 1976 (see Table 1). This number increased to eight by April 1977 with the employment of one more statistician, showing a rise of only 14.3 per cent. In view of the large number of brands of the controlled commodities which require separate prices, this level of man-power does not permit the price fixing experts to undertake a detailed examination and assessment of the books and documents on which depends the prices which the Price Control Board fixes. But increase in man-power will not solve all the problems connected with price fixing. The manufacturers and distributors create another problem by not co-operating with the price fixing experts who examine their books and documents. It appears that in order to get at the root of the cost structure of our firms the Price Control Board should maintain a large team of experts who will not only have statutory power to inspect the books of various firms but also will maintain foreign correspondents who will monitor the prices or cost of the imported raw materials used by our firms and the imported finished goods which we consume. However, it should be realised that no matter how accurate the cost structure study is, it is supply and demand and not cost that determine the prices of goods already in

TABLE 1

RESEARCH & PRICE FIXING EXPERTS OF THE PRICE CONTROL BOARD AND PRICE INTELLIGENCE AGENCY

(Excluding the Chairmen and the Secretaries)

| Type | As at 1st July 1976 (1) | As at 1st April 1977 (2) | % Change between 1 and 2 (3) |
|---|---|---|---|
| Economists | 1 | 1 | 0.0 |
| Accountants | 3 | 3 | 0.0 |
| Statisticians | 3 | 4 | 33.3 |
| Others | | - | |
| Total | 7 | 8 | 14.3 |

Source: Price Control Board

the market. Therefore, the reliance on the Price Control Board's "determined cost" in fixing prices can be misleading. A better use of, the cost structure study should be made as will be discussed later in this paper. A third obstacle arises while determining the mark-up or profit. The price fixing authority arrives at the profit or mark-up by a subjective estimation of what is "fair" but what is fair from the price fixers' point of view may be viewed differently by producers, importers and distributors whose primary objective is to side-track the controlled prices.

(b) PRICE ENFORCEMENT:

In anticipation of the reluctance of producers, importers and distributors to observe price regulation, the 1977 Price Control Decree stipulates, among other things, that:

(i) the Executive Secretary to the price Control Board shall have the duty to supervise the enforcement of the Orders of the Board.

(ii) the Federal Commissioner for Trade may appoint public officers as inspectors for price enforcement.

(iii) every secretary to the local government shall be ex-office a price inspector.

(iv) every price inspector shall be under the control of the State Price Controller who in turn shall be responsible to the Chief Price Controller.

(v) the price inspectors are authorised not only to inspect the business premises of manufacturers, wholesalers and retailers but also to examine any books, accounts, and documents relating to their businesses and to request for relevant information from them and also to conduct on behalf of the Price Control Board any civil or criminal proceedings arising under the decree.

(vi) the price control decree does not prevent the police or any legal practitioner from conducting on behalf of the Price Control Board any civil or criminal proceedings.

To a large extent the provisions of this decree is similar to Section 5 of the 1970 Price Control Decree which has been repealed. However, the current decree has made provision for more price inspectors by making the secretaries of local governments ex-officio price inspectors but it is not as explicit as 1971 amendment to the 1970 decree on the part to be played by the police in price enforcement. According to this amendment, "a police officer, as well as price Control inspector, may arrest without warrant any person contravening the provisions of this decree and when arrested by an inspector,

TABLE 2

FULL-TIME PRICE CONTROL INSPECTORS IN NIGERIA

| Rank | As at 1st January 1976 (1) | As at 1st April 1977 (2) | % Change between 1 & 2 (3) |
|---|---|---|---|
| Principal Price Inspectors | Nil | 6 | 600.00 |
| Senior Price Inspectors | 12 | 12 | 0.00 |
| Higher Price Inspectors | 12 | 24 | 100.00 |
| Price Inspectors | 60 | 60 | 0.00 |
| Assistant Price Inspectors | 200 | 200 | 0.0 |
| Total | 284 | 302 | 6.3 |

Source: Price Control Board

the inspector shall hand over the arrested person as soon as possible to the police". But the current decree simply states that the price control decree does not prevent the police from conducting on behalf of the price control Board any civil or criminal proceedings arising under the decree. Despite this loophole the current decree has provided the price control Board with useful weapons to enforce the prices it has fixed. In practice, however, there are some bottlenecks which lead to failure in this exercise.

The first bottleneck appears at first sight to be insufficient number of price control inspectors. As at first January, 1976 there were only 284 full-time inspectors in the whole country. This number increased by 6.3 per cent to 302 by April, 1977 (See Tabe 2). The secretaries of local governments who are now made ex-officio price inspectors are too committed to other responsibilities to be of much use in price enforcement. The police who are expected to be active price inspectors hardly take the initiative in arresting price control offenders and instead content themselves with the prosecution of offenders already caught by the full-time price inspectors. However, a critical look at the number of price control inspectors and their efforts can show that numerical strength is not the real problem. The real bottleneck is lack of dedication by the price control inspectors who have been unable to arrest more price offenders despite the fact that price control offences are widespread. For example, if the number of full-time price inspectors was reduced to only 200 between 1st January and 30th June, 1977 and if each inspector was able to arrest one price offender each week the total arrests during the period would have been 5,200 instead of only 2,991 arrests which 284 - 302 inspectors achieved during the period (See table 4). The ingenuity of producers, distributors and retailers in circumventing price regulation has also weakened the role of price control inspectors. Another bottleneck is the existence of many 'grades' of retailers. The problem stems from

TABLE 3

VEHICLE SERVICING CHARGES (PER MAN HOUR) IN SOME MOTOR COMPANIES IN NIGERIA

| Companies | 1970 (1) | 1976 (2) | Percentage change between 1 and 2 (3) |
|---|---|---|---|
| | ₦ | ₦ | |
| A | 3.00 | 4.50 | 50.0 |
| B | 0.75 | 4.40 | 486.7 |
| C | 4.50 ('74) | 4.50 | 0.0 |
| D | 2.00 | 4.50 | 125.0 |
| E | 2.00 | 4.20 | 110.0 |
| F | 2.00 | 3.00 | 50.0 |
| G | 4.50 ('74) | 6.00 | 33.3 |
| H | – | 3.50 | – |
| I | 3.00 | 4.00 | 33.3 |
| J | – | – | – |
| K | – | – | – |
| L | 1.75 | 5.00 | 185.7 |
| M | – | – | – |
| N | – | – | – |

Source: Motor Companies A–N
(See Appendix for the names of the companies)

the fact that the price control Board fixes one retail price for a commodity, when in practice, there are big retailers who sell to small retailers from whom the consumers buy what they want. These big retailers sell either at the controlled prices or a little more to the small retailers who have no alternative than to sell the commodities above the control price if they are to make profit at all. Sometimes there are even more than two grades of retailers. This development makes that work of price enforcement agents difficult and sometimes makes them sympathise with the small retailers whose commodities are bought at prices above the controlled levels. Besides, the prices are often inflated by the wholesalers and major distributors who pass them on to the retailers, thereby complicating price enforcement at the retail level. Many consumers, realising the predicament of the small retailers, tend to sympathise with them, hence the buyers who are supposed to aid price inspectors, by reporting the price offenders, hardly do so.

Producers, importers and distributors, relying on these weaknesses of price enforcement, devise ways of charging exhorbitant prices for their commodities either by observing the law superficially or taking cover in the black market. One of these devices is the manipulation of servicing or maintenance charges for durable goods in order to make up any loss (real or imaginary) from the sale of goods at the controlled prices. In our survey of motor companies (between July and October, 1977) ten of our respondent companies stated their vehicle servicing charges per man-hour while two indicated that they do not charge per man-hour. Two others did not give any information on services charges. Of those companies which had shown their service charges per man-hour the range of increase between 1970 and 1976 was from 33.3 to 486.7 per cent (see Table 3). Investigations reveal that the charges indicated are mainly for small and medium size cars. Higher rates are used for bigger cars and commercial vehicles. The use of man-hours means that whether the servicing charge per man-hour is high or low the companies have still the power to get out of the customer as much money as they want to charge them because they determine how many hours the vehicles stay with them, especially in respect of vehicles that are not easily serviced outside the motor companies. In many cases the companies also supply the new parts to replace old ones. Another device to beat price control is hoarding of the controlled commodities. The hoarders know that there are few price control inspectors and that the consumers hardly report them and therefore they feel they have a good chance of hoarding without being arrested. The aims of hoarding include the increasing of scarcity and thereby holding both the price fixing authority and consumers to ransom and consequently forcing the price authority to review the prices upwards or compelling the consumers to patronise the black market which is fed by the hoarded commodities. As a result of the defects of price control enforcement, already mentioned, very few of the hoarders, are usually taken to court. For example, between January and June 1977, only 297 cases of hoarding were recorded by the Price Control Board (See Table 4). reprsenting 9.9 per cent of total arrests for all price control offences. These recorded cases of hoarding can be looked at as scape goats of what has become commonplace. Other methods of 'sidetracking the price control include inflating delivery charges of goods, removing the standard accessories of goods (life radios in motor vehicles) and still selling them at controlled prices or even more; exploiting the ignorance of customers especially in respect of the controlled commodities which have numerous brands and models (as found in pharmaceuticals and educational materials trade) and compelling consumers to buy commodities that are more profitable to the sellers as a condition for selling the controlled commodities with less profit as found in hotels which reserve beer for their lodgers who pay exhorbitantly for the accommodation and food.

(c) PUNISHMENT FOR PRICE CONTROL OFFENCES:

In order to provide a deterrent from breaking of the price regulation, the Price Control Decree has made provision for different forms of punishment to match the various offences connected with price regulation (see Table 5). The offences include selling above the control price, hoarding, contravening resale price maintenance agreement, refusal to give the required information to the price control authority and its agents or giving false information, and breaking the seal of sealed businesses. The punishments comprise fines, imprisonment, forfeiture of commodities and closing down of businesses involved in repeated price control offences. The fines range from two hundred naira (200.00) to ten thousand naira (N10,000.00) while the terms of imprisonment range from six months to over three years, increasing in severity from retailers to manufacturers. Besides, the courts reserve the right to sentence an offender to both fine and imprisonment depending on the nature of the offence.

The punishments are admittedly severe enough to serve as deterrents to price control offenders but the inadequacy of price enforcement already mentioned makes it difficult for most of the offenders to be caught at all. Besides, a small proportion of the few arrests are usually convicted. For example, the record of the Price Control Board for arrests and convictions from January to June, 1977, show that only 28.0 per cent of arrests in the

TABLE 4

ARREST AND CONVICTIONS FOR CONTRAVENING THE PRICE CONTROL DECREE

(January to June, 1977)

| State | Total Arrests | Arrests for hoarding only | Total convictions | Percentage arrested for hoarding | Percentage convicted out of total arrest |
|---|---|---|---|---|---|
| Kano | 94 | 2 | 25 | 2.1 | 26.6 |
| Kaduna | 122 | 6 | 6 | 4.9 | 4.9 |
| Niger | 179 | 13 | 63 | 7.3 | 35.2 |
| Sokoto | 34 | 2 | 16 | 5.9 | 47.1 |
| Kwara | 218 | 52 | 90 | 23.9 | 41.3 |
| Oyo | 194 | 11 | 10 | 5.7 | 5.2 |
| Ogun | 108 | 3 | 17 | 2.8 | 15.2 |
| Ondo | 91 | 31 | 7 | 34.1 | 7.7 |
| Lagos | 518 | 67 | 20 | 12.9 | 3.9 |
| Anambra | 163 | 24 | 36 | 14.7 | 22.1 |
| Imo | 194 | 14 | 145 | 7.2 | 74.7 |
| C/River | 88 | 4 | 26 | 4.5 | 29.5 |
| Benue | 182 | 12 | 141 | 6.6 | 77.5 |
| Bauchi | 46 | 9 | – | 19.6 | – |
| Rivers | 89 | 11 | 26 | 12.4 | 29.2 |
| Plateau | 63 | 4 | 7 | 6.4 | 11.1 |
| Gongola | 151 | 2 | 45 | 1.5 | 29.8 |
| Borno | 197 | 3 | 87 | 1.5 | 44.2 |
| Bendel | 260 | 27 | 70 | 10.4 | 26.9 |
| TOTAL | 2991 | 297 | 837 | 9.9 | 28.0 |

Source: Price Control Board.

APPENDIX

Company A – Incar Nigeria Limited
" B – Leventis Motors Limited
" C – Mandilas
" D – C.F.A.O. Motors
" E – U.T.C. Motors
" F – WAATECO
" G – Phoenix Motors
" H – Rotam Motors
" I – R.T. Briscoe (Toyota Sec)
" J – L.B. Trading (Nig.) Ltd.
" K – J. Allen & Co. Limited
" L – BEWAC Limited
" M – S.C.O.A. Motors
" N – INTRA Motors

TABLE 5 — Price Control Decree 1977 (Offences and Punishments)

| Offences | Type of offender | Punishments: Fine | Punishments: And/or Imprisonment | Plus other Punishments | Section of the Price Control Decree |
|---|---|---|---|---|---|
| Selling above the Control Price | (i) Retailer | ₦200 to ₦2000 | 6 months and above | Forfeiture of Commodities | Sec. 6 (a) (i) |
| | (ii) Manufacturer or Wholesaler | ₦1,000 to ₦10,000 | 12 months and above | Forfeiture of Commodities | Sec. 6 (a) (i) |
| Hoarding | (i) Individuals | – | 6 months | Forfeiture of Commodities | Sec. 7 (a) (b) |
| | (ii) Body Corporate | ₦5000 and above | – | -do- | Sec. 7 (a) (b) |
| Contravening Resale Price Maintenance Agreement | (i) Retailer | N200 to N2000 | 6 months and above | Forfeiture of Commodities | Sec. 8 |
| | (ii) Manufacturer or Wholesaler | ₦1,000 to ₦10,000 | 12 months and above | -do- | Sec. 8 |
| Refusal to supply the required information and false information | Individuals | ₦200 and above | 6 months and above | – | Sec. 10 |
| Obstructing the work of Price Control men | (i) Retailer | ₦200 to ₦2000 | 6 months and above | – | Sec. 9(5) |
| | (ii) Manufacturer or Wholesaler | ₦1,000 to ₦10,000 | 12 months and above | – | Sec. 9(5) |
| Impersonation | Individuals | – | 3 years | – | Sec 9(7) |
| Breaking the seal of sealed business | – | ₦5,000 and above | 2 years and above | | Sec. 12 |
| Habitual Infrigement | – | ₦2,000 and above | 3 years and above | Court order to discontinue business | Sec. 13 |

Source: Federal Republic of Nigerian Official Gazette supplement Vol. 64, 1977.

whole country were convicted (See Table 4). In Lagos, Kaduna, Oyo and Ondo States only 3.9 per cent, 4.9 per cent, 5.2 per cent, and 7.7 per cent, respectively, of arrested offenders, were convicted. This wide gap between arrests and convictions may be attributed to either the technicalities of the law or to the ommissions and commissions of the prosecuting agents.

## (d) PRICE INTELLIGENCE AGENCY AND PRICE CONTROL BOARD

The Agency is located in the Ministry of Trade with the aim of replacing the Price Control Board which is to be phased out. Even though this Agency is part of the Productivity, Price and Incomes Board, it can hardly be distinguished from the Price Control Board in practice. They share a common Chairman and Secretary as well as other officers who regard themselves as working for both bodies. What has happened is that the establishment of the Price Intelligence Agency has strengthened the research and Price determination unit of the Price Control Board.

At the height of the inflation in Nigeria in 1975, the Federal Government, in search of solution, appointed an Anti-Inflation Task Force to review inflationary trends in the country in all its ramifications with a view to recommending a workable solution. The Task Force recommended, among other things the setting up of a new board to be called Productivity, Price and Incomes Board to make contribution to the management of the economy. The Federal Government accepted this recommendation and set up the Board and later in April, 1977, promulgated a decree setting it up formally. Price Intelligence Agency (also recommended by the Task Force) is one of the four operational arms of this Board and is charged with the functions of "studying and interpreting price movements (including Resale Price Maintenance) on a continuing basis.

## (e) EFFECTS OF PRICE CONTROL ON NIGERIAN INFLATION

As has been mentioned at the beginning of this paper, price control is one of the measures designed to fight the high rate of inflation in the country. The effect of price control on inflation is not easy to, measure because any observed deceleration of inflation cannot be credited only to price control but also to other useful measures that are employed simultaneously with it to combat inflation and there is no way of isolating other measures and allowing one to work in order to measure its impact. However, a comparison of the consumer price index for some controlled commodities and uncontrolled ones may throw some light on the impact of price control on the inflation in the country.

The first problem that arises here is that the composite consumer price index which covers the relevant years cannot be used because it groups controlled and uncontrolled commodities under the same heading, for example "food". The second problem is that the Lagos Consumer Price Index which we are left to use because it has a good list of controlled and uncontrolled commodities does not cover all the relevant years and is not as good as the Composite Consumer Price Index in measuring inflation. Despite these defects, the Lagos Consumer Retai Price Index is still useful. Let us now compare selected controlled and uncontrolled commodities as shown in the Lagos Consumer Retil Price Index (Middle Income) - (see tables 7 & 8) from the 3rd quarter of 1975 to the 1st quarter of 1977. For controlled commodities in the selection the indices of 50.0 per cent of the commodities showed deceleration from the 3rd quarter of 1975 to the 3rd quarter of 1976 (i.e. in Period A) while in the same period only 33.3 per cent of the uncontrolled commodities showed evidence of deceleration. In period B (i.e. between the 4th quarter of 1975 to the 4th quarter of 1976) the indices of 33.3

TABLE 6 — DEMAND FOR AND SUPPLY OF CARS IN SOME M[illegible] COMPANIES IN NIGERIA

| COMPANIES | | 1975 (1) | 1976 (2) | Percentage Change between 1 & 2 (3) |
|---|---|---|---|---|
| A1 | Demand | 1,281 | 1,310 | +2.3 |
| | Supply | 1,280 | 1,100 | -14.1 |
| | Excess demand | 1 | 210 | +20,990.1 |
| B2 | Demand | 2,200 | 2,500 | + 13.6 |
| | Supply | 2,143 | 2,054 | -4 .2 |
| | Excess demand | 57 | 446 | +682.5 |
| C1 | Demand | 5,900 | 8,900 | - |
| | Supply 4 | – | – | -- |
| | Excess demand | – | – | – |
| D5 | Demand | N.A. | 2,155 | – |
| | Supply | 1,290 | 1,755 | +36.0 |
| | Excess demand | – | 400 | – |
| E | Demand | 9,500 | 12,000 | +26.3 |
| | Supply | 8,317 | 10,867 | +30.7 |
| | Excess demand | 1,183 | 1,133 | – 4.2 |
| F | Demand | 6,300 | 7, 200 | +14.3 |
| | Supply | 4,000 | 2, 700 | –32.5 |
| | Excess demand | 2,300 | 4,500 | +95.7 |
| C | Demand | 4,500 | 7, 000 | +33.3 |
| | Supply | 1,973 | 893 | –54.7 |
| | Excess demand | 2,527 | 6, 107 | 141 .7 |
| H1 | Demand | 3,800 | 5, 200 | +36.8 |
| | Supply | 2,745 | 3, 501 | +27.5 |
| | Excess demand | 1,055 | 1, 699 | +61.0 |
| I | Demand | N.A. | 1,09 3 | +10.6 |
| | Supply | 7,195 | 6, 417 | –10.8 |
| | Excess demand | – | 4, 517 | – |
| J | Demand | 2,000 | 3, 500 | + 75.0 |
| | Supply | 1,466 | 1, 543 | + 5.3 |
| | Excess demand | 534 | 1, 957 | +266.5 |
| K | Demand | 3,200 | 4, 800 | + 50. 0 |
| | Supply | 2,517 | 3, 612 | + 43. 5 |
| | Excess demand | 683 | 1, 188 | + 73. 9 |
| L3 | Demand | N.A. | N.A. | – |
| | Supply | 1,146 | 3,388 | +195.6 |
| | Excess demand | | – | – |
| M | Demand | N.A. | N.A. | – |
| | Supply | 7,471 | 4,568 | –38.9 |
| | Excess demand | – | – | – |
| | | (1975/76) | (1976/77) | |
| N | Demand | 14,638 | 14,870 | + 1.6 |
| | Supply | 12,506 | 9,888 | –20.9 |
| | Excess demand | 2,132 | 4,982 | +133.7 |

Source: Motor Companies A – N (See Appendix for names of the Companies) N.A = Not Available. 1 = All cars 2 = Mercedes Benz only 3 = Cars of 2000cc and above 4 = Company C stated that it has enough stock to satisfy demand in 1975 and 1976 but did not state the quantity of the stock..5 The company admitted having excess supply up to 1975 but did not state the quantity.

LAGOS CONSUMER RETAIL PRICE INDICES (MIDDLE INCOME FOR SELECTED COMMODITIES (UNDER PRICE CONTROL

TABLE 7

(Base: 1974 = 100)

| | 1975 | | 1976 | | | 1977 | Percentage Change between | | |
|---|---|---|---|---|---|---|---|---|---|
| | 3rd quarter (1) | 4th quarter (2) | 1st quarter (3) | 3rd quarter (4) | 4th quarter (6) | 1st quarter (6) | (1) & (4) (7) | (2) & (5) (8) | (3) & (6) (9) |
| Milk (peak) | 180.2 | 145.4 | 138.7 | 165.7 | 155.3 | 139.8 | -8.0 | +6.8 | +0.8 |
| Sugar | 110.6 | 89.1 | 143.2 | 85.7 | 88.1 | 78.8 | -22.5 | - 1.1 | -45 .0 |
| Star beer | 155.6 | 142.1 | 132.3 | 156.5 | 181.2 | 113.0 | +0.6 | +27.5 | -14.6 |
| Stout (Guiness small) | 132.5 | 125.1 | 130.6 | 148.5 | 180.3 | 137.2 | +12.1 | +44.1 | + 5.1 |
| Fanta | 153.6 | 157.9 | 165.8 | 182.0 | 204.1 | 153.4 | +18.5 | +29.3 | - 7.5 |
| Coca Cola | 153.6 | 157.3 | 163.9 | 182.0 | 204.1 | 153.4 | +18.5 | +29.8 | - 6.4 |
| Bicycle cigarrette | 107.6 | 104.3 | 108.7 | 103.9 | 100.2 | 95.7 | - 3.4 | - 3.9 | - 12.0 |
| Varsity cigarrette | 102.6 | 111.7 | 119.9 | 113.8 | 94.6 | 96.7 | +10 .9 | - 15.3 | - 19.3 |
| Target cigarrette | 102.1 | 98.6 | 101.1 | 100.1 | 99.6 | 88.3 | - 2.0 | + 1.0 | - 12.7 |
| Kerosine | 150.2 | 201.2 | 153.7 | 141.3 | 151.1 | 148.1 | - 5.9 | - 24.9 | - 3.6 |
| Galleon cigarrette | 80.8 | 81.0 | 77.7 | 76.9 | 82.2 | 80.8 | - 4.8 | + 1.5 | + 4.0 |
| Heneiken beer | 143.8 | 144.6 | 144.6 | 162.3 | 185.8 | 118.9 | + 12.9 | +28.5 | - 17.8 |

Source: Central Bank of Nigeria Monthly Report (October 1976, February 1977 and April, 1977).

per cent of the controlled commodities decelerated as against 25.00 per cent of the uncontrolled commodities. From the first quarter of 1976 to the 1st quarter of 1977 (i.e. Period C) the indices of 75.0 per cent of the controlled commodities decelerated compared with the deceleration of 25.0 per cent of the controlled ones. Of the commodities whose indices rose during the periods mentioned above the range of rise for controlled commodities is from 0.6 per cent to 18.5 per cent for period A; 1.0 per cent to 44.1 per cent for Period B; and 0.8 per cent to 5.1 per cent for Period C. But for uncontrolled commodities the range of rise is from 5.7 to 59.5 per cent for period A while Periods B & C show the range or rise to be 3.0 per cent to 70.4 per cent and 0.5 to 46.3 per cent respectively. The evidence before us has, thus, shown that controlled commodities have contributed. more than the uncontrolled ones in reducing the rate of inflation while the uncontrolled commodities have contributed more in aggrevating the rate of inflation at least within the period covered by this analysis. The validity of this conclusion is somehow weakened by the fact that the imperfections of price control (already mentioned) may even distort to some extent, the consumer Price Surveys. These surveys are carried out in the open market and not in the black market where many of the controlled commodities are sold at exhorbitant prices. Besides, we have used the Lagos consumer retail prices indices for the middle income group instead of the more representative composite consumer price index for Lower Income group. Therefore this analysis has not provided a conclusive evidence to show whether uncontrolled commodities contribute more than controlled ones in increasing the rate of inflation in the country. However, one thing has been established — i.e. both the controlled and uncontrolled commodities have contributed to inflation.

## (F) ECONOMIC THEORY AND NIGERIAN EXPERIENCE IN PRICE CONTROL

Having examined the working of price control in Nigeria, it may be necessary to find out whether economic theory has been relevant in understanding it. One of the predictions of Economic theory is that price control creates shortage and reduces the quantity actually bought and sold. The observed scarcity in the economy is attributed to a number of factors (including price control). In order to find out the extent of this scarcity in motor trade and to find out the contribution of price control to it, a survey of motor companies was conducted between July and October, 1977. The motor companies were asked to give, among other things, information on their car sales on yearly basis from 1970 to 1976 as well as the yearly demand for their cars during the same period. The demand is to be ascertained by showing figures for bookings for cars and then adding to it applications for bookings rejected because the expected cars would not be enough. Booking is defined here as requests to buy cars backed by part or full payment or a firm promise to pay. The first problem that arises in getting the figures for demand is that most of the companies are unable to produce figures for bookings. The second problem is that all the companies, with the exception of one, do not keep records of requests for bookings that were rejected. As a result of these problems created by absence of data, the companies were asked to estimate their demand for the period on yearly basis. But the figures got by this estimate might have been adversely affected by multiple bookings by some anxious buyers who want to buy from the company that can supply the cars first. On the other hand supply is to be represented by sales for those years when there was "excess demand" but for the years when "excess supply" existed, it is the "sales" plus "the stock at the end of the year" that represent supply. But stock figures are not available, hence the supply figures are adequate only for the years when excess demand existed. The result of this paucity of data is that the returns of the motor companies are useful only for two years - 1975 and 1976 when all the respondent companies (except one) recorded excess demand. Analysis of the returns has produced the following information (see table 6) — the figures are for cars below 2000cc except where otherwise stated:

(i) Out of the fourteen respondent companies only two companies C & D recorded sufficient stock up to 1975 while only Company C, which distributes locally assembled cars had sufficient stocks up to 1976.

(ii) All the other respondent companies admitted getting excess demand since 1975 but three companies (I, L & M) refused to estimate the demand for their cars for 1975 while companies L & M failed also to estimate it for 1976. From the available data excess demand ranged from one for Company A to 2,527 for Company G in 1975. In 1976 half of the respondent companies had excess demand ranging from 210 to 1,917 while companies F, I, N & G had excess demand of 4,500, 4,517, 4,982 and 6,107 respectively. From 1975 to 1976, excess demand increased in all the companies that gave the relevant data with the exception of Company E where it fell by 4.2 per cent. The fall in excess demand in company E was not caused by fall in demand but rather by incre-

LAGOS CONSUMER RETAIL PRICE INDICES (MIDDLE INCOME) FOR SELECTED COMMODITIES (WITHOUT PRICE CONTROL)

TABLE 8

(Base: 1974 = 100)

| | 1975 | | 1976 | | | 1977 | Percentage Changes between | | |
|---|---|---|---|---|---|---|---|---|---|
| | 3rd quarter (1) | 4th quarter (2) | 1st quarter (3) | 3rd quarter (4) | 4th quarter (5) | 1st qrts. (6) | (1) & (4) (7) | (2) & (5) (8) | (3) & (6) (9) |
| Yam | 105.6 | 89.7 | 95.9 | 132.6 | 139.4 | 131.0 | +26.8 | +55.4 | +36.6 |
| Garri | 181.4 | 216.6 | 262.3 | 250.1 | 245.5 | 263.5 | +37.9 | +13.3 | + 0.5 |
| Rice | 130.5 | 129.5 | 173.0 | 16F | 173.0 | 171.4 | +27.4 | +33.6 | – 0.9 |
| Maize | 147.5 | 147.3 | 166.8 | | 212.0 | 244.1 | +41.8 | +43.9 | +46.3 |
| Plantain | 245.6 | 211.5 | 199.8 | 202.0 | 204.5 | 203.0 | –17.8 | – 3.3 | – 1.6 |
| Egg | 145.7 | 152.2 | 160.7 | 163.9 | 177.4 | 190.4 | +12.5 | +16.6 | +18.5 |
| Charcoal | 157.0 | 150.8 | 146.6 | 151.1 | 149.6 | 157.9 | – 3.8 | – 9.8 | + 7.7 |
| Okro | 192.3 | 176.8 | 303.3 | 306.7 | 288.9 | 366.6 | +59.5 | +63.4 | +17.5 |
| Pepper (fresh local) | 359.6 | 427.6 | 397.9 | 380.0 | 381.2 | 391.7 | + 5.7 | –10.9 | – 1.6 |
| Tomatoes (fresh) | 169.8 | 176.8 | 195.0 | 222.4 | 194.0 | 233.4 | +31.0 | + 9.7 | +19.7 |
| Orange | 257.7 | 200.8 | 259.5 | 234.8 | 342.1 | 354.4 | – 8.9 | +70.4 | +36.6 |
| Palm Wine | 160.0 | 161.7 | 193.3 | 157.8 | 166.6 | 186.7 | – 1.4 | + 3.0 | – 3.4 |

Source: Central Bank of Nigeria Monthly Report (October 1976, February 1977 and April 1977) ase in supply resulting from the distribution of locally assembled cars by the company. The rise in excess demand, from 1975 to 1976, ranges from 61.0 per cent for Company H through 682.5 per cent for Company B to 20,990.1 per cent for Company A. The restriction on the importation of cars as well as the increased liquidity and purchasing power in the economy had contributed much to this scarcity. Price Control which has kept car prices fairly at low levels aggravated the situation by making it possible for more people to demand cars and by encouraging hoarding (for example, since 1975 the Price Control Board has sealed up to six motor companies in Lagos area for hoarding). It is mainly for the same reasons that this scarcity continues till today but the contribution of price control to the trend cannot be quantified because other factors are contributing to this scarcity simultaneously with price control. The fact that some motor companies have been sealed up for hoarding some vehicles (including cars) shows that the quantity supplied of these vehicles had been withheld during the period of hoarding. As people cannot buy what is not supplied it is reasonable to say that price control, by reducing the quantity actually sold at the controlled price automatically reduced the quantity actually bought.

Another prediction of Economic theory that should be related to Nigerian experience is that price control creates the potential for a profitable black market. To explore the contention we should first establish the factors that create this potential and then find out whether these factors exist in Nigeria. The first factor is the existence of "excess demand" while the second one is the existence of price enforcement which is not matched by effective rationing of the available commodities. The survey of motor companies (already mentioned) has revealed the existence of the first factor - excess demand or scarcity in motor car trade in 1975 and 1976. The same trend continues today and is experienced in other commodities. The second factor also exists. The record of arrests and convictions of price control offenders (see Table 4) shows that there have been attempts to enforce the price control. Despite the existence of this enforcement, rationing of controlled commodities are largely left in the hands of the producers and distributors who exploit the situation to suit their profit motive. Thus, price control creates the potential for a profitable black market by creating or encouraging scarcity when the price authority enforces a maximum price without ensuring orderly distribution or effective rationing of the scarce commodities. The extent to which this "potential" is exploited cannot be stated exactly because black marketeers operate in secrecy and are rarely caught. The few recorded cases of hoarding (see table 4 show the existence of hoarded commodities which feed the black market.

## CONCLUSION

The foregoing analysis has shown that price control in Nigeria is not working smoothly. This fact confirms the contention of many economists that direct price regulation hardly works well. Two questions come to mind here. Firstly can the Price Control Board, with its present structure and powers work better than it is doing now? Secondly can the Price Intelligence Agency replace the Price Control Board as an organ that is supposed to moderate the price level in the country? If the Price Control Board, in its current form, employs more research experts and price inspectors for price fixing and price enforcement it will still discover that the existence of scarcity in the economy will continue to "dis-arm" the price enforcement agents no matter how much equipped they are. Besides, the imperfections of the market will ensure that producers and distributors (who are mainly oligopolists and monopolistic competitors) win any struggle to curtail their profit. The emergence of the Price Intelligence Agency has not even improved the situation. The Agency is affiliated to the Price Control Board to study and interpret price structure and price movements in the economy on a continuing basis. Apart from the inadequacy of the manpower of the Agency, its efforts are wrongly directed to helping in determining the level at which to control prices which have been found to be unworkable. Therefore, in its current form, the Agency cannot successfully replace the Board (if success is measured by the ability to keep prices reasonably low).

A new body which is envisaged to aid the work of keeping prices reasonably low should not seek to control a set of prices but should in close cooperation with those who control the chief determinants of price (supply and demand) and in some cases have a measure of control over some of them. With this background in mind, the following suggestions are made for the future price control in this country.

Firstly, a new body (whether it is called Price Intelligence Agency or any other suitable name) should be given the power and necessary fund not only to study the price structure and price movements in the economy but also to study the supply and demand potentials in the economy with a view to forcasting the demand and supply position to be expected in the near future. This study and forcast will enable the new body to order or advise the appropriate quarters to make provision in advance for the anticipated demand or to initiate policy measures to control demand if it is not possible to increase supply. The new body should not only be able to give information to and hold dialogue with the chief organs that produce, import and distribute the commodities consumed in the country but also should have statutory power to issue orders to them when necessary. With the aid of this forcast the government can formulate its fiscal and monetary policies, with respect to demand and supply situation, in such a way as not to jeopardise its efforts to promote price stability.

Secondly, we should realise that our low production base, as well as the imperfections of the market structure (like the existence of few firms or producers for a commodity, difficulty of entry into and exit from our industries, collusion among firms, etc.), are the chief factors that make it difficult for supply to cope with demand in the economy. Therefore, the task of moderating prices through demand and supply forcast should be supplemented with existing and new measures to increase our agricultural and industrial output and also with re-structuring the market for commodities. This re-structuring should be geared to reducing the imperfections of the market by preventing collusion among firms, removing unnecessary restrictions of entry into some businesses, and discouraging too many levels of middlemen between the producer and the consumer.