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The Economics of Distortions and the Problem of Measurability: Evidence from Nigeria

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The Nigerian economy has been characterized by various forms of distortions, mostly structural, arising from dysfunctional institutions and incentive systems. Distortions and imperfections generally mean any deviation from the assumptions of perfect competition. The degree to which a market or industry can be described as competitive depends in part on the ease with which new businesses can enter and exit a particular market in the long run. This paper therefore is burdened with the objective of examining the extent of this digression. Through a descriptive methodology, it provides a theoretical basis through which these distortions can be measured, and its findings establishes evidences of distortions in the Nigerian economy across various sectors including the power/energy, financial and the banking sectors. Specific and wider implications on the Nigerian as well as the world economy have been highlighted, namely the exportation of these distortionary tendencies to the rest of Africa and the world via the oil nexus.

Keywords: distortions, externalities, rent seeking, economic, policies, market

Introduction

Several diagnosis have been done on the Nigerian economy and to date most of them seem not to be salutary, except for the immediate post-independence period where agriculture was the dominant sector and contributed a huge percentage of our GDP and foreign earnings. Then oil was not discovered in commercial quantities and each component or region of the Nigerian state was content to looking inward, developing their domestic economy along lines of comparative advantage and genuinely contributing their quota to the overall sustenance of the national economy. But those days are gone. Now the economy has been variously described as mono-cultural, weak and dysfunctional, rentier, import-dependent and many other negative labels. There is the problem of dilapidated or non-existent infrastructure and other forms of social overheads like good road networks, power generation and distribution, institutional failure, capacity underutilization in industries, plant closures, high unemployment and, the worrisome of all, corruption. These negative attributes and characterization have in no small way dampened the capacity of the economy to attract the much needed foreign investment; instead the investing world is turning their attention to more congenial climes within Africa and beyond. Thus there seems to be, on the basis of the above scenario, a recurring cycle of a downward declension of our economic fortunes.

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It is common knowledge that in attempting an analysis of Nigeria's economic history, a trite conclusion is always drawn to the effect that the present is worst than the past. In specific terms, where unemployment existed in the distant past, it is worse today; where inflation, corruption, high exchange rates and the likes ravaged the economy, it is worse today than it was yesterday. And the combined effects of these create distortions of a permanent nature that is looked up to as a rule rather than the exception. Or perhaps these unpleasant indices, rather than create, are themselves evidence of distortions. Distortions as conceptualized here denote a movement away from the ideal norms of the perfectly competitive market model. It is therefore the purpose of this paper to provide a theoretical basis for the measurement of these distortions.

In conceptualizing distortions, it should be noted that it is quite an elusive and slippery phenomenon. While it is hated and unwanted because of the discomfort it creates, it is nevertheless inevitable; it is the foundation upon which many social and economic phenomena rest. For instance, Economics itself as a discipline rests upon and finds its relevance on distortions. Dissatisfied with the mercantilists' ideologies of the sixteen century, which advocated the merits of balance of payments surpluses to increase the money supply and stimulate the economy via protectionism, Adam Smith formalized the principles of the free market which has today been accepted as the cornerstone of classical Economics. The theories relating to the Economic

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man, with greed and self-interest as the driving force is a distortion which unfortunately has provided the philosophical tool of primitive capital accumulation, socio-economic lovelessness in human relations, arrogance and pride, unbridled competition and corruption. The different variants of Economic Thought (Classical, Neo-Classical, New Classical, Keynesian, Neo-Keynesian, Post Keynesian, Monetarists, Structuralists etc) are all manifestations of distortions within the discipline itself. Yet these distortions have helped deepen an understanding of Economics as a discipline in the social sciences. Distortions can exist in virtually all the sectors of an economy: in education, health, oil, transport, agriculture, financial, etc. Indeed, the very essence of economic policy and interventions, be they reactive or proactive, are meant to correct and minimize the impacts of these distortions on the various aspects of the national economy. Life itself would be unchallenging and thus unrewarding without distortions.

The various disciplines and professions known to mankind exist to meet needs and solve problems. By nature man, his environment and other derivatives and variables that account for this existence have never been in equilibrium as perfect competition would want us believe. By and large, we can situate distortions within the Marxian framework of dialectics which is a way of analyzing complex, contradictory and dynamic interconnections as a driving force to arrive at a new socio-economic order. These considerations leave us wondering: Can distortions be eradicated? Can distortions be viewed as an indispensable and inevitable element of change that is required for a socio-economic entity to progress? Are there some positive benefits/sides to distortions? Is there a bearable balance between what is desired in distortions and that undesired? Do we have a direct and specific policy to deal with the various distortionary tendencies experienced in the different sectors of the Nigerian Economy? Is there a homogeneity of distortions at every level? In other words are distortions at the micro level the same as that in the macro level, because what seems distortionary and unpleasant at the micro level may be salutary and profitable at the macro. Can distortions be accurately measured and by what standard? The principles of perfect competition upon which all other models are measured are themselves suspect. How perfect is perfect competition? If perfect, why the many qualifications of ceteris paribus, when in reality all things can never be equal? Following the introduction, the next section reviews the concept of distortions, while section 3 discusses how distortions are evaluated and measured. Section 4 provides some evidence of distortions in the Nigerian economy and section 5 concludes the paper.

Conceptual Issues

The economics of distortions

Distortions and imperfections generally mean any deviation from the assumptions of perfect competition. The degree to which a market or industry can be described as competitive depends in part on how many suppliers are seeking the demand of consumers and the ease with which new businesses can enter and exit a particular market in the long run. The spectrum of competition ranges from highly competitive markets where there are many sellers, each of whom has little or no control over the market price - to a situation of pure monopoly where a market or an industry is dominated by one single supplier who enjoys considerable discretion in setting prices, unless subject to some form of direct regulation by the government. In many sectors of the economy markets are best described by the term oligopoly - where a few producers dominate the majority of the market and the industry is highly concentrated. In a duopoly two firms dominate the market although there may be many smaller players in the industry.

Perhaps the most straightforward deviation from perfect competition occurs when there are a relatively small number of firms operating in an industry. At the extreme, one firm produces for the entire market in which case the firm is referred to as a monopoly. A monopoly has the ability to affect both its output and the price that prevails on the market. A duopoly consists of two firms operating in a market. An oligopoly represents more than two firms in a market but less than the many, many firms assumed in a perfectly competitive market. The key distinction between an oligopoly and perfect competition is that oligopoly firms have some degree of influence over the price that prevails in the market. In other words each oligopoly firm is large enough, relative to the size of the market, so that changes in its output cause a change in the equilibrium price in the market (Ahuja, 2011).

Another key feature of these imperfectly competitive markets is that the firms within them make positive economic profits. The profits, however, are not sufficient to encourage entry of new firms into the market. In other words free entry in response to profit is not allowed. The typical method of justifying this is by assuming that there are relatively high fixed costs. High fixed costs, in turn, imply increasing returns to scale. The model also excludes the possibility of externalities in production and consumption so that there is no divergence between private and social costs and benefits. All firms (industry participants and new entrants) are assumed to have equal access to resources

(technology, other factor inputs) and improvements in production technologies achieved by one firm can spill-over to all the other suppliers in the market. Thus most monopoly and oligopoly models assume some form of imperfect competition (Steve 2001). However one can also find price distortions both in commodity as well as in factor market. These distortions rise because of institutional arrangements due, for example, to a situation where the wage rate in some sectors of the economy exceeds the opportunity cost of the labour.

Keen (2001) notes, that if firms do not react strategically to one another, the slope of the demand curve that a firm faces is the same as the slope of the market demand curve. Hence, if firms are to produce at a level that equates marginal cost and marginal revenue, the model of perfect competition must include at least an infinite number of firms, each producing an output quantity of zero.

Perfect competition in neoclassical economics assumes that the number of buyers and sellers are both of the power of the continuum, that is, an infinity even larger than the number of natural numbers, K.

However, Velupillai (2009) argues of the inapplicability of such models to actual economies since money and the commodities sold each have a smallest positive unit. Currently, the dominant intuitive idea of the conditions justifying price taking and thus rendering a market perfectly competitive is an amalgam of several different notions, not all present, nor given equal weight, in all treatments. Besides product homogeneity and absence of collusion, the notion more generally associated with perfect competition is the negligibility of the size of agents, which makes them believe that they can sell as much of the good as they wish at the equilibrium price but nothing at a higher price (in particular, firms are described as each one of them facing a horizontal demand curve). However, also widely accepted as part of the notion of perfectly competitive market are perfect information about price distribution and very quick adjustments (whose joint operation establish the law of one price), to the point sometimes of identifying perfect competition with an essentially instantaneous reaching of equilibrium between supply and demand.

In the short run the equilibrium market price is determined by the interaction between market demand and market supply. In the diagram shown below (Fig.1), price P1 is the market-clearing price and this price is then taken by each of the firms. Because the market price is constant for each unit sold, the AR curve also becomes the Marginal Revenue curve (MR). A firm maximises profits when marginal revenue = marginal cost.

In the diagram below, the profit-maximising output is Q1. The firm sells Q1 at price P1. The area shaded is the economic (supernormal profit) made in the short run because the ruling market price P1 is greater than average total cost.

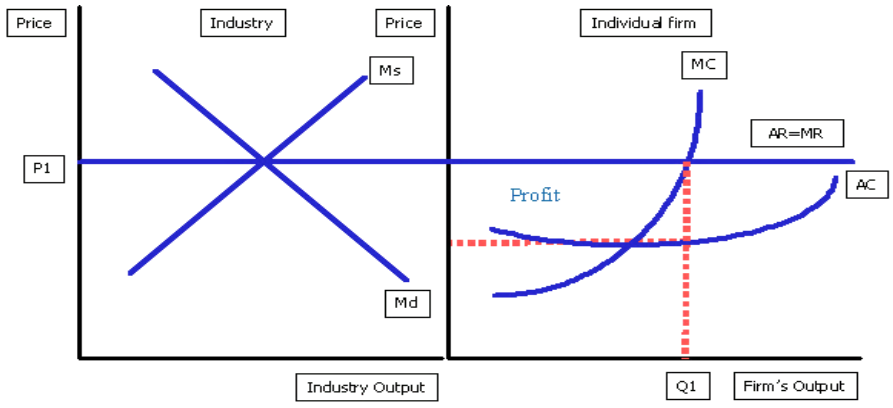

Figure 1. Industry and firm in perfect competition (the short run).

The long run equilibrium leaves industry operators making normal profits. If most firms are making abnormal profits in the short run there will be an expansion of the output of existing firms and we expect to see the entry of new firms into the industry. Firms respond to the profit motive and supernormal profits act as a signal for a reallocation of resources within the market. The addition of new suppliers causes an outward shift in the market supply curve. This is shown in the Figure 2.

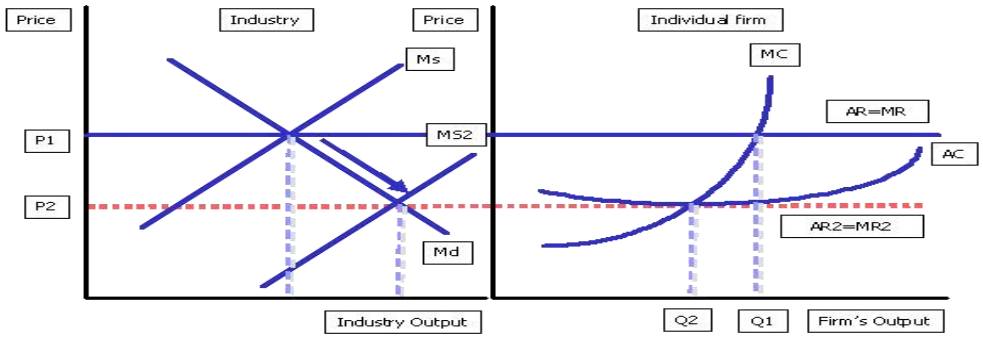

Figure 2. Industry and firm in perfect competition (the long run).

Making the assumption that the market demand curve remains unchanged, higher market supply will reduce the equilibrium market price until the price = long run average cost. At this point each firm is making normal profits only. There is no further incentive for movement of firms in and out of the industry and a long-run equilibrium has been established.

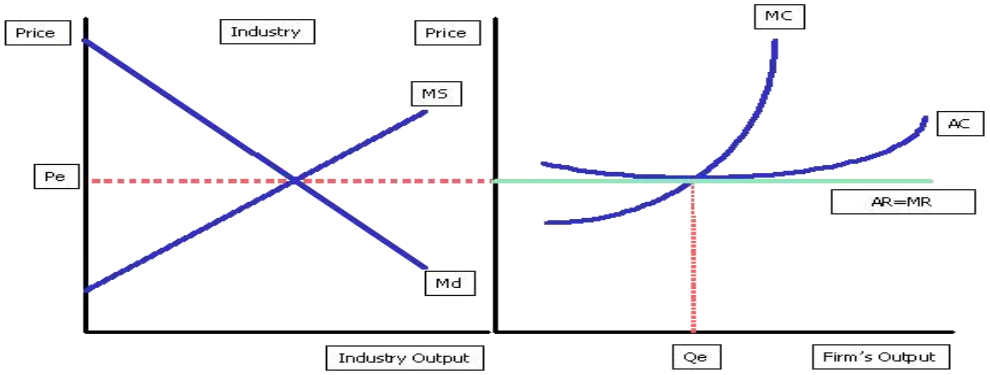

Figure3: Perfect competitive equilibrium.

The entry of new firms shifts the market supply curve to MS2 and drives down the market price to P2. At the profit-maximising output level Q3 only normal profits are being made. There is no incentive for firms to enter or leave the industry. Thus a long-run equilibrium is established. This is depicted in figure 3 above. Perfect competition is used as a yardstick to compare with other market structures because it displays high levels of economic efficiency. In both the short and long run, price is equal to marginal cost (P=MC) and therefore allocative efficiency is achieved – the price that consumers are paying in the market reflects the factor cost of resources used up in producing the good or service (Suranovic, 2009). Productive efficiency occurs when price is equal to average cost at its minimum point. This is not achieved in the short run – firms can be operating at any point on their short run average total cost curve, but productive efficiency is attained in the long run because the profit maximising output is achieved at a level where average (and marginal) revenue is tangential to the average total cost curve. The long run of perfect competition, therefore, exhibits optimal levels of static economic efficiency. There is also another form of economic efficiency – dynamic efficiency – which relates to aspects of market competition such as the rate of innovation in a market, the quality of output provided over time (Suranovic, 2009).

Measurement of Distortions

Distortion generally occurs when the natural shape of a thing or a person is radically altered. Distortion is a condition that results in the creation of economic insufficiency. The economic insufficiency is the result of many factors. An Economic system is termed insufficient and inefficient when it cannot provide the society sufficient goods and services even

after maximum utilization of all the available resources. Distortion is measured by monitoring the deviations between the market prices of the goods and their marginal costs. In other words it is the gap between the marginal rate of substitution in consumption and the marginal rate of transformation in production. And these are pervasive characterizations of the Nigerian economy, seen in unequal rates mostly in the manufacturing and financial sectors. The deviations are due to many factors like import quotas and tariffs. Monopoly and government regulation gives rise to rent seeking behaviour. Again, different types of income or goods, incomplete information, inflation and uncorrected externalities account for other sources of distortions. Any of them may lead to consumer surplus net loss. In the case of perfect competition, along with the idealized conditions, the distortion rate is at zero with the market equilibrium of demand and supply (Ahuja, 2011).

There are two kinds of market distortions, i.e. the distortions resulting from market imperfections and distortions which are induced by policies. The distortions are present both in the product market and factor market. The principal forms of product market distortions are trade policies in the form of import protection and export subsidies (taxes), exchange rate policies, and price control, all of which affect relative product prices. In turn, factor market distortions may result from social policies, financial policies, and tax policies, which affect the relative prices of labour and capital. However the distortions in the product markets will also have an impact on the factor market and vice versa. Product market distortions will give rise to distortions in factor market through their effects on factor prices while factor market distortions will cause distortions in product markets through their effects on cost of production. The product market distortions and factor market distortions are however not easy to be seen in isolation. The distortions in the product market arise due to two reasons. First, is due to the presence of monopoly or oligopoly in the production of the commodity, which have effect of raising the price to consumers above the marginal cost of production. Second, is due to the presence of external economies or diseconomies which make the marginal cost to producers higher than marginal social cost. The former is policy induced distortions, while the later is due to the market imperfections. The distortions originating in imperfectly competitive market due to the monopoly or oligopoly practices are generally intimately interrelated with commercial policy, and there is reason to believe that producers often collude to exploit the profit opportunities created by protection. Therefore, an attempt to offset monopolistic distortions by protective interventions in trade (taxes or subsidies on trade) may well be offset by increased distortions and the intervention creates consumption loss with out countervailing production gain. The same reason could render nugatory the attempt to employ optimal intervention in the form of production taxes or subsidies (Ahuja, 2011).

Some Evidence of Distortions in the Nigerian Economy

Macro-economic Indices

The analysis of the theoretical foundations of distortions and the ideal framework represented by perfect competition provides a yardstick to evaluate the varied forms which the different sectors of the Nigerian economy have departed from this ideal. As noted in the previous section, factor market distortions results from social, financial and tax policies of government; while product market distortions are due to trade policies, including import protection and export subsidies, exchange rate policies and price control. We now turn to an assessment of these policies and show how these have created deviations from the norm as represented by perfect competition. Specifically we analyse our exchange rate policies and incentive system. A major turning point in Nigeria's economic policy strategy was in October 1986 when Nigeria rejected an IMF credit facility but turned around to impose upon itself a Western economic blueprint called the Structural Adjustment Programme, SAP. Doubtlessly, the economy was in need of a restructuring because virtually all the sectors were on the verge of collapse. SAP was introduced against the backdrop of dwindling government resources due from export revenues from oil, persistent retrenchment in both the public and private sectors, pervasive long queues for so-called essential commodities, non-payment of several months of salaries due to workers, declining output in the agricultural and manufacturing sub-sectors of the economy, declining investments in both the public and private domains, corruption, and an overvalued currency which ensured that able-bodied workers abandoned the farms for cities in response to the distortions in prices resulting from such overvaluation. Indeed there was a deep structural imbalance in the economy, many of which cannot be comprehensively catalogued here.

The second Tier Foreign Exchange market (SFEM) was government policy response to the naira overvaluation. It was a mechanism through which the market forces would interact to determine the realistic value of the local currency vis a vis other

currencies. It was the very opposite of the First-Tier where foreign exchange rates were administratively determined. Not only did the SFEM work to establish the naira exchange rate based on market forces, it also determined the interest rates paid on deposits in the domiciliary accounts. Many salutary consequences were envisaged for SFEM. It was believed that Nigeria will get real value for its money thus reducing the tendency for over-invoicing of imports, while producers of non-oil export commodities will have enormous incentives. With the deregulation of the market and loosening of government control, capital inflow was expected from abroad and also a dismantling of the import licensing regime; the minimization of waste in government parastatals and a reduction in currency trafficking/black marketing and smuggling. It was also believed that increased cost due to the above processes will naturally lead to better maintenance of plant and equipment.

While many of these expectations and possibilities have been achieved, some have not. Indeed it has been a mixed bag of blessings. The naira, while competing with other currencies in the foreign exchange market, began a free fall to unprecedented low levels. Liberalization and other accessories to it were achieved at the cost of great social and economic disequilibria. Unemployment rose to insane levels, private investments were dampened as a result of the prohibitive cost of capital due to the SFEM, capacity utilization in industries plummeted, strikes and other social upheavals characterized the polity. "SFEM resulted in credit squeeze, the revision of interest rates upward, competitive bidding for foreign exchange against transnationals with copious funds, high prices of imported inputs and a market squeezed by wage freeze" (Toyo, 1991). And the spiraling mixed multiplier effects of the above scenario have not abated but accentuated. From NEEDS to the present Seven Point Agenda, strands and echoes of the much discredited SAP policies have again found fertile expression. The problems lie not so much in the policy content but in their implementation and most times inconsistencies. Besides the SFEM, there has been the First Tier Foreign Exchange Market (FFEM), the Dutch Auction System (DAS), the Wholesale Dutch Auction System (WDAS), and several other variants of SFEM. And given that the economy is import dependent, with manufacturers, investors and other economic agents relying on the signals in the foreign exchange market to make their business decisions, these erratic transitions help to widen the gap between business expectations and reality, frustrating the planning process and making millionaires overnight as a result of rent seeking behaviour of market players. Nor have the trend in interest rates been any better. Distortions arising from policy somersault in the foreign sector are transmitted into the domestic sector in a much distorted dimension. One area where this is manifested is the domestic interest rates, especially the lending rate which represents the cost of borrowing for investors.

Table 1 portrays the quantitative magnitude of these policy inconsistencies. Exchange and interest rates show no regularity in their trends. For instance one can only imagine the impact on the real sector of the economy where in 1999 exchange rate rose to almost 93 naira as against 21.8 naira in the preceding year. These irregularity in trends were attributes of the SAP regime which liberalized and deregulated banking licensing and, therefore, interest and exchange rates, slowly culminating to a distress syndrome which saw the liquidation of most banks.

Table 1. Exchange and interest rate trends.

Year	Exchange rate	Interest rates	Year	Exchange rate	Interest rate
1990	8.0378	27.7	2001	111.9433	21.34
1991	9.9095	20.8	2002	120.9702	30.19
1992	17.2984	31.2	2003	129.3565	22.88
1993	22.0511	36.09	2004	133.5004	20.82
1994	21.8861	21	2005	132.1470	19.49
1995	21.8861	20.79	2006	128.6516	18.41
1996	21.8861	20.86	2007	117.8	18.36
1997	21.8861	23.32	2008	132.50	10.2
1998	21.8861	21.34	2009	149.58	9.8
1999	92.6934	27.19	2010	148.5	6.9
2000	102.1052	21.55	2011	-	-

Source: CBN Statistical Bulletin (2010).

Banking sector reforms and distortions

While the above evaluations may seem remote and far removed from our present economic realities, the recent banking reforms cannot stand such a passive verdict. It is a sad but palpable reminder of one of those policy-induced distortions we have seen in recent times. Though the reforms were welcome and

considered long overdue, the manner of its implementation and the post-reform or consolidation experience leaves much to be desired. These reforms were initiated against the backdrop of persistent illiquidity, weak corporate governance, poor assets quality, insider abuses, weak capital base, unprofitable operations, and over-dependency on public sector funds, among others. Besides, the significant dependence of many Nigerian banks on government deposits, with the three tiers of government and parastatals accounting for over 20 percent of total deposit liabilities of deposit money banks, were indicative of a distorted financial system. Although the distribution among banks was not uniform, there were some banks whose dependency ratios were in excess of 50 percent (Abdullahi, 2005). These had negative implications on the resource base of such banks. They were weak and volatile, rendering their operations highly vulnerable to swings in government revenue, arising from the uncertainties of the international oil market. At the end of the exercise 25 out of 89 banks hitherto existing emerged having met the N25 billion recapitalization requirement. Amongst the 89 banks, 76 of them agreed to mergers and acquisitions, which altogether accounted for 93.5% of the deposit share of the market (Abdullahi, 2005). It has been argued that much of what happened was not mergers and acquisitions but "acquisitions and takeovers".

The Central Bank of Nigeria (CBN) was more concerned with shoring up the capital base of these banks than it was about the quality of management. Abdullahi again notes that most of the banks were of un-equaled asset base, liquidity, branch spread, information and technology capability, etc; not to mention different cultures and processes. The usual due process and verification exercises were also hardly carried out before they hurriedly came together and applied to the regulatory authority for an "Approval-in-Principle". Industry watchers and the general public were quick to identify "strange bed-fellows" in the structure of the consolidated banks. Banks that initially had nothing in common, or had sharply contrasting cultures and systems emerged as a single bank. A potential fallout of the above was that both the shareholders, investing public, depositors, and industry experts were misled into taking poor decisions, in addition to the disharmony and ill-feelings generated amongst the various staff of the banks. And it was not long when the CBN warned of the dangers of de-marketing activities posed to the banking industry by some industry players. While it can be argued that the consolidation programme attenuated the impact of the global economic crisis on the Nigerian financial system, it can also be maintained that the banking reforms have left a sore thumb in the hands of monetary authorities, especially during the post-Soludo era. The sacking of some bank executives and their boards and the revelations about grotesque insider abuses and non-compliance with banking regulations on several aspects of core bank operations, including the advancement of loans and credits to cronies and relations of bank executives; the loss occasioned by the use of margin loans for purchases of bank equities, and many more unethical practices went to show the institutional rot that had been the lot of the system for which the consolidation exercise overlooked or was ignorant about. Little wonder then that the net worth of the reform programme is perhaps only evidenced in the radical change in the architecture and structure of bank spread and ownership in Nigeria. There seems to be very little real change and contribution of the reform on the economy; perhaps the economy is worse off by the distortions the exercise has created. For instance, the issue of high lending rates which the consolidation sought to address has not been achieved after the exercise. Lending rates are still very high thus dampening private investment. The marginal gains in employment witnessed during the consolidation programme have been eroded as most banks have sacked most of its staff. The CBN seem not to have come to terms as to where to keep public funds: whether with the CBN or with commercial banks. Withdrawing them from time to time as a monetary policy tool only serves to fuel distortions in the system because of the negative signals it sends to economic agents and market operators. It only heats up the economy and distorts key industry indicators such as interest rates, inter-bank rates, and liquidity ratios. Thus the belief that bigness translates into international competitiveness and efficiency benefits to the real sector is arguable.

Distortions in the Energy Sector

Distortions in the real sector, the product market, are accounted for by many factors which manifest themselves in high marginal costs to producers above the social marginal costs. Top among the list of those factors is the dysfunctional nature of our power sector. Electricity drives the engine of modern civilization and economy. Without it no economy can survive, either in its production, distribution or consumption capacities. Indeed one of the cogent indicators of economic growth and development is the amount of energy (nuclear, thermal, hydro etc) consumed by residents of a country. Low consumption rates reveal low levels of economic growth. For the Nigerian economy, the problem has not been that of consumption but supply.

The former far outstrips the latter. Nigeria is endowed with thermal, hydro, solar, and oil resources that serve as potential energy base, yet it is described as an energy-poor country because this sector is

relatively under-developed. Available statistics show that only about one third of Nigerians or approximately 40 per cent of the population has access to electricity. The distribution of electricity shows great disparities between rural and urban, and between residential and industrial areas in the urban centres (Ali-Akpajiak & Pyke 2003). The very poor quality of electricity supply in recent years has been a major constraint on the performance of the Nigeria economy. As power supply through the Power Holding Company of Nigeria (formerly, National Electric Power Authority) has continued to be very unreliable. It has become compelling on most industrial, commercial establishments or even individual consumers to acquire all kinds of standby generating plants at exorbitant costs. Estimates of some of the measurable economic costs of electricity failures have been made by Ukpong (1973; 1976), and Uchendu (1993).

The figures are staggering and the economic and financial losses to the economy are highly substantial. Ukpong estimated overall industry loss at ₦84O,000.00M in 1973 and ₦1,378,000.00M in 1976. He noted that cement and concrete industries suffered most from power failures, followed by food, metal products, textiles and printing industries. Uchendu's estimates of measurable costs associated with electricity failures put the figure at ₦5,662.56 M for the period between 1991 and 1993. It is concluded that the industrial sector suffered most of the losses. Clearly, electric power shortage is a critical national economic problem, the solution to which must precede meaningful industrialization of the economy.

Available statistics indicate that although the nominal generation capacity of Power Holding Company of Nigeria (PHCN) is on the average 4550 megawatt which exceeds the peak load demand of about 2000 megawatt (average), transmission and distribution bottlenecks have created a notorious gap between demand requirements and the delivered electricity. This is highlighted in Table 2.

Table 2. Electricity generation and supply balance sheet, 2008.

Year	Generation in Mw	Supply in Mw	Loss in transmission in Mw	Percentage Loss
1970	176.6	145.3	31.3	17.7
1971	215.4	181.1	34.3	15.9
1972	255.4	211.1	44.3	17.3
1973	299.7	232.7	67	22.4
1974	261.1	266.2	-5.1	-1.9
1975	395.4	318.7	76.7	19.3
1976	468.7	369.6	99.1	21.1
1977	538	435.7	102.3	19.0
1978	522.7	504.4	18.3	3.5
1979	710.7	460.1	250.6	35.3
1980	815.1	536.9	278.2	34.1
1981	887.7	335.9	551.8	62.2
1982	973.9	685.6	288.3	29.6
1983	994.6	696.7	297.9	29.9
1984	1025.5	625.50	400	39.0
1985	1166.8	717.40	449.4	38.5
1986	1228.9	841.80	387.1	31.5
1987	1286	852.90	433.1	33.8
1988	1330.4	853.50	476.9	35.8
1989	1462.7	976.60	486.1	33.2
1990	1536.9	898.50	638.4	41.5
1991	1617.2	946.60	670.6	41.5
1992	1693.4	993.00	700.4	41.1
1993	1655.8	1,141.40	514.4	31.1
1994	1772.9	1,115.00	657.9	37.1
1995	1810.1	1,050.90	759.2	41.9
1996	1854.2	1,033.30	820.9	44.3
1997	1839.8	1,009.60	830.2	45.1
1998	1724.9	972.80	752.1	43.6
1999	1859.8	883.70	976.1	52.5
2000	1738.3	1,017.30	721	41.5
2001	1689.9	1,104.70	585.2	34.6
2002	2237.3	1,271.60	965.7	43.2
2003	6180	1,519.50	4660.5	28.5
2004	2763.6	1,825.80	937.8	33.9
2005	2779.3	1,873.10	906.2	32.6
2006	2771.5*	1,739.47*	1031.9	37.2
2007	2775.4*	1,812.79*	962.6	34.7
2008	2773.4*	1,808.45*	964.9	34.8

* = The figures are provisional. Source: adapted from CBN (2010).

It is evident that between 1990 and 2000, the average electricity loss had increased to 40 per cent as against 27 per cent in 1970 to 1989. And between 2001 till date, the situation has not changed. Nigeria, Africa's largest crude exporter ranked 118 in electricity supply out of 150 countries polled, translating into a further dip from its 109 position in 2006, 108 in 2007 (Atser, 2008).

The World Bank report (1995) rates Nigeria as the worst performer in the power sector out of 20 developing nations. The rating shows Nigeria as having the highest percentage system loss; lowest generation capacity factor and average collected revenue as well as lowest return on investment. A major factor in this poor performance is the distortion in the investment pattern in the industry which has focused more on generation to the detriment of transmission and more especially distribution facilities which have lagged abysmally behind, resulting in a devastating impact on the industrial environment. Surprisingly, from 1978 till date, residential consumption of electricity has consistently been greater than industrial consumption; a situation that is not obtainable in most industrialized countries (Iwayemi,1991, World Bank,1995, Ayodele,1998).

In a word, the problems of the power sector include but are not limited to the following: limited access to infrastructure, low connection rates; inadequate power generation capacity; inefficient usage of capacity; lack of capital for investment; ineffective regulation; high technical losses and vandalism; insufficient transmission and distribution facilities; inefficient use of electricity by consumers; inappropriate industry and market structure, and unclear delineation of roles and responsibilities. All these have negatively impacted on the performance of the real sector of the economy. With rising capacity underutilization, increased cost of doing business with attendant restraint on the economy's ability to employ, de-industrialization and divestment have been a prominent feature of the economy in the last few years. An instance of this is the relocation and closing down of Michelin factories and plants to Ghana. Dunlop, another key player in the tyre industry, has followed suit. The fortunes of the two tyre giants were adversely affected by inconsistency in economic policies, lack of protection of home industry due to globalization and liberalization policies, high interest rates, power crisis and high cost of fuel which have led to sharp rise in cost of production.

In the second quarter of 2009 Coca Cola Nigeria shut its concentrate plant in Otta, Ogun State, citing harsh economic conditions as reasons why it could no longer continue operations in the country (Businessday, 2009). One can only imagine the attendant negative multiplier effect this closure will have on many households and dependents whose breadwinners may have been affected by the closure.

Distortions and Rent-Seeking Behaviour

Rent seeking activities by economic agents at the micro and macro levels have substantially exacerbated distortionary gaps in the economy. From the real sector to the monetary, evidence abound of the socio-economic consequences of these activities, where huge resources are expended in order to bring about an uncompensated transfer of goods or services from another person or persons to one's self as the result of a "favorable" decision on some public policy. In the electricity and energy sectors for instance, one reason why the proposed liberal reforms are yet to be implemented is because of the existence of a powerful cabal within the system who prefer the status quo rather than back the reforms. And the social costs of these delays are monumental – continuous darkness, a generator-driven economy with zero cost on air and noise pollutions, capacity underutilization in industries, unemployment and its attendant dislocational effects.

In the housing sub-sector, there exist the pervasive influence of agents who act as mediators between house-owners and potential tenants. Such mediatory roles create a divergence between the real marginal cost of accommodation and the marginal benefits so derived. Thus agents benefit from the system without conferring a corresponding value to it. In the transport sector, commuters are meant to pay for the rent seeking activities of touts who parade as motor park agents, appropriating an uncompensated marginal benefit and premium to themselves. This "official" benefit is likened to a tax whose incidence is generally borne by the commuters, with the exception perhaps in situations where the economic circumstance of the commuter permits the transfer of such tax burden to yet another economic agent with an elastic demand curve.

Thus in all these cases, the first party (citizens who are entitled to uninterrupted electricity supply, the potential tenant who should have the latitude of engaging with his land lord directly without an exploiting middleman, the commuter who should deal directly with his transporter etc) is denied access to otherwise assessable transaction opportunities by a third party, the rent-seeker.

At the macro level, the tendency of regulatory capture is predominant, where powerful firms and other lobby groups manipulate the political process and collude with government agencies to impose tariffs and other forms of regulations on goods and

services so they can gain monopolistic advantages. This stifles free enterprise competition (Feenstra, et all, 2008), creates the possibility of consumer exploitation (Dauderstädt et all, 2006) and may in some instances lead to loss of revenue to the government (Chowdhury, 2006).

Conclusion and Recommendations

Distortions in the Nigerian economy assume various forms. They may be market induced or policy induced. By far government or policy-induced distortions form the greatest chunk of the structural bottlenecks experienced in the Nigerian economy over the years. A remedy to this would involve a well defined approach to policy formulation that would be sustainable. Policy somersault results from ill-conceived models of economic development which are far removed from the realities of the Nigerian economic climate. Consistent, sustainable policies which will transcend partisanship are the cure for this malady.

Besides policy formulation is the more onerous task of buy-in and political will to see them implemented. The former involves the process of engagement of the support of the citizens and stakeholders to government intentions and programmes. Specifically, the government cannot continue to dither on its promises to provide adequate electricity supply to Nigerians. It bears repeating that electricity, like telecommunications, good road network, railways, etc., holds the key to a radical transformation of the structure of the Nigerian economy. The much needed foreign direct investment would be easily trapped; local small scale businesses would pick up; the capacity of the economy to employ idle resources would be invigorated; the cost of doing business would be fundamentally lowered, thus reinvigorating tendencies towards competitive prices, and incomes to factors of production would naturally improve. Since distortions have been identified as a condition which results in the creation of economic insufficiency, these processes would smoothen out the distortive tendencies within the system, and consequently freeing the economy to productively engage those resources that were hitherto unexploited. With market driven incentives and sound complementary government policies, economic abundance would be guaranteed and the economy restored to a *near competitive* balance.

On a broader international scale, consequences of distortions are evident in developing countries of Latin America, Africa and the Pacific, and to a lesser degree on the economies of the developed western nations. For the former group of countries, government induced distortions, as noted in the Nigerian case, are by far the greatest contributor to diversionary and dislocating tendencies in these economies. Political instability, fiscal imbalances, external and internal disequilibria, parlous state of infrastructure, endemic and institutionalized corruption, and many other structural rigidities conspire to render developing nations' economies less than optimal and competitive. The entrenchment of these distortionary tendencies in the Nigerian economy have wider implications to the West African sub-region, Africa in particular and the rest of the world in general. This is because of the strategic position Nigeria occupies in Africa and the fact that she is the sixth largest producer of oil. Spiraling negative consequences may ensue if her domestic economy is not engineered in the right path. As Africa's second largest economy, refusal to maintain the right policy mix, where required, may result to exportation of these negative tendencies to other parasitic economies that rely heavily on economic signals from Nigeria.

On the other hand, developed western economies are far from perfect. The current global economic crises and its intractability, especially in the Eurozone are all evidences to the prevalence of misalignment of economic policies – monetary or fiscal, a misalignment that has eroded confidence in the markets and sparked off various debates on the normative policy tools most desired and effective in the circumstance.

The implications of all these are far-reaching. Policies must have micro foundations to address the expressions of economic malaise at the macro level. Policies must seek answers to what is happening to individual savings, investment and demand before the aggregate picture is brought into focus. Not only must they have micro roots, their consistency is of utmost importance.

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