UNIVERSITY OF PORT HARCOURT

WAR OF SUPREMACY BETWEEN UNEMPLOYMENT AND INFLATION IN NIGERIA: WHO IS THE ACTUAL LOSER?

An Inaugural Lecture

By

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ORDER OF PROCEEEDINGS

2:45pm: Guests are seated
3.00pm: Academic Procession Begins

The Procession shall enter the Ebitimi Banigo Auditorium, University Park and Congregation shall stand as the procession enters the hall in the following order:

ACADEMIC OFFICER
PROFESSORS
DEANS OF FACULTIES
PROVOST COLLEGE OF HEALTH SCIENCES
REGISTRAR
ORATOR
LECTURER
DEPUTY VICE-CHANCELLOR (ACADEMIC)
DEPUTY VICE- CHANCELLOR (ADMINISTRATION)
VICE-CHANCELLOR

After the Vice-Chancellor has ascended the dais, the congregation shall remain standing for the University of Port Harcourt Anthem. The congregation shall thereafter resume their seats.

THE VICE-CHANCELLOR'S OPENING REMARKS
The Registrar shall rise, cap; and invite the Vice-Chancellor to make his Opening Remarks.

THE VICE-CHANCELLOR SHALL THEN RISE, CAP AND MAKE HIS OPENING REMARKS AND RESUME HIS SEAT.

THE INAUGURAL LECTURE

The Registrar shall rise, cap and invite the Orator, **Professor Barisua Fortune Nwinee,** to introduce the Lecturer.

The Lecturer shall remain standing during the introduction. The Lecturer shall step on the rostrum, cap and deliver his Inaugural Lecture. After the Lecture, he shall step towards the Vice-Chancellor, cap and deliver a copy of the Inaugural Lecture to the Vice-Chancellor and resume his seat. The Vice-Chancellor shall present the document to the Registrar.

CLOSING

The Registrar shall cap and invite the Vice-Chancellor to make his Closing Remarks.

The Vice-Chancellor shall then rise, cap and make his Closing Remarks. The Congregation shall rise for the University of Port Harcourt Anthem and remain standing as the Academic (Honour) Procession retreat in the following order:

THE VICE- CHANCELLOR

DEPUTY VICE-CHANCELLOR (ADMINISTRATION)

DEPUTY VICE-CHANCELLOR (ACADEMIC)

LECTURER

ORATOR

REGISTRAR

PROVOST COLLEGE OF HEALTH SCIENCES

DEANS OF FACULTIES

PROFESSORS

ACADEMIC OFFICER

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INTRODUCTION

Mr. Vice-Chancellor Sir, I am very grateful to you, the management and the entire members of University of Port Harcourt community for the privilege and honour to be the 133rd inaugural lecturer. Records show that this is the 5th inaugural lecture from the Department of Economics and the 1stby an alumnus from that department.

Also it is important to note that the 1st inaugural lecture from the department of Economics was delivered by Professor W.J. Okowa.

Vice-Chancellor Sir, the basic responsibility of government in any economic system, irrespective of its political arrangement, is to initiate policies towards the achievement of the four basic macroeconomic goals, namely:

i. Price Stability;
ii. Maintaining full employment;
iii. Achieving equilibrium in the balance of payments position; and
iv. Achieving sustained economic growth (Akinnifesi, 1980).

The achievement of these goals can be referred to as economic stability. The maintenance of economic stabilization is primarily a matter of regulating aggregate demand for goods and services and stimulating the productive capacity of the economy. The two generally accepted policy frameworks for achieving these goals are *monetary* and *fiscal* policies. In specific terms, monetary and fiscal policies consist of a series or set of decisions, legislations or directives by the monetary authorities and the central government aimed at regulating supply, cost and availability of credits as well as regulating spending in the economy through adjustment of government spending and taxation. Monetary policy refers to Central Bank's Policy actions directed towards influencing the availability and cost of money and credit to maintain the desired level of income necessary for economic stability. Fiscal policy on the other hand emphasizes changes in government expenditure and taxation designed to influence income and employment (Elijah, 1979).

It is a recognizable fact that the capacity of the economy to produce goods and services either grows or diminishes annually. Therefore, full employment and reasonable price stability can be maintained only if aggregate demand keeps pace with productive capacity and actual production. If aggregate demand increases more rapidly than the productive capacity, inflationary pressures will build-up. If aggregate demand decreases more rapidly than the productive capacity, the problem of unemployment will set in. Therefore, moderating, inflation and unemployment are important objectives of stabilization policy measures (Onuchuku, 1998). It is also pertinent to note that an attempt to resolve the problem of inflation may lead to unemployment and an attempt to solve the problem of unemployment may lead to inflation. For instance, an expansionary monetary or fiscal policy measures to tinker with the problem of unemployment may lead to inflation if the expansion is not geared towards increasing productivity and output.

The Nigerian economy is characterized by stagflation, a situation of high level of unemployment and inflation existing at the same time. These two macroeconomic problems have increased the level of poverty and misery for the Nigerian populace and have therefore become a source of concern for policy makers. Thus, this paper examines the conflicting relationship between inflation and unemployment as macroeconomic problems in Nigeria.

The paper is structured into seven sections as follows:

- Introduction
- Conceptual Clarifications
- War of Supremacy I- The Phillip Curve
- War of Supremacy II- Stagflation
- War of Supremacy III- Stabilization Policy Induced
- War of Supremacy IV- The Nigeria Experience
- Way forward

Conceptual Clarifications

Inflation

Inflation is generally used to describe a situation of rapid, persistent and unacceptably high rise in the general price level in an economy, resulting to general loss of purchasing power of the currency (Asogu, 1991). Put differently, inflation is as a situation in which there is a persistent upward movement in the general price level. Inflation causes serious discomfort for consumers, producers and the government.

There is ample literature with a variety of approaches to the explanation of inflation. They include:

Demand-Pull Theory

The Demand-Pull Theory posits that a rise in price is initiated by the emergence of excess demand over existing supply, assuming the existence of full-employment in the economy. The amount of inflationary pressure would depend upon the size of the excess demand (Perlman, 1965). Demand–Pull inflation is a situation often described as "too much money chasing few goods". According to this theory, an excess of aggregate demand over aggregate supply will generate inflationary rise in prices (Jhingan, 1985). Demand-Pull inflation could be approached through either quantity theory of money (old and new views) or Fiscalist/Keynesian theory. Quantity theory emphasizes the causal influence of money supply in the inflationary process that is price rises proportionately to the increase in money supply. But the Fiscalist theory emphasizes fiscal influences such as government expenditure and public debt.

Cost-Push Theory of Inflation

Cost-Push inflation occurs where cost of factor services or inputs in the production process rise independently of the level of demand for the goods or services in question.

Cost-Push inflation is caused by the wage increases enforced by unions and profit increases by the employers. This type of inflation

is not a new phenomenon; it was found even during the medieval period. But it was reviewed in the 1950s and again in the 1970s as the principal cause of inflation. It also came to be known as the "New Inflation" (Jhingan, 1985). Cost-Push inflation is caused by wage-push and profit-push. The basic cause of cost-push inflation is a more rapid rise in money wages than the productivity of labour. Also, an increase in the prices of the domestically produced or imported raw materials may lead to cost-push inflation. Since raw materials are used as inputs by the manufacturers of finished goods, they bear on the cost of production and stimulate an increase in commodity prices. Thus, a continuous rise in the prices of raw materials tends to set off a cost-push-wage spiral.

Another cause of cost-push inflation is profit-push inflation. Oligopolist and monopolist firms raise the prices of the products to offset the rise in labour and production costs so as to earn higher profits or to raise the pay cheques of employees. This increase in product price in order to earn higher profits or to raise wages increases the rate of inflation of an economy. Profit-push inflation is also referred to as administered –price inflation or price-push inflation.

Galbraith (1975), is of the opinion that cost-push inflation arises from the fact that so many individuals have control over their incomes. These controls are enforced through strong labour and employers' unions which act to improve the lots of their members. The labour unions demand for increased wages and salaries without necessarily ensuring a corresponding increase in productivity. The employers on their part, pass on this increase in cost to consumers by raising the prices of their products.

Structuralist Theory of Inflation

Structuralist link inflation to economic growth in the less developed countries (LDCs). Because of the structural and institutional constraints that characterize the region, any attempt to increase economic growth brings with it an increase in prices. Asogu (1991) says that "structural inflation is said to result from supply shocks

including insufficient foreign exchange supply for financing importation." This is prevalent in underdeveloped economies; hence the explanation of inflation in developing countries, especially those undergoing adjustment programmes, follows the structural theory. Since the barometer for gauging the impact of foreign exchange shortage in the demand-supply relationship is exchange rate, its depreciation and undervaluation is claimed to worsen inflationary pressures.

The Structuralist analysis concerns largely with the identification and examination of the alleged structural constraints, what Sunkel (1960) refers to as basic or structural inflationary pressures. Sunkel opines that "inflation does not occur in vacuum but as part of a country's historical, social, political and institutional evolution…, the underlying causes of inflation in underdeveloped countries." These structural constraints are generally taken to be food supply constraints, foreign exchange constraints as well as financial constraints. Therefore, the existence of these bottlenecks does not directly cause inflation, but it may trigger off an inflationary spiral. For instance, the Structuralists argue that urbanization and rising incomes may lead to a rapidly rising demand for food stuffs which cannot be met by the agricultural sector. The supply response of the agricultural sector is poor because of the structural constraints within that sector and this inelastic supply constitutes a structural inflationary factor.

Internationally Transmitted Inflation or Imported Inflations Theory

Internationally Transmitted Inflation, otherwise called imported inflation, arises from openness of economies. This theory identifies a number of channels whereby inflation may be transmitted from one country to another, especially under a regime of fixed exchange rates. The channels include price, demands and liquidity effects. Price effects are transmitted by internationally traded goods and services; demand effects by spill-over of excess demand across countries. Changes in foreign reserves, occasioned by balance of

payments adjustment, affect money supply, income, prices, thereby creating liquidity effects.

Expectational Theory of Inflation

When there is an expected rise in the prices of goods and services, people tend to buy more even at the presently high prices. Thus, they quicken the arrival of the expected inflation. That is, if people expect the price of goods to rise next month, they will respond by buying more goods and services this month. Such action has always led to an increase in the general price level. It is, however, important to note that anticipated inflation is not as harmful as unanticipated inflation. The argument here is that if wealth-holders know therate of inflation that will occur next year, they will know how to adjust their portfolios.

Institutionalist Theory of Inflation

This theory argues that price moves autonomously and independently from evolving market conditions. Price movement emerges as a response to specific "sociological and socio-political forces or institutional arrangement" (Hagger, 1977). Such broad movement in the price level is accountable for by dominant impulse forces either with fiscal or monetary process (Nwikina, 1996).

Effect of Inflation

Inflation affects people differently. When prices are rising, they are likely to lead to the erosion of the purchasing power of money of most income groups especially the working class as well as the peasants in the rural sector. We discuss below the effect of inflation on different groups in the society vis-a-vis its effects on production, distribution, exchange and other economic activities.

a) *Fixed Income Groups:* Inflation reduces the standard of living of people on fixed income (such people are salary earners, pensioners and landlords). As price rises, the value of money falls so that people on fixed incomes experience a fall in their real income.

b) *Debtors and Creditors:* During periods of inflation, borrowers or debtors benefit at the expense of the lenders or creditors. Borrowing carries with it the promise to pay and since inflation reduces the value of money, the borrower will be paying back a loan whose value has decreased or fallen.
c) *Savings or Capital Formation:* Inflation affects capital formation adversely. Since money loses its value during periods of inflation savers are discouraged from saving. Instead they put their money in investments whose values are likely to remain stable and in satisfying consumption needs. Thus, in periods of inflation savings are cut back. In other words, there is a fall in the marginal propensity to save (MPS).
d) *Balance of Payments:* Inflation can lead to deterioration in a country's balance of payment. As the price level rises, the country's exports become dearer in the world market. This reduces the demand for such exports. If additionally, the country's price level is rising faster than that of the rest of the world, this will encourage imports. This will widen gap between exports and imports and consequently lead to balance of payment problems.
e) *Income and Wealth Distribution:* Inflation tends to increase inequalities in the distribution of income and wealth by taking income from the poor and weak and giving it to the strong rich businessmen. The poor become impoverished and the existing inequalities in the society are further exacerbated.
f) *Profit of Businessmen:* Information and expectations about further inflation can lead to increase in profit. This is because the increase in price is likely to be higher than the actual increase in cost of production.
g) *Employment:* Inflation, if it is moderate, can lead to increase in output and employment (if it is a demand-full and *ceteris paribus*). During moderate inflation, businessmen invest more; and as price rises, they expect further price increase and they invest more with the hope of earning more profit thereby increasing output and employment.
h) *Accounting Problem:* Inflation creates accounting challenges. This is because under such inflationary situations, there would

be uncertainties in income and costs, especially in matters relating to contracts. People would be most reluctant to enter into long-term contracts.

Unemployment

Generally, unemployment means a state of joblessness. According to Briggs (1973), unemployment is defined as the difference between the amount of labour employed at current wage levels and working conditions and the amount of labour not hired at these levels. However, Gbosi (1997) has defined unemployment as a situation in which people who are willing and able to work at the prevailing wage rate are unable to find jobs. Therefore, anybody who is not willing and actively seeking paid employment should not be counted as part of the employed labour force. If we do so, we may be overestimating the official rate of unemployment. On the other hand, additional workers should not be counted as part of the unemployed labour force. If we do so, we may be underestimating the official rate of unemployment. No matter how one defines unemployment, the underlying philosophy is that unemployment means a state of joblessness.

Types of Unemployment

Economists have generally used several theories to explain the phenomenon 'unemployment' in an economy. They include seasonal, frictional, structural and cyclical (insufficient aggregate demand) unemployment. The review will afford a better understanding of the various types of unemployment and their implications for Nigeria's economic growth and development.

(i) **Seasonal Unemployment:** This type of unemployment occurs as a result of seasonal fluctuations in occupations. Elrenberg and Smith (1982) observed that the demand for agricultural workers declines after the planting season, and remains low until the harvesting season. Similarly, the demand for construction workers usually falls during the rainy season and peaks up during the dry season.

(ii) **Frictional Unemployment:** By frictional unemployment we mean that type of unemployment which occurs when workers spend time searching for new jobs. For example, a worker in Port Harcourt may leave his present job to Lagos with the expectation of getting a higher paid job. During this period without a job, he is being classified by labour economists as a frictionally unemployed person. It is important to note that several factors are responsible for frictional unemployment. One such factor is imperfect flow of information in the labour market. This is because labour markets are not dynamic as the neo-classical economists contended. Second, it usually takes a long time for unemployed workers to get in touch with potential employers who have available job openings. Even though the size of the labour market is constant, at every point in time, there are always new entrants in the labour market. Some of these workers may be searching for employment, while other employed or underemployed individuals will be leaving the labour force. Therefore, one can say that the level of frictional unemployment in any country may be determined by the flows of individuals into and out of the labour market and the speed with which these unemployed individuals search for and secure jobs (Gbosi, 1997).

(iii) **Structural Unemployment:** Structural unemployment occurs when there are some structural changes in the economy. Such structural changes can take the form of decreased demand for a certain skills or a change in technology in a certain industry. Some workers who are structurally unemployed do not have jobs because the industry in which they would have liked to work may be decreasing output. Structural unemployment may also occur because there are individuals who look for jobs in a location that has no industry that can use their skills, or because these individuals possess the wrong skills to offer available employers (Solomon, 1980).

(iv) **Cyclical Unemployment:** This type of unemployment occurs when there is inadequate level of aggregate demand. In every market economy, producers produce goods in anticipation of demand. If aggregate demand in any economy is deficient,

unemployment will arise, because factory workers will be laid off which may lead to depression. According to Keynes, the great depression of 1930s was attributed to deficient aggregate demand.

Effects of Unemployment

a) **Brain drain:** Unemployment especially among university graduates results in emigration of youths and active adult population to other countries such as advanced nations of Europe and America. This brain drain leads to loss of highly educated and skilled manpower;
b) **Increase in Social Vices and Crimes:** Frustrated unemployed youths could be a recruiting source of armed robbers, prostitutes, economic saboteurs, human traffickers, smugglers, militants, militias, etc;
c) **Increase in Rural-Urban Migration:** Unemployment aggravates rural-urban movement among youths who move to cities in search of nonexistent jobs. This also puts more pressure on existing food and social amenities in the cities;
d) **Fall in National Output:** The existence of unemployment means that a nation cannot maximize the use of its labour force for increased output;
e) **Increase Drain on Government Finances:** The presence of unemployment necessitates increase in government expenditure in the payment of unemployment benefits in nations where they are paid. The government also spends more for the provision of social services at the same time that it collects less from taxes;
f) **Potential Sources of Political Instability:** The army of unemployed youths serves as recruiting ground for disenchanted, disgruntled and revolutionary elements in the society. Such social and political instability is inimical to development;
g) **High Dependency Ratio:** The mass of unemployed persons will have to depend on the small number of the working population for their survival. This will reduce efficiency and savings;
h) **Low Investment and Low National Income:** As a result of low savings-investment will also fall. As a result of the multiplier

effect income will also be low, thus creating a vicious cycle of poverty;

i) **Fall in the Standard of Living:** Unemployment, through the resulting poverty and income inequality, reduces the standard of living of the masses. Unemployment widens inequality gap, impoverishes the masses and lowers their standard of living.

Stabilization Policy

In any society, there are some economic objectives (usually referred to as macro-economic objectives) which policy variables are meant to achieve. The economic objectives are usually referred to as target variables while the policy variables for achieving them are referred to as instrumental variables. The instrumental variables are those that the authority in charge of stabilization can manipulate to achieve some specified economic objectives. Thus, stabilization policy refers to those measures or actions by the government and apex monetary authority designed to achieve increase in income and employment, promote price stability, and maintain external balance (Onuchuku, 2000).

Goals of Stabilization Policy

Amongst the desired goals for the economy are full employment, price stability, economic growth, balance of payments equilibrium, equitable distribution of national income. These may aptly be referred to as target variables. We consider each of these goals in turns.

(i) **Full Employment:** This is a firmly established objective for most countries. Full employment is a concept that cannot be precisely defined. It is sometime defined as employment of all persons in the labour force, excluding those who are frictionally unemployed. Full employment then does not mean zero unemployment (Ajayi and Ojo, 1980). In a society where there is mobility of the labour force, people will be moving from one job to another. Also, there will always be some who are not willing to work (voluntary unemployment).

Unemployment can also occur as a by-product of profit-based market oriented economy. As a result of adjustments necessitated by changing profit conditions and market structures, some workers lose their jobs. Consequently, there will always be a certain level of unemployment in the economy. This form of unemployment is called frictional unemployment. Thus instead of talking of full employment, it is fashionable in some cases to talk of maximum employment or the minimization of frictional unemployment. There is no common agreement, however, on the exact numerical definition of maximum or optimal employment level. For Canada and the United States, the accepted target is 79 percent of the labour force respectively. For Nigeria, full employment has never assumed prominence as an objective of policy and no specific target has ever been mentioned. Worse still, there is also no reliable data to support any definition of full employment in Nigeria.

There are generally two ways of looking at unemployment. The first way is to view it as a welfare loss to society in terms of total output that is foregone. The other way is in terms of the "welfare burden" borne by the individuals affected by unemployment. To the individual, it creates a sense of lack of personal fulfillment. To maintain a very high level of employment, it is important to reduce the level of frictional unemployment. This can be done by directing policies specifically to the minimization of institutional rigidities in the labour market that are likely to be very considerable.

There are a number of reasons for the existence of frictional unemployment. A major source of frictional unemployment is associated with geographical factors. The location of job vacancies is different from location of the unemployed persons. Some other factors such as lack of knowledge about job vacancies, cost of movement, language barrier as well as some cultural, political and religious factors are major sources of unemployment.

Structural factors may significantly affect the level of frictional unemployment. These may be due to the rapid change in skill requirements for existing vacancies and length of time required to train and upgrade workers for specific jobs.

(ii) **Price Stability:** The instability of price level, apart from affecting the value and usefulness of money, has great adverse effects on the economy. Clearly, a lower rate of inflation is preferred to a high rate, but at any rate in measuring inflation, the question arises as to how low the desired rate of inflation should be. Zero inflation seems to be the ideal position, but in dynamic economies, the movement of prices (and hence the allocation of resources) implies that some prices would have to fall in order to accommodate rises in other prices.

Now, whilst this might be quite feasible in relation to the prices of certain basic commodities, and even some manufactured goods, it would seem to be absolutely impossible that price of labour (wages/salary) would be allowed to adjust in this way. In general, many prices tend to be sticky in the downwards direction, therefore, the key policy issue becomes one of deciding upon the level at which the upward drift in prices requires government action.

(iii) **Economic Growth:** Growth or increase in output per worker is generally thought of as an improvement in economic welfare. This, of course, is not usually true if growth is followed by undesirable change in the distribution of income. Nevertheless, growth is always thought of as a desirable objective for any economy. There are different methods of measuring economic growth, but all common measures are linked to output or the capacity to produce output of goods and services. One obvious measure of economic growth for a particular country is the annual rate of growth in total real output, that is, the gross national product (GNP) adjusted for changes in prices. Economic growth can be measured as the annual rate of growth in output per capita. As an objective of economic stabilization,

policy then involves sustaining growth at a reasonable percentage in any of the measures just described.

(iv) **Equilibrium in the Balance of Payments:** Technically, this occurs when there is zero level of official financing; that is, when the sum of the current account balance, the capital account balance and balancing item (residual error) equals zero. The balance of payments provides an insight into a country's international economic position. It is the importance of international economic transaction that has led to the recognition of the achievement of balance of payments equilibrium as an objective of economic stabilization policy. The maintenance of a reasonable balance between a nation's foreign receipt and payments is an important objective for countries that transact a large part of their businesses in world markets. It is most improbable that balance of payments equilibrium will occur in the strict sense, during any given accounting period, except by chance. Even strong economies, which are thought to have favourable balance of payment positions, experience either deficits or surpluses periodically. Thus, balance of payments equilibrium is a major macro-economic objective which governments seek to maintain via economic policy, although its pursuit may have adverse effects on the other policy objectives mentioned earlier.

(v) **Equitable Distribution of Income:** This is an extremely complicated goal due to definitional complexities. It is difficult to define equality in the distribution of income. There is no common consensus on how progress towards the attainment of the goal should be judged and measured. Everyone in this country realizes that there is need to raise the income of those at the low end of the income scale, but there is no agreement, however, on how this should be done.

There is no doubt that all the goals mentioned above are highly desirable. If the goals were independent of one another, they could be pursued through separate policies without any risk of

internal conflict. Since they are not, then, we have the question of trade-off to grapple with.

Types of Stabilization Policy Measures

There are two main types of stabilization policy measures. They are:

i. Fiscal policy measures; and
ii. Monetary policy measures.

Fiscal Policy Measures

Any attempt to regulate aggregate demand (C+I+G) in order to promote full employment without inflation is stabilization policy. Fiscal policy is one aspect of stabilization policy. It may be defined as changes in government spending (G) and/or taxes (T) designed to influence income and employment and promote price stability.

If government expenditure is equal to tax revenue, the government is said to have a balanced budget. If government expenditure is greater than tax revenues, there is a budget deficit, and if government expenditure is less than its revenue, then there is a budget surplus (Elijah, 1979). Fiscal policy can be expansionary or contractionary. It is expansionary when it is aimed at increasing aggregate demand thereby solving the problem of unemployment. Expansionary fiscal policy involves increase in government expenditure and/or reduction in taxes. Fiscal policy is said to be contractionary when it is aimed at decreasing aggregate demand, thereby dealing with problem of inflation. Contractionary or tight fiscal policy involves reduction in government expenditure and/or increase.

Approaches to Fiscal Policy

There are two main approaches to fiscal policy: Countercyclical and compensatory approaches.

Under the countercyclical approach, the government is assigned the role of varying its tax and expenditure policies with the objective of moderating fluctuations in income and employment over the business cycle. Here, the government is required to unbalance its budget during deflationary and inflationary periods; that is, to

increase its expenditures and cut taxes when private spending declines to depression levels, and raise taxes and cut its expenditure during prosperity (or inflationary periods of the business cycle). Its proponents still subscribe to a balanced budget philosophy, but they are reconciled to the logic of a cyclically rather than annually balances budget since with proper management of government's budget, the depression deficit will be offset by the prosperity surplus.

On the other hand, proponents of the compensatory fiscal policy approach opine that given the future prospects of secular stagnation and/or secular inflation, deficit financing and surplus financing become a long-run imperative. Thus, if inflation is a continuing problem, long-run surplus financing will be necessary, on the other hand, if persistent deflationary tendencies develop, long-run deficit financing will be required. This is sometimes referred to as "functional finance," originally due to Learner (1944). The argument here is that government budget should be used as the major instrument for achievement of macroeconomic objectives and that budgetary changes should be made as often as desired and in whatever magnitude desired. Thus, here, the institutional aspect of taxation is subordinated to the compensatory interest since the purpose of taxation (according to its proponents) is never to raise money but to leave of it less in the hands of the taxpayers.

Techniques of Fiscal Policy

Fiscal policy techniques include balance budget, unbalanced budget (changes in tax and spending), and qualitative changes in the tax system. In this sense, fiscal policy instruments or tools are broadly classified into two: automatic or built-in fiscal stabilizers and discretionary fiscal stabilizers (Anyanwu, 1993).

Automatic fiscal stabilizers or "passive" fiscal policy measures are among the most interesting tools in the government anti-cyclical kit or those indigenous devices that help to bring the economy back to an even keel without any deliberate action on the part of anyone. These are designed to function in a countercyclical fashion to

improve the performance of the economy, without the necessity of ad hoc adjustment in response to an immediate macroeconomic problem. With a given tax and expenditure structure, changes in total output and income result in automatic changes in tax yields and in certain outlays, the first changing in the same direction as income and the latter in the opposite direction. Automatic fiscal stabilizers aid recovery by reducing cumulative deterioration in economic outlook that would otherwise take place and facilitate the forces of recovery contributing to an early upswing. They are very useful when the economy contracts but are a mixed blessing when it expands (Anyanwu, 1993). That is, when business condition recovers from a recession, the tax system automatically cuts the growth in private spendable incomes, and hence the expansion tends to proceed more slowly, though when the recovery is strong, automatic stabilizers help to curb the inflationary pressure. In addition, the larger the government expenditures and tax receipts are in relation to the total level of economic activity, the stronger is the impact of the automatic fiscal stabilizers. The reverse is also true. Automatic fiscal stabilizers include personal income tax (progressive tax), unemployment insurance programmes, and farm prices support.

On the other hand, a discretionary or "active" fiscal policy measure refers to a direct budgetary change responding in ad-hoc fashion to a presently recognized macroeconomic problem. That is, discretionary fiscal policy measures are those actions which have to be designed by a legislative or executive action in order to deal with the problem at hand. Their effectiveness is impaired by inaccurate economic forecast as well as lack of promptness on the part of the legislature to enact discretionary measures and the time lag it takes the executive to put them into effect.

Thus, discretionary measures require speed of decision and effect and can be successful if temporary and reversible fiscal changes are distinguished from permanent and structural changes. Discretionary fiscal policy includes deliberate changes in tax rates, tax bases and government spending.

It is also noteworthy that the recent proponents of supply-side economics have put forward the argument that an across the board reduction in tax rates would spur unprecedented growth, reduce inflation painlessly, increase tax revenue (since it would unleash an enormously depressed supply effort), and stimulate a spectacular rise in personal savings.Again, this is another source of controversy in the economics of public finance. The long inside lag in discretionary fiscal policy has partly convinced some economists that the government should get out of the stabilization business altogether. These scholars advocate replacing reliance on discretionary policies with a set of rules that would keep the fiscal environment stable. It has, therefore become customary to relate fiscal instrument to specific norms, rules or guidelines for government to follow. A continuum of various fiscal policy rulesis annually balanced budget norm (100% control orientation), cyclical balanced budget norm, high-employment budget norm, and functional finance norm or 100% goal orientation.

The annually balanced budget norm is based on the view that a balanced budget indicates fiscal responsibility for government, households and business segments of the private sector. However, during periods of economic recession or boom, the rule, if literally applied, tends to be more perverse in its effects on the economy. Institutional impediments such as lobbying from pressure groups could prevent its realization.

A compromise rule, the cyclically balanced budget norm, advocates balanced budget over the course of a complete business cycle rather than in particular fiscal year. Therefore, tax revenues and expenditures would be equal over the course of the cycle – the policy of surplus budget in time of cyclical peak will restrain demand pull inflation and deficit budget will expand the economy under the condition of cyclical recession or depression. In an ideal situation, the surpluses and deficits would offset each other in equal magnitude over the period of the cycle, thus providing budget balance over the cycle rather than for an annual fiscal year. The drawbacks of this rule include the unlikelihood of a given cycle

being symmetrical and the institutional factor of lobby or pressure group influences, thus leading to a built-in bias in favour of deficit budget.

Another compromise rule, the high-employment budget norm (or budget balance at high-level income and employment), states that decision made regarding taxes and public expenditure should always be made on the assumption that the high-level income and employment are to be maintained and that balance between the two sides of the account should be present. It attempts to combine the control features of budget balance with the stabilization features of functional finance through the employment of the built-in-stabilizers, which automatically tend to produce deficits in recession and surpluses in booms. In other words, the recommendation here is that tax rates should be set not only to balance the budget, but also to provide a surplus budget for debt retirement at agreed high employment and national income levels. Once these rates are set, they should be left alone unless there are some major changes in national economic conditions. It is also based on the use of automatic fiscal stabilizers and, hence, avoids discretionary changes in tax rates, except under conditions of major national emergency.

Lastly, the functional finance rule, a complete anti-thesis to the annually balanced budget rule, advocates that government budget should be used to promote macroeconomic goals at all times, without regard to budget balance. In this sense, it is less concerned with the annually balanced budget but more concerned with the stabilization goals.

The use of rule or norm arises because automatic stabilizers are inadequate in offsetting all income changes thus, creating a stable, stagnant equilibrium. On the other hand, since the economy is being subjected to various shocks, appropriate fiscal action also requires a constant assessment of the state of the economy and changing action to meet the existing situation - flexible discretionary action (and not constant “fine tuning” or changes in taxes and expenditure to meet small changes in projected aggregate demand).

An effective and rational fiscal policy approach for the attainment of macroeconomic stabilization objectives, as well as for achieving the microeconomic objectives of allocation and distribution, is one that incorporates an eclectic combination of the best elements of the various specific rules and discretionary actions. This results in a desirable, comprehensive and flexible fiscal policy approach (Anyanwu, 1993).

Limitations of Fiscal Policy

(a) There is the problem of how to make accurate short-run forecast of the economic situation. Therefore, fiscal policy action should be geared towards not to forecasts, but towards actual situations since early solution to the problem is unlikely. So long as forecast is inaccurate, government action based upon it might be harmful or at best unreliable rather than remedial.
(b) There is the problem of how to appraise the effective force of the numerous techniques of fiscal policy.
(c) There are political obstacles in the way of a successful fiscal policy arising because the economy is shaped to allow full expression of dissent which may be antithetical to executive parliamentary decision about debatable issues.
(d) There is also the problem of accurate date, which may become available only with some delay.
(e) The uncontrollable portion of the budget poses a problem in the use of fiscal policy.
(f) The use of fiscal policy is limited by the time lag involved.
(g) It is also discriminatory in effect since it is subjective or ideologically non-neutral, not affecting the whole economy equally.

Monetary Policy

Monetary policy can be defined as changes in the money supply and the rate of interest designed to influence the economy. It deals with the discretionary control of money supply by the monetary authorities in order to achieve stated or desired economic goals (Falegan, 1978). Adekanye (1986) says that monetary policy comprises those government actions which are designed to influence

the behaviour of the economy via changes in money supply and interest rates. The primary objectives of monetary policy are to maintain a high level of employment and relative price stability. The Central Bank is responsible for formulating the monetary policy of any economy.

Instruments of Monetary Policy

The Central Bank has various tools or instruments which it can use to control the money supply and interest rates. They are open market operations, changes in the bank rates, changes in the reserve ratio, moral suasion, liquidity ratio and selective credit controls.

i) **Open –Market Operations**: Open-Market operations may be defined as the buying and selling of government securities by the Central Bank on the open market. If the Central Bank wants to increase the money supply, it can buy securities on the open market. If it buys securities from commercial banks, it pays for them by increasing the deposit accounts of the commercial banks which enable them to expand loans and thus increase the money supply. If the Central Bank buys securities from the public, it pays for them by offering cheques drawn on the Central Bank. These cheques are deposited in commercial banks which present them to the Central Bank for payment. The Central Bank increases the deposits of the commercial banks at the Central Bank, and with this new deposit, the multiple expansion process possible.

If the Central Bank sells securities to the public on the open market, they are paid for by cheques drawn on commercial banks. The Central Bank presents the cheques to the commercial banks and payment is made to the Central Bank by the reduction in the commercial banks' deposits with the Central Bank. If the Central Bank sells securities to the commercial banks, the securities will be paid for by reducing the commercial banks' deposits at the Central Bank. In either case, the result is a decrease in the money supply. Open market operations serve as the most important weapon available to the Central Bank to vary the money supply.

ii) **Change in the Discount or Bank Rates**: the bank rate is the rate of interest which commercial banks have to pay when they borrow from the Central Bank. If the Central Bank wants to increase the money supply, it can lower the bank rate to encourage borrowing by the commercial banks. If the Central Bank wants to decrease the supply, it can raise the bank rate and thus discourage borrowing. Changes in bank rates are not likely to be very effective as a means of controlling the money supply because borrowing from the Central Bank is limited. This instrument is rather passive and serves more as a signal of the policy the Central Bank wants to pursue.

iii) **Change in the Reserve Ratio**: change in reserve requirement can be used as a powerful weapon to control the money supply. If the Central Bank changes the reserve ratio from 10 to 20 percent, the commercial banks will have to keep a larger amount of cash reserves with Central Bank thus their ability to increase loans and create new deposits will be reduced. On the other hand, a reduction in the reserve ratio will increase the bank's ability to extend loans and make possible a large increase in new deposits.

iv) **Moral Suasion**: Moral suasion may be defined as an appeal from the Central Bank to the commercial banks to co-operate with the monetary policy being pursued by the Central Bank. For example, if the Central Bank wants to pursue a tight monetary policy (that is a reduction in the money supply to restrict total spending), it can make its intention known and enlist the support of the commercial banks to restrict their loan activities.

v) **Liquidity Radio**: By law banks are to keep a certain proportion of their deposit liabilities in liquid form. This proportion is called the liquidity ratio. When the Central Bank wants to reduce bank lending, it increases this ratio. To satisfy the additional liquidity requirements, banks must then liquidate their loans and advances. As they do this, their ability to grant loans and advances is reduced. But if the Central Bank wants to increase bank lending, it will reduce this ratio. This reduction in this ratio enhances the ability of commercial banks to grant loans and issue advances.

War of Supremacy I - The Phillip Curve

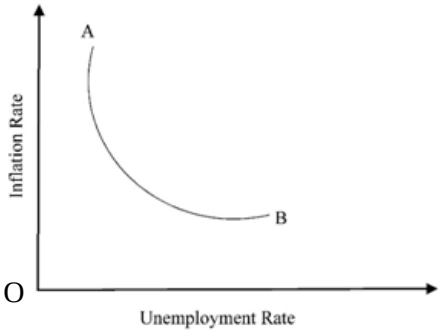
The whole issue of expressing the relationship between prices and unemployment originated from the economist, A.W. Philips. Although Philips examined the relationship between the rate of unemployment and the rate of change in nominal wage rate, the more popular interpretation of the Philips' curve is the relationship between the rate of unemployment and the rate of price change.

In 1960, Philips examined the relationship between unemployment and inflation. According to him, there is an inverse relationship between inflation and unemployment.

Having analyzed data, he collected for the United Kingdom between 1942 and 1956, he postulated that when employment is low, there exists a low rate of increase in wage rates since employers are under less pressure to increase wages. On the other hand, when unemployment is low, the rate of the money wage rate is high. This situation arises because in times of low unemployment, labour demand is usually very high. Actually, this may lead to competition between the various employers to employ more labour.

Consequently, this has the effect of pushing up the wage rate. But as the increase in wage rate is not accompanied with increased productivity, the end-result is inflation. As an illustration, the negative relationship between the rate of unemployment and the rate of inflation as postulated by Philips is shown in Figure 1.

Figure1: The Phillips' Curve



The curve AB depicts Philips' curve. The Philips' curve is convex to the origin. This indicates a negative relationship between the rate of unemployment and the rate of inflation.

According to many economists' interpretation, the Philips' curve represents a permanent trade-off faced by the policy-makers. Thus, if the curve is stable and movements around the curve can be predicted, then lower unemployment can be achieved only at a higher rate of inflation. To put it another way, in order for policy-makers to have a lower rate of inflation, they must tolerate a higher rate of unemployment. Unfortunately, there are some difficulties one may encounter in using the Philips' curve. One of those difficulties concerns how we can define full employment. If we define full employment as a situation in which the number of job openings is equal to the number of job-seekers, this would mean that there would be a positive rate of inflation at full-employment. Even though aggregate demand and aggregate supply provided enough jobs for those people who are willing to work, a shift in the composition of aggregate demand would means an upward movement in the price level. On the other hand, if we have to define full-employment as a situation in which prices were stable, the Philips' curve relationship would mean that this occurs at a relatively high level of unemployment.

One of the arguments raised against the Philips' approach is that it does not in any way represent a permanent trade-off between unemployment and inflation. Rather, it is a short-run phenomenon. The argument according to this view is that Philips' curve is a short-run phenomenon which only occurs in the period of disequilibrium. But the alternative view claims that in the long-run, there is no trade-off between unemployment and inflation. Rather, in the long-run, the Philips' curve is a vertical line. This occurs at the so-called natural rate of unemployment. By natural rate of employment, we mean that rate which occurs because of imperfections and frictions in the labour market (Gbosi, 1993).

However, for us to have a better understanding of the analysis, we now drop the assumption that nominal wage rate is rigid. We now assume that nominal wage rate is not rigid but that it is rather flexible. Therefore, instead of rigid nominal wage rate, we expect workers to adjust their nominal wage rate in relation to changes in the general price level. Specifically, if labour expects the price level to rise, it will agitate for an increase in nominal wage rate to enable it maintain the real wage rate before the new price level. If this condition is not met, workers may likely reduce the amount of labour offered. It is important to note, however, that the expected price level may be the actual price level at any given period. For example, if labour expects the rise in price level to be 15 percent during the current period, it may agitate for an increase of nominal wage of 15 percent. But if the actual price level were to increase by 16 percent, the real wage rate actually will fall during the year. The falling real wage rate will, therefore, encourage producers to expand output by employing more labour. This expansion in output brings about a fall in unemployment.

On the other hand, if labour's expectation in terms of price increases conforms with actual price increase, labour will then push for a still higher nominal wage rate. Consequently, the real wage begins to rise towards its former level. This will, therefore, bring about an increase in unemployment and a fall in output. It has been argued that the expectation of higher rates of unemployment and lower rates of inflation appears to have been doomed in recent years. However, some economists believe that in the long-run the combination of high rate of unemployment and low inflation will bring prices down (Freidman, 1968).

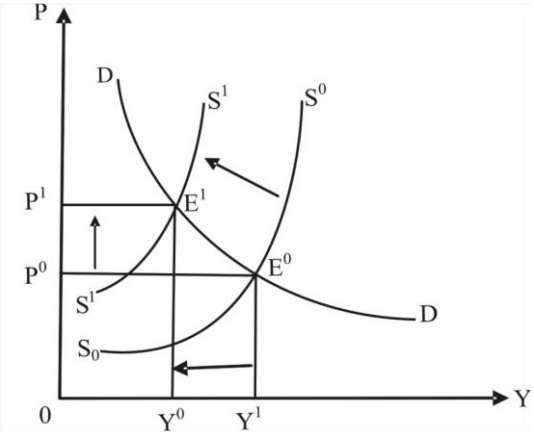
War of Supremacy II -Stagflation

Stagflation refers to a situation whereby the economy experiences unemployment as well as a high rate of inflation. The term is a conjugation of stagnation and inflation. It is also called recessionary inflation.

The principal cause of this phenomenon has been identified as unchecked increase in the cost of factors of production. In order to pass the increases in cost to consumers, the producers cut down the production of their products.

The reduction in output implies that more and more labour is laid off, and this leads to rising unemployment while the increase in the prices of products leads to inflation. These together result to stagflation. Three factors have been held responsible for the existence of stagflation in the world economy since 1972. The first is the 1972 rise in oil price which brought with it increases in the prices of other energy sources as well as other factors of production. The second is the steady and substantial growth of the labour force, and lastly, rigidities in wage structures enforced by strong labour unions. The phenomenon of stagflation is illustrated in figure 2. From the diagram, it could be observed that a reduction in output shown by the shift of the aggregate supply curve from S^0S^0 to S^1S^1 has led to a fall in full employment equilibrium from Y^0 to Y^1 in the economy, while at the same time, raising the price level from P^0 to P^1.

Figure 2: Diagrammatic Representation of Stagflationary situation



War of Supremacy III - Stabilization Policy Induced
The formulation and implementation of stabilization policy measures to tinker with one macroeconomic problem could lead to or create or exacerbating another macroeconomic problem. For instance, the implementation of an expansionary fiscal or monetary to address the issue of unemployment could lead to inflationary pressure if not properly managed. Again, import restriction measures to correct external balance could lead to inflation in the domestic economy if the conditions and conditionalities for the adoption of such measures are not met.

The conflict between policy goals can better be illustrated by discussing diagrammatically how fiscal and monetary policies work using the IS-LM framework (*see figure 3*). The IS curve represents fiscal policy while the LM curve represents Monetary Policy.

How Fiscal Policy Works

Fiscal Policy and Unemployment
Expansionary fiscal policy measure is required to tinker with the problem of unemployment. This involves increase in government expenditures and/or reduction in taxes with the aim of stimulating aggregate demand, as well as increase income and employment.

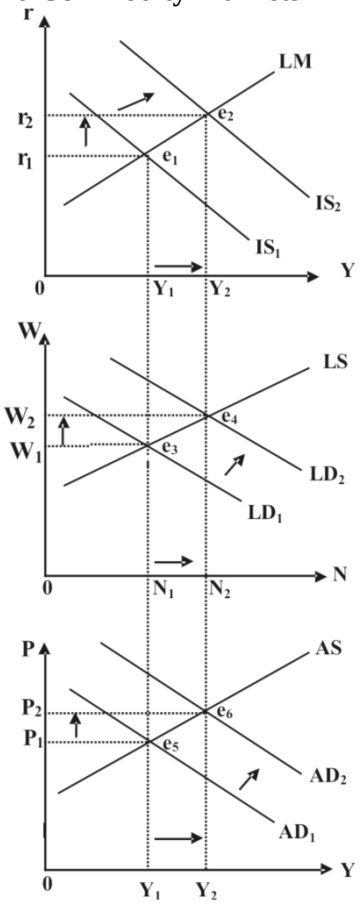
Figure 3 shows the effects of expansionary fiscal policy on the labour and commodity markets. From *figure 3,* an increase in government expenditure, for instance, will shift the IS curve from IS_1 to IS_2, causing an increase in interest rate from r_1 to r_2, equilibrium from e_1 to $e_2$and national income from Y_1 to Y_2. The effect of this on the labour market is a shift of the labour demand function (LD) from LD_1 to LD_2 (an increase in demand for labour) and equilibrium from e_3 to e_4, causing an increase in wage rate from $W_1$and $W_2$and increase in employment from N_1 to N_2.

On the commodity market, the effect of the expansionary fiscal policy is a shift in the aggregate demand function from $AD_1$to AD_2, leading to a shift in equilibrium from e_5 to e_6, causing price level to

rise from P_1 to P_2. This process is known as transmission mechanism.

From the analysis, it is clear that an attempt to solve the problem of employment with expansionary fiscal policy could increase employment as shown in the labour market as well as cause an increase in the price level in the commodity market.

Figure 3: The Effect of Expansionary Fiscal Policy on Labour and Commodity Markets



POLICY
LM- represents Monetary Policy
IS- represents Fiscal Policy
r- Interest rate
Y- National Income or output

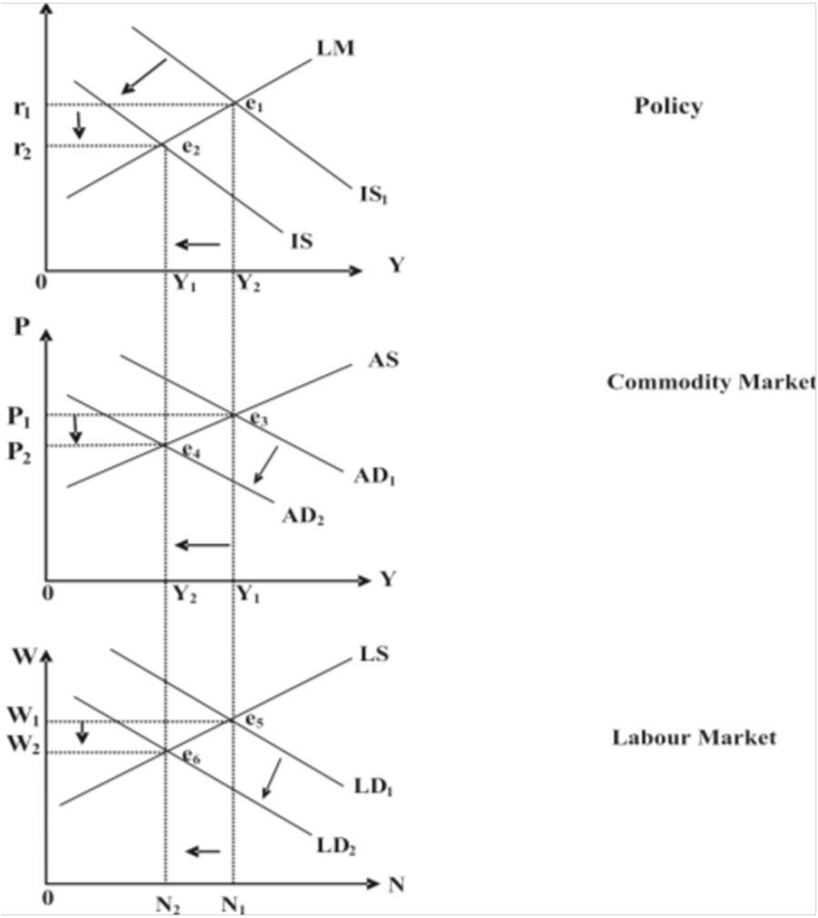
Labour Market
LS- Labour Supply function
LD- Labour Demand function
W- Wage rate
N- Employment

Commodity Market
AS- Aggregate Supply
AD- Aggregate Demand
P- Price Level
Y- Output (National)

Fiscal Policy and Inflation

A contractionary fiscal policy is required to tinker with the problem of inflation. An increase in taxes or reduction in government expenditure will reduce aggregate demand in and price level.

Figure 4: How Fiscal Policy Works to Fight Inflation



From figure 4, a decrease in government expenditure and/or increase in taxes will shift the IS curve inwards from IS_1 to IS_2 leading to a

shift in equilibrium point from e_1 to$e_2$and fall in interest rate from r_1 to r_2 as well as decline in national income from Y_1 to Y_2. The effect of this on the commodity market is an inward shift in aggregate demand function from $AD_1$to AD_2 and equilibrium from e_3 to $e_4$causing a fall in price level from P_1 to P_2. On the labour market, the effect is an inward shift of the labour demand function from LD_1 to LD_2causing a decline in employment and wage rate from N_1 to $N_2$and $W_1$to W_2respectively.Therefore, a contractionary fiscal policy to tinker with inflation can lead to unemployment if it not properly articulated.

How Monetary Policy Works

Monetary Policy and Unemployment

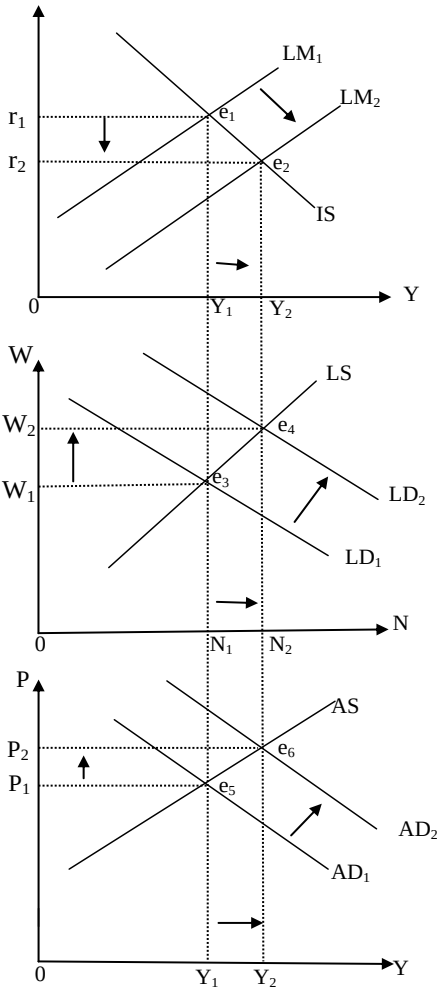
Expansionary monetary policy is required to tinker with the problem of unemployment. This involves increase in money supply and/or reduction in interest rate with the aim of stimulating aggregate demand, investment, output and employment.

Figure 5 shows the effect of expansionary monetary policy measures on the labour and product or commodity markets.

From figure 5, an increase in money supply shifts the LM curve outward from LM_1 to LM_2 leading to a fall in interest rate from r_1 to r_2 thereby stimulating investment and output, causing a move in the equilibrium point from e_1 to$e_2$and increase in output or outcome from Y_1 to Y_2. The effect of this on the labour market is a shift in the demand for labour from $LD_1$to LD_2, leading to a movement in equilibrium point from e_3 to e_4 and an increase in wage rate from $W_1$and W_2as well as increase in employment from N_1 to N_2.

In the commodity, the effect is a shift in aggregate demand from $AD_1$to AD_2 causing a movement in equilibrium from e_5 to $e_6$and an increase in price level from P_1 to P_2

Figure 5: Expansionary Monetary Policy and Unemployment

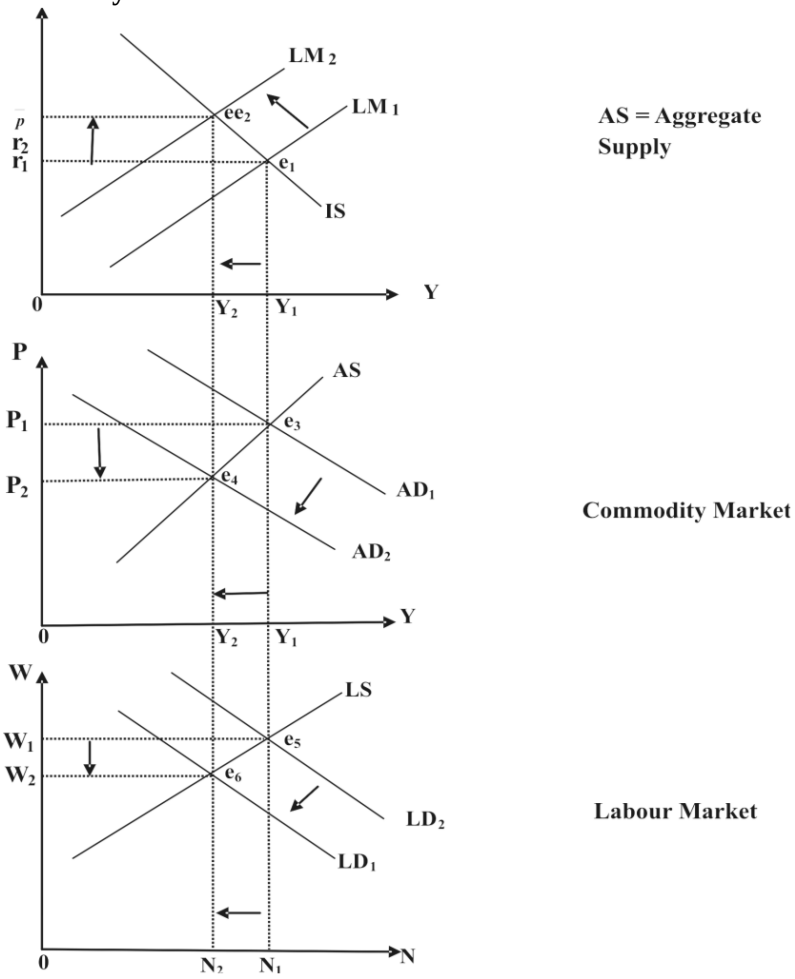


Monetary Policy and Inflation

Contractionary monetary policy is required to deal with the problem of inflation. This involves reduction in monetary supply and/or increase in interest rate with a view to reducing aggregate demand and price level. Using the IS-LM framework, the effects of

contractionary monetary policy on the commodity and labour markets can be shown as follows:

Figure 6: The Effect of Contractionary Monetary Policy on Commodity and Labour Market



From figure 6, a reduction in money supply, for instance, increases interest rate fromr_1 to $r_2$causing a fall in investment and output. The

equilibrium point moves from $e_1$to$e_2$leading to a fall in national income from Y_1 to Y_2.

The effect of this on commodity is a downward shift in the aggregate demand function from $AD_1$to AD_2 causing a movement in equilibrium frome_3 to $e_4$and a fall in price level from P_1 to P_2.

The effect on the labour market is a shift in the labour demand function from LD_1 to LD_2, leading to a movement in equilibrium point from e_5 to $e_6$and a fall in wage rate from $W_1$to W_2well as a fall in employment from N_1 to N_2.

From the ongoing scenario, it is clear that an attempting to resolve one macroeconomic problem can exacerbate another macroeconomic problem if the policy measure adopted is not properly articulated.

War of Supremacy IV: The Nigerian Experience

The Nigerian economy is characterized by secular stagflation. The problems of inflation and unemployment are still at alarming rates in the country. On the average, between 2005 and 2015, inflation and unemployment rates were still double digits.

Table 1: Inflation and Unemployment Rates in Nigeria, 2005-2015.

Year	Inflation Rate (%)	Unemployment Rate (%)
2005	17.86	11.9
2006	8.24	12.3
2007	5.38	12.7
2008	11.58	14.9
2009	11.54	19.7
2010	13.72	21.1
2011	10.84	23.9
2012	12.22	19.9
2013	8.48	29.5
2014	8.06	24.3
2015	9.60	9.9
Average	**10.68**	**18.19**

Source: World Bank Online Data Bank (www.data.worldbank.org) and National Bureau ofStatistics.

From table 1, the average rates of inflation and unemployment in Nigeria between 2005 and 2015 were 10.68% and 18.19% respectively. The table revealed that inflation rate was 17.86 in 2005 which declined to 13.72% in 2010 and further declined to 9.6% in 2015. Also, from table 1, it is clear that unemployment rate in Nigeria increased from 11.9% in 2005 to 21.1% in 2010 and 24.3% in 2014 which declined to 9.9% in 2015. Inflation and unemployment rates in Nigeria were still high compared to those of some other third world countries.

Table 2: Average Inflation and Unemployment Rates in Some Third-World Countries (2011-2015)

S/N	Country	Inflation Rate (%)	Unemployment Rate(%)
1	Angola	4.13	6.2
2	Indonesia	6.32	3.6
3	India	7.30	9.5
4	Mali	2.10	8.1
5	Nigeria	9.84	21.5

Source: World Bank Online Data Bank (www.data.worldbank.org), www.globalrates.com, and
Central Bank of Nigeria Statistical Bulletin, 2015.

From table 2, it is obvious that the average inflation and unemployment rates in Nigeria within the period 2011 to 2015 stood at 9.84% and 21.5% respectively which were higher than those of Indonesia (4.13% and 6.2%), India (6.32% and 3.6%), Angola (7.30% and 9.5%) and Mali (2.10% and 8.1%).

The evidence and records indicate that the two macroeconomic 'evils' –inflation and unemployment - are both 'Winners' in the 'War of Supremacy in Nigeria'.

The great question is WHO IS THE ACTUAL LOSER?
Of course, the answer is the Nigerian masses. This is clearly evident in the following indicators:
(a) **Misery Index**- this is a measure of economic wellbeing in an economy. It is computed by summing the inflation and

unemployment rates for a given period. The higher the misery index the worse the economic well-being of the people. In other words, an increasing misery index means a worsening economic climate for the economy in question.

Table 3 shows the Misery Index and Gross Domestic Product Growth Rates (GDPGR) in Nigeria from 2005 to 2015.

Table 3: Misery Index and GDP Growth Rates (GDPGR) in Nigeria, 2005 to 2015.

Year	Misery Index	GDPGR (%)
2005	29.76	3.44
2006	20.54	8.21
2007	18.08	6.83
2008	26.48	6.27
2009	31.24	6.93
2010	34.82	7.84
2011	34.74	4.89
2012	32.12	4.28
2013	37.98	5.39
2014	32.36	6.31
2015	19.50	2.11
Average	**28.88**	**5.70**

Source: Author's Computation fromWorld Bank Online Data Bank (www.data.worldbank.org)

From *table 3,* the average growth rate in the gross domestic product of Nigeria from 2005 to 2015 stood at 5.7% with a high average misery index of 28.88. This clearly shows that the economy was growing without employment. In other words, the growth recorded within the period was uninclusive. A curious look at table 3 reveals that the GDP growth declined to a very low level of 2.11% in 2015, the lowest ever within the period under review. This decline was due to a fall in oil production and prices in 2015. Therefore, the high growth rates recorded in the past were mainly due to high revenue and foreign exchange from crude oil production and sales, and not from production activities of the real sector, thereby creating a situation of uninclusive growth.

(b) **Poverty**- poverty level and rate is another indicator explaining how the Nigerian masses are suffering from hardship occasioned and exacerbated by the rising problems of inflation and unemployment. *Table 4* shows poverty rate (percentage of the population with N180 poverty line). The table is adapted from the result of a general household survey conducted by National Bureau of Statistics and published in the World Bank Economic Report on Nigeria in 2014.

Table 4. Poverty Rate (Percentage of Population) in Nigeria with Poverty Line N180

Category	2010-2011	2012-2013	Difference (Indication for reduction)
National	35.20	33.10	-2.10
Rural	46.30	44.90	-1.40
Urban	15.80	12.60	-3.20
North-Central	33.40	31.10	-2.30
North-East	47.10	50.20	3.10
North-West	46.90	45.90	-1.00
South-East	31.70	28.80	-2.90
South-South	27.70	24.40	-3.30
South-West	21.20	16.00	-5.20

Source: World Bank Economic Report on Nigeria, No.2, July, 2014.

From *table 4,*it is clear that in 2010-2011 National poverty rate stood at 35.2% of the population and declined marginally to 33.1% in the 2012-2013 period, with a reduction rate of -2.1%. The table also shows that rural poverty rate which stood at 46.3% in the 2010-2011 period and 44.9% in the 2012-2013 period were higher than urban poverty rates of 15.8% and 12.6% in 2010-2011and 2012-2013 respectively. The table indicates that poverty reduction rate within the period was very slow, with a reduction rate of -2.1%. A curious look at the tables reveals that poverty rates were higher in the North than the South with average reduction rate of -0.07% in the North and -3.8% in the South.

(c) **Crime**- crime is one of the continuous problems that bedevil the existence of mankind (Gulunbe, Dikko and Bello, 2012). Nigeria has one of the highest and most alarming crime rates in the world. Cases of armed robbery, kidnapping, financial scan (419), drug peddling, vandalization, cultism, corruption and bribery as well as other social vices such as prostitution increased due to poverty, hardship and youth unemployment.

Nigeria is number six (6) in the ranking of 10 countries with high crime index as shown in Table 5.

Table 5. Ranking of Countries by Crime Index (2016)

Rank	Country	Crime Index
1	Venezuela	84.44
2	South Sudan	81.32
3	South Africa	78.43
4	Papua New Guinea	77.58
5	Honduras	76.43
6	Nigeria	74.14
7	Trinidad and Tobago	72.60
8	Elsavador	72.04
9	Brazil	71.23
10	Kenya	69.49

Source: Numbeo (www.nubeo.com/crime/rankings_b4_country.jsp)

From Table 5, Nigeria is ranked 6th with crime index of 74.14 next to Honduras with index of 76.43.

Table 6 shows crime index by type in Nigeria. The indices for all the categories are very high ranking from 71.49 for drug peddling to 88.36 for corruption and bribery.

Table 5: Crime Index by Type in Nigeria

S/No.	Type of Crime	Index
1	People using and dealing on drugs	71.49
2	Vandalism and theft	76.74
3	Violent Crime such as assault, armed robbery and kidnapping	79.74
4	Corruption and bribery	88.36

Source: Numbeo (www.nubeo.com/crime/rankings_b4_country.jsp)

Way Forward

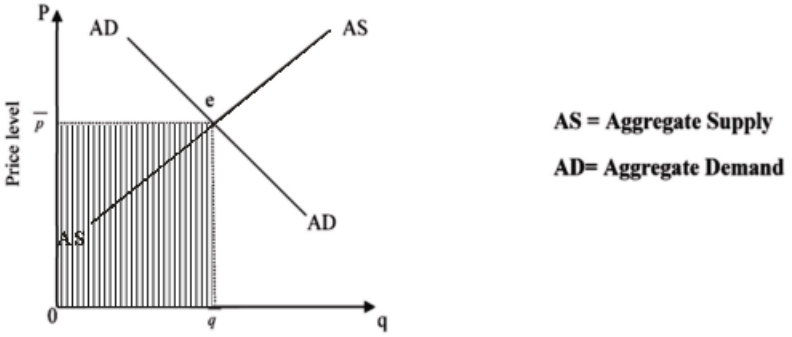
The next question is what is the way forward?

The answer is 'simple'- that is to shift the supply function forward by stepping up the production of goods and services. This is because increase in production activities particularly in the real sectors of the economy (Agriculture and Manufacturing) will:

(i) increase value chain and create more employment opportunities;
(ii) increase output of goods and services available which will in turn reduce prices at which goods are purchased;
(iii) reduce poverty and misery of the citizen; and
(iv) ensure inclusive growth.

The foregoing can be illustrated diagrammatically as follows:

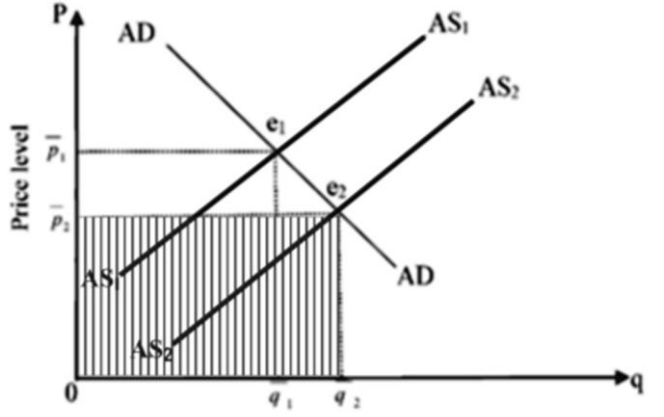
Figure 7: Inclusive and Exclusive Economic Activities I



From figure 7, it is clear that maximum aggregate output that can be produced is $\overline{q}$ with $\overline{p}$ as the prevailing general price level, given the equilibrium point at 'e'. This means that the optimal value chain and possible employment that is created is the one generated by the production of output level $\overline{q}$. Therefore, the area that shows inclusiveness is $0\,\overline{p}\,e\,\overline{q}$.

To create more value chain in order to increase employment and reduce prices, the supply function must shift outward to the right.

Figure 8: Inclusive and Exclusive Economic Activities II



From figure 8, a shift in the aggregate supply function from AS_1 to AS_2 increased aggregate output from $\overline{q}_1$ to $\overline{q}_2$, thereby making more goods and services available as well as reducing general price level from $\overline{p}_1$ to $\overline{p}_2$. The implication of this is that the increase in aggregate output will create more value chain and employment and moderate inflation by reducing general price level. A curious look at figure 8 reveals that increase in aggregate supply as shown by the shift in the aggregate supply function from AS_1 to AS_2 has increased the area of inclusiveness from $0\,\overline{p}_1\,e_1\,\overline{q}_1$ to $0\,\overline{p}_2\,e_2\,\overline{q}_2$.

To achieve the foregoing, that is, increase in output and employment, moderate inflation, reduction in poverty and misery level and in turn inclusive growth and development, the managers of the Nigerian economy should NOT rely completely on market fundamentals and forces. In our quest for economic growth and development, the strategy of DEVELOPMENTAL STATE becomes imperative. We must place more emphasis on PLANNING and adequate implementation to achieve development. In the 70s and early 80s, the Nigerian economy was better in terms of living standard because more emphasis was placed on planning and the government played a very prominent role in directing and boosting economic activities.

It is on record that the two macroeconomic 'evils' - inflation and unemployment - assumed alarming rates in the Nigerian economy after the introduction and implementation of the market- oriented measures under the Structural Adjustment Programme (SAP) in the mid-80s. Since then, the policy thrust focus of successive Nigerian governments shifted more to market oriented measures.

The submission of this lecture is that to achieve inclusive economic growth and development "we must go back to planning and adequate implementation by government and not to plan and leave the implementation for market fundamentals".

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CITATION ON
PROFESSOR OKECHUKU ONUCHUKU

Professor Okechuku Onuchuku was born in Rumuohia Community, Emohua local Government Area of Rivers State on 4th April 1965 to the family of Chief Lazarus and Mrs Catherine Onuchuku. He received his early education at the Sacred Heart State School, Diobu, Port Harcourt where he obtained the First School Leaving Certificate in 1976. He proceeded to the Government Secondary School, Eneka, Port Harcourt where he obtained the West African School Certificate in good standing in 1982. Not satisfied, young Okechuku enrolled in the University of Port Harcourt and was the best graduating student in the 1990 class of Bachelor of Science degree in Economics programme. He has a brilliant scholastic record as a graduate student of this same university. He had a Distinction in the Master of Science programme in Economics in 1994 and also earned his Doctor of Philosophy (PhD) degree from the same Department of Economics in 1998. His extracurricular record is equally impressive. He was the UNIPORT goalkeeper of choice for years because of his good and very sharp reflexes. He was team Manager of the UNIPORT football team to NUGA 2004. Mr Vice Chancellor Sir, permit me to describe Professor Onuchuku as an undiluted hundred percent home breed, totally made in University of Port Harcourt by University of Port Harcourt for the rest of the world.

After graduation as an Economist he has been participating actively in the affairs of the Nigerian Economic Society where he is Life Member. Presently, Professor Onuchuku is the National Vice President of the Nigerian Economic Society. He has organised several academic conferences and served as Editor of several journals including the Journal of Contemporary Management Issues as well as the Journal of Monetary Economics. As an accomplished academic he has been External Examiner to several institutions in Nigeria including the University of Ibadan, University of Calabar, Niger Delta University, Wilberforce Island Bayelsa State and the Rivers State University of Science and Technology, Port Harcourt. He was the Team Leader of the Presidential Committee on Needs Assessment of Nigerian Universities visitation team to public universities in 2013 and the Vice Chairman of the Presidential Committee on Needs Assessment of Nigerian Public Colleges of Education in 2013. He has served as a Panellist in the selection interview of the 2014/2015 Commonwealth Scholarship and Fellowship plan.

Professor Onuchuku's working experience started as a Clerk with the National Population Commission between 1983 and 1985. On graduation he proceeded for the mandatory National Youth Service Corps programme and served in a firm of Chartered Accountants in Kaduna State. His professional academic career spans a period of about 24 years and commenced as an Assistant Lecturer with the Rivers State College of Arts and Science, Port Harcourt from 1992 to 1995. He took up employment with University of Port Harcourt as an Assistant Lecturer in the Department of Economics in 1995 and progressively rose through the ranks to the current position of a Professor in 2010.

Professor Onuchuku is an economist of international repute. With a certificate from the Schulich School of Business, York University Canada in the measurement and management of performance indicators in Government, he at various times consulted for the World Bank, United States Agency for International Development (USAID), the Federal Government of Nigeria, several States and

local governments in Nigeria. He was involved in the drafting of the Rivers State Economic Development Strategy document in 2005. He was the Consultant in charge of the South-South region of Nigeria for the survey on corruption and governance in Nigeria in 2000 which was commissioned by the Federal Government of Nigeria, USAID and the World Bank. He served as the Chief Consultant for the Bayelsa State Government on Public Procurement principles, due process and procedures in 2008. He has served at various times as a consultant to the World Bank/Federal Government of Nigeria National FADAMA project on the survey of Household Income generation progression and sustainability under FADAMA III implementation and also the FADAMA midline and endline surveys in Rivers and Bayelsa States. He was the Consultant in charge of the development of Fiscal Management Toolkits for the Rivers State Government. The List is endless but suffice to say that this our erudite Professor has served the Rivers State Government also in the following capacities; Member of the Transition Committee 2007, Special Adviser to the Governor in charge of Policy, Research and Programmes 2007, Chairman of the Transition subcommittee on Economic Planning 2015 and at present the Chairman, Rivers State Government Board on Public Procurement.

As an enthusiastic researcher who has advanced knowledge and understanding in his field he has done both theoretical and applied research. His research has focussed mainly in the areas of economic theory and policy with particular reference and emphasis in the areas of econometrics and mathematical economics. He has to his credit 65 publications in peer reviewed and impact journals locally and internationally. He has authored 3 books, and edited 2 books and several monographs in this field of economics.

Professor Onuchuku has fulfilled several academic and administrative functions within and outside the University of Port Harcourt. He is an Adjunct Professor to the University of Uyo, Akwa Ibom State as well as the Rivers State University of Science and Technology, Port Harcourt. He was a two-term Head, Department of Economics 2010 to 2014, Associate Dean, Faculty of

Social Sciences, UNIPORT 2006 to 2008, member of the senate committee on Prize UNIPORT 1997, Member UNIPORT Football team management 1997, Member of the Faculty of Social Sciences Institute of Environmental Studies Committee, Coordinator of the Post graduate diploma programme in the Department of Economics, Member, UNIPORT Senate and presently he is the Dean, Faculty of social sciences of this university where he is serving meritoriously.

Through this remarkable journey, Professor Okey Onuchuku has also been a partner in an enduring marriage to Mrs Joy Chika Okey-Onuchuku also an alumnus of the University of Port Harcourt. They have both raised a closely knit and God fearing family of four children, Emmanuella, Jemima, Mirabel and Emmanuel.

Mr Vice Chancellor Sir, distinguished ladies and gentlemen, by placing his research focus on people, this EMOHUA born son of a teacher incorporates the social sciences as well as the physical sciences. He is here to tell us why when those of us living south of the Sahara are unemployed we are tagged lazy but when the white man is unemployed it is called depression.

I present to the Vice Chancellor and this august assembly, a political technocrat, a goal tender and sports manager, a life member of the Nigerian Economic Society, former Head, Department of Economics, National Vice President of the Nigerian Economic Society, Dean, Faculty of Social Sciences, Professor Okechuku Onuchuku, the 133rd inaugural lecturer of the University of Port Harcourt.

Professor Barisua Fortune Nwinee
Orator