

MINING, COMMERCE, AND FINANCE IN NIGERIA

being the second part of a study of
THE ECONOMICS
OF A TROPICAL DEPENDENCY

by

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ABBREVIATIONS AND DEFINITIONS

- Balances of Payments*, 1938 = League of Nations Economic Intelligence Service., *Balances of Payments*, 1938, Geneva, 1939.
- Hailey = Hailey, Lord, *An African Survey*, 1938.
- Hancock = Hancock, W. K., *Survey of British Commonwealth Affairs*, Vol. II, Part 2, 1942.
- Orde Browne = Orde Browne, G. St. J., *Labour Conditions in West Africa*, Cmd. 6277 (1941).
- Census* = *Census of Nigeria, 1931* (Crown Agents), Vols. I-VI, 1932.
- Cocoa Commission Report* = *Report of the Commission on the Marketing of West African Cocoa*, Cmd. 5845 (1938).
- Cocoa Committee Report* = *Report of a Committee appointed in Nigeria to examine the Recommendations made by the Commission on the Marketing of West African Cocoa*, Sessional Paper No. 20 of 1939.
- Currency Committee Report* = *Departmental Committee appointed to Enquire into Matters affecting the Currency of the British West African Colonies and Protectorates, Report*, Cd. 6426 (1912).
- Currency Committee Evidence* = *Ibid.*, *Minutes of Evidence*, Cd. 6427 (1912)
- H.C. Deb.* = *House of Commons Debates*. The figure preceding each citation indicates the volume.
- Laws* = *The Laws of Nigeria*, (Lagos), 1923.
- Oils and Fats* = *Oils and Fats: Production and International Trade, Studies of Principal Agricultural Products in the World Market*, Nos. 4 and 5, (Rome), 1939.

All reports refer to Nigeria unless otherwise stated.

The term 'native authorities' represents the local government authorities in Nigeria constituted by law.

EDITOR'S INTRODUCTION

This book is the second volume of a study of the economics of Britain's largest tropical dependency. Under normal conditions of production and publication the two volumes would have appeared together. For reasons which there is no need for an editor to explain in 1947, there has been not only delay in the publication of the work as a whole, but also an interval between the appearance of the two volumes.

The preface and the general introduction to the whole book will be found at the beginning of the first volume. No more will be needed here than a very summary statement upon the genesis of this study and some reference to the important economic developments affecting Nigeria which have taken place since the work of the contributors to the book ceased.

These investigations were made possible by the Trustees of the Higher Studies Fund of the University of Oxford, who made generous grants to Nuffield College for research into colonial questions. The College delegated the supervisory responsibility for this research to a Committee, the membership of which is given on the page opposite the title page, and commissioned me to look for research workers and to direct the work. For this I needed the partnership of an economist and at different times was fortunate enough to have help and advice from Professor A. J. B. Fisher, Dr. A. J. Brown, Professor D. H. Macgregor, and, in the later period, the Warden of the College, Sir Henry Clay. The reasons why it proved impossible to obtain the continuous help of an economic co-editor are given in the preface to Volume I. There, too, will be found the reasons for the choice of Nigeria and for the selection for study of certain aspects of its economy, some description of the methods followed in the investigations, and acknowledgements to the many experts, official and unofficial, who helped the contributors and the editor in their work.

This book was finished towards the end of the 1939-45 war at the moment when great economic changes, voluntary and involuntary, were beginning in the British Colonial Empire. There was no intention to give a descriptive up-to-date account of the situation as it existed at the very end of the period of study: information was available in a sufficient quantity for serious economic investigation only for the pre-war period and, to a lesser extent, for the earlier years of the war. Although important economic events have occurred in the last three or four years, we make no apology for this concentration. Even the material which we could collect for the years under investigation was inadequate both in quality and in quantity for anything but work of a pioneer and provisional character and the later

material which came in during the wartime period of writing was fragmentary. The two volumes of this book, will, however, reveal some of the fundamentals of the Nigerian economic structure and these have not changed, though there have been some important developments both in conditions and in policy during the last two or three years.

It may be of interest to readers who are not in close touch with current African affairs to make a brief reference to these developments and to take further advantage of this preface, written on the eve of publication, to enter in footnotes several important documents, dealing with Nigeria's economy, which have been published since the last lines of this book were written. These references should help readers to follow up for themselves the later developments of some of the questions discussed in this book. But they will be references only; there is no space here for discussion.

The most important event in the general history of Nigeria has been the inauguration of the new constitution, the form of which was described in the introduction. The new Legislative Council first met on March 20th of this year. The peoples of Nigeria have now three regional bodies based upon their long-established native administrations, and also a central legislature. In all of these there is an African majority and there can be little doubt, in view of the nature of the territory's most pressing problems, that these new institutions will be used increasingly for discussions and decisions upon economic questions. One of the most pressing needs in Africa to-day is to harness the understanding and will of the peoples to the deep and comprehensive processes of change which their conditions demand. Most of their leaders and representatives are still inexperienced in the wider modern economic factors which govern their well-being. Yet, as we know from our recent experience in Britain, without their active co-operation the urgent economic problems shewn in this book cannot be solved. The new constitution does at least provide the institutions through which this understanding can be gradually developed.

Another important event has been the drawing up of Nigeria's Ten-Year Plan of Development and Welfare.¹ According to this £55,000,000 is to be spent in ten years. Of this sum the British taxpayer, through the machinery of Colonial Development and Welfare, will contribute £23,000,000. Of the remainder it is proposed that the Nigerian Government should raise loans up to £8,000,000 during the first five years while the balance will be found from Nigerian revenues. The greater part of the money has been allotted to the physical development and equipment of the territory. Among the major items are water supplies (about £8,000,000), roads (about £7,000,000), the development of electricity and telephones (about £1,500,000), health services (about £5,000,000), and a pro-

¹ *A Ten-Year Plan of Development and Welfare for Nigeria, 1946*. Sessional Paper No. 24 of 1945, as amended by the Select Committee of the Council and approved by the Legislative Council on 7 Feb. 1946. Lagos.

gramme of building to meet the needs of the several services and developments (£9,000,000).

Executive and advisory institutions have been built up for the operation of these plans. These include new departments of government—a Department of Commerce and Industry and new branches of the Secretariat to deal with development and welfare. There is a Secretary for development, and a Central Development Board composed of senior officials and, by a recent decision, of two Africans. Area Development Boards have been constituted in each of the three regions. There have been provincial Development Committees, largely manned by Africans, in each of the twenty-four provinces for some years. These are to report to the Area Committees which will be under the Central Development Board. An interesting experiment is the Nigerian Local Development Board which will assist, with advice or with loans, locally initiated schemes of development and especially plans for the improvement of native industries. It has already issued its first report.¹

There is much in this plan upon which Mr. Mars' chapters are an anticipatory comment. It will be observed, however, that there appears to be no intention on the part of the Government to co-operate in, initiate, or industrial development upon a large scale. The plan is rather to build up the basic equipment of the country both in public works and in the health of the people on the grounds that without an improvement of these no investments in industry can be very effective or profitable. It is understood that the Nigerian government is opposed, on social grounds, to any large-scale industrialisation in the near future and prefers to experiment first with the development of existing crafts and with processing industries. There are not wanting critics, however, who believe that the best policy would be to concentrate most of the available funds upon production, and to let the development of public utilities and social services develop when and where production warranted them and was, indeed, able to support and extend them.

The Government has already embarked upon some minor industrial ventures. Those who read Dr. Scott's analytic review of the dangers facing Nigeria's palm-oil trade will be interested in the allocation of £60,000 by the Local Development Board for the provision of twelve mills for expressing oil-palm in south-eastern Nigeria; the first of these was set up last year near Okigwi. Those who have some knowledge of the political and economic divisions of Nigeria will remark that the motion for the allocation for this development in the Ibo country was moved on the Board by a northern ruler, the Emir of Zaria. Large sums have also been set aside for research in Benin into the problems of the production and extraction of palm-oil. The Board has shewn its readiness to support minor industries such as the production of native cloth and a small raffia marketing society.

¹ Sessional Paper No. 7 of 1947. Lagos.

Another interesting intervention by the Government is the formation of an official corporation to operate plantations in the Cameroons, ex-German properties which the Nigerian Government proposes to buy from the Custodian of Ex-Enemy Property at a price of nearly a million pounds. The Corporation will have as its Chairman the former Development Secretary who has been given this and certain other duties under the title 'Commissioner for Special Duty'. The board will have no European shareholders. It will operate the valuable banana and other plantations of this region, using the profits for the benefit of the people of the Cameroons and associating them increasingly with the business upon co-operative lines. This, though it does not approach the scale of the British Government's ground-nut scheme in East Africa, is one of the boldest and most interesting of the official ventures on the West Coast and deserves to be watched with close attention. As the ground-nut scheme is being assisted at the beginning by the United Africa Company's managerial experts, so in the Cameroons project the Nigerian Government, because of its lack of technical experience and skilled staff, is making use of the services of Elders and Fyffes Ltd. As this firm is in turn linked with the United Fruit Company there is here an interesting connection with American commercial enterprise.

The world food shortage has given new impetus to the perennial attempts to improve native agriculture and the transport and marketing of its products. The grave situation with regard to fats has concentrated attention upon oil-bearing plants. It is impossible in this preface even to refer to all these developments but mention must be made of the mission sent in 1946 to enquire into the possibilities of an immediate increase in the exports of West African vegetable oils and seeds. The many recommendations in this report for stimulating and improving production in these crops will be of special interest in relation to the analysis of native production in the first of these two volumes.¹ After study of this report H.M.'s Government decided on the appointment of a further mission of four members to 'investigate the suitability of conditions in the Northern Territories and other parts of the Gold Coast, Northern Nigeria, and Gambia for large-scale mechanised production of groundnuts for export':² this mission was due to leave for West Africa in the summer of this year. Among many other documents worthy of study in this context is the *Statement of Agricultural Policy* with its firm declaration of the Nigerian Government's determination to protect the land of Africans even against their own misuse.³

¹ *Report of the Mission appointed to enquire into the production and transport of Vegetable Oils and Oil seeds in the West African Colonies*. Col. No. 211. 1947.

² *The Times*, June 2, 1947.

³ *Statement of Agricultural Policy*. Sessional Paper No. 16 of 1946. Lagos. In view of the attention paid to agricultural co-operation in this book, readers should note the despatches sent by the Secretary of State to Colonial Governors on March 20, and April 23, 1946, entitled *The Co-operative Movement in the Colonies*. Col. No. 199. 1946.

In the sphere of public finance the main postscript to Sir Alan Pim's chapter will be found in the continuing good news of the sound position of Nigeria's revenue. In 1946-47 this reached the record figure of £14,650,980. The estimate for 1947-8 is £18,163,990 (Grants of £1,267,680 and £2,043,150 from the Colonial Development and Welfare Fund are included in these totals). In his speech of October 28, 1946, to the Legislative Council the Governor had some remarks to make upon the contributions of the three main regions to taxation. These were based upon the calculations necessary for the new allocation of revenues to the Regional Assemblies. They form an interesting comment upon Sir Alan's discussion of native taxation since they shewed that the Northern Provinces paid 46% of the revenues which are not to be declared regional and received only 36% back in regional expenditure. The Western Provinces contributed 30% and received 26% in return, while the Eastern Provinces, paying only 24% received back no less than 38%. Calculations of this kind are very difficult to make and can only be approximate. But they indicate in broad terms a state of affairs which appears to arise, at least in part, from the difficulties of collecting taxation from the stubborn and unorganised peoples of the Eastern Provinces. The further information was given, which will be a useful addition to Sir Alan Pim's chapter, that the latest assessment shews that people of the Northern Provinces pay 3s. 3d. per head in direct taxation, those of the West 2s. 6d. and those of the East 1s. 9d. These are inequalities which seem, as the Governor pointed out, to require gradual rectification.¹ A third matter worth recording under public finance, in view of what Mr. Mars has to say about the raising of domestic capital, is the launching of the first local loan in Nigeria during 1946. The loan, which was set at £300,000, was over-subscribed by £500,000, but it is to be remarked that, in spite of intense propaganda, very few individual Africans took it up. The greater part was subscribed by the Native Administration Treasuries.

It is a sign of the changing conditions in Nigeria that some of the most dramatic events in the recent economic history of the country have been concerned with the attempt of organised labour to extract higher wages, an attempt bound up with the rise in the cost of living, the shortage of consumer goods and the fear of inflation. In the summer of 1945 there occurred a very widespread strike amongst government employees, members of fifteen public service unions which federated into a general body. The demand was for an increase of 50% in the cost of living allowance granted in 1942. This was refused by the Government on the grounds that it would lead to further inflation. Mr. Tudor Davies was appointed as Commissioner to enquire into the cost of living, its possible control and the

¹ *Speech of H. E. the Governor Sir Arthur Richards to the Legislative Council Oct. 28, 1946. Lagos, pp. 1-2.*

future compilation of cost of living indices.¹ While the calculations, being directed towards groups earning standard wages, were not so difficult as some of those attempted in our first volume by Professor Forde in drawing up budgets for subsistence farmers, the task set to Mr. Davies was a formidable one and was carried out in conditions of tension and publicity. A further strike was, indeed, threatened in protest against alleged delay in the publication of the Report. Mr. Davies recommended an increase of 50% in the cost of living allowance, rejecting the Nigerian Government's view that this would lead to inflation, a development which, he said, seemed more likely to arise from the Government's large public works expenditure. The Report contains some very interesting evidence, submitted by the trade unions and the other parties to the dispute, and some valuable tables. Among the latter is one which shows that the total taxation in Nigeria (including import, export and excise duties, and the revenue from the new Companies Tax) rose from £4,553,645 in 1939-40 to an estimated total of £10,863,716 in 1946-7².

In 1945 a Commission was set up to enquire into another important aspect of the Nigerian Government's payments for services, one that is discussed in this volume and which raises delicate questions of differential payments to civil servants on grounds of domicile, which, in the West African context, means race. The Commissioner, Sir Walter Harragin, was instructed to enquire into the structure and remuneration of the Civil Services in the four West African territories.³ The Commission began its sessions in West Africa in January, 1946, and the report was ready by the end of the year. On the difficult question of scales of payment for locally recruited and externally recruited officers, the Commissioner recommended that there should be a basic rate of pay, with an additional expatriation allowance of one third of this figure for externally recruited officers. In support of the distinction it was pointed out that the rate must be sufficient to attract British staff and compensate them for the inconveniences and extra expenses which they incurred. The rates must also bear some relation to the scales of wages ruling in the officials' country of origin, and it was pointed out that whereas the wages of an unskilled labourer in the United Kingdom were about £5 a week, those in Nigeria were generally less than half this sum a month.⁴ The recommendations for the raising of Government salaries has had wide repercussions especially amongst the vast numbers of teachers whose demand for proportional increases of pay would throw an intolerable strain upon Nigerian resources.

¹ *Enquiry into the Cost of Living and the Control of the Cost of Living in the Colony and Protectorate of Nigeria*. Col. No. 204, 1946.

² *Ibid.* p. 35.

³ *Report of the Commission on the Civil Services of British West Africa, 1945-6*, by Sir Walter Harragin. Col. No. 209, 1947.

⁴ *Ibid.* p. 10.

In view of Mr. Mars' chapter upon the extra-territorial companies and especially of his discussion about their potential functions of developing Africa and the Africans, it will be of interest to note a new policy on the part of Lever Brothers. At the 1946 annual meeting of Lever Brothers and Unilever the Chairman devoted almost the whole of his speech to 'development within the Continent of Africa'.¹ He gave four headings to what he had to say: natural resources, commerce, transport and industry. The new programme is to cover, of course, more than Nigeria, or even British tropical Africa. It shows strikingly increased activity. In Nigeria the existing saw-mill at Sapele is to be entirely renovated and enlarged, and equipped with the latest machinery, while new operations in the processing and seasoning of the wood are to be carried out. The housing and training of the workers are part of a plan which, with similar developments in the Gold Coast, will demand an expenditure of £2,250,000. On the commercial side there is to be not only great expansion, but much greater specialisation, with expert agencies for the selling and servicing of automobile and electrical goods. Even more interesting to readers of this volume will be the statement in which Mr. Heyworth defined the change in the commercial policy of the United Africa Company:

'The pattern of the businesses of the United Africa Company is thus gradually changing from general wholesaling and retailing to one of specialised wholesaling, with retailing passing more and more into the hands of the African. In this way the role of the European is changing from "general trader" to that of "specialist merchant".'

The results of this policy should be very important for Africans and remove one of their major grievances against the company.

Under the heading of transport, Mr. Heyworth announced the installation in the Niger delta of a cargo-handling plant that will compare with the best in Europe. Among industrial ventures figure the extension of the soap factory in western Nigeria and the establishment of a new one in the Eastern Provinces.

The total cost of all the new developments in tropical Africa will be £9,800,000, but the importance of the programme is to be judged less by this figure than by its promise of a novel and much more positive approach to the business of African development by the leading extra-territorial company acting in this region.

Nor is this the only company to show increased initiative in African investment. Barclays Bank, (Dominions, Colonial and Overseas) announced in 1946 the formation of an Overseas Development Corporation which is intended to finance development schemes in the colonies. This, owing to the many obstacles to investment, made a very modest start, but there is no doubt that it is the intention of the directors, within the limits of bankers' policy, to make an increasing contribution to colonial development. The

¹ *Financial Times*, Nov. 30, 1946.

position of the Bank in Nigeria ensures that this dependency will have its share of this new opportunity.

Thus it appears that in British Africa, as in Britain, private enterprise will continue to function alongside state planning, and even state intervention in production. How far their activities will be integrated and what will be the final answer to the question raised in the introduction to Volume I about the position of the dominant Company in West Africa remain as uncertain as before. The native press continues to attack this Company, as it does the whole Association of West African Merchants, which comprises the main European firms for purposes of marketing control and co-operates with the Ministry of Supply. There are no signs as yet that the present Labour Government in Britain intends to initiate any direct action which would affect the position of the extra-territorial companies. Its policy will, however, have important indirect effects. Much of the buying and marketing is now under government control; the emergence of State Development Corporations, the further development of co-operative societies and many other measures will tend to modify the position of the companies gradually, while leaving them a very large, if changing, part to play.

There is, however, one field in which Socialist principles have been clearly proclaimed. A very important memorandum has been issued by the Government upon colonial mining policy.¹ This is a highly technical and also a controversial subject and in the brief reference which alone is possible here, the problems raised by this paper—which is no more than a declaration of general principle—cannot even be outlined. The main purpose asserted in it is the desirability of the Crown retaining or acquiring mineral rights. The principles which should govern the operation of mining in the interests of the colonial governments and their revenues, of the peoples and workers are laid down and the prospects of much closer control by colonial governments, and even of their undertaking mining operations, are foreshadowed. It need hardly be said that this policy has been strenuously criticised. Protests have been made, for example by the British Overseas Mining Association and by the Executive Council of the Joint East African Board. Critics have emphasised the peculiar character of mining enterprise with its special need for a maximum of enterprise in prospecting and of speculative investment, and also the wasting nature of the asset. They have asserted the view that when mining returns in the Colonies are taken over a long term and the heavy costs of prospecting and development are assessed, they have not been unreasonably high.

So far no dramatic action has followed upon the declaration of policy and the issue between the two main parties is still open. One significant announcement has been made since the publication of this paper which bears upon Nigerian mining and is very relevant to certain sections of this book. It is to the effect that the Nigerian Government and the United

¹ *Memorandum on Colonial Mining Policy*. Col. No. 206. 1946.

Africa Company have been discussing the possibility of a reversion to the Government of the share of mineral royalties which were made over to the Royal Niger Company under the treaty of 1899 by which it surrendered its charter.¹ If this reversion can be arranged it will be the end of a very long controversy which began when Sir George Goldie and Mr. Chamberlain hammered out, not without some bitterness, the terms upon which the Royal Niger Company should surrender its charter.

One very large new economic problem, which has political and, it might be said, moral aspects, is now facing the British and the Nigerian Governments. Cocoa prices suddenly doubled because in October 1946 the United States unexpectedly removed the price control for the 40% of the West African crop allocated to that country. A severe struggle must have gone on behind the scenes between the Ministry of Food, representing the consumer, and the Colonial Office (through the mainly official West African Produce Board) representing the producer. In this case the Colonial Office prevailed and the American price was obtained. But instead of handing on the increase to the producer, the Board, fearing both inflation and the disturbing effects of sudden price fluctuations upon the producer, retained it. As a result the Board found itself, in a short time, with £20,000,000 of 'profits' on its hands.² By contrast, since palm-oil products are bought in bulk by the British Government and come mainly to this country their price is still controlled. The question arises as to whether African producers ought to be allowed to take full advantage of the abnormal conditions of scarcity and obtain, at the expense of the British consumer, the high prices that uncontrolled selling could command. West Africa is already suffering very seriously from inflation with the recent rise of prices at a time of great shortage of consumer goods, especially of textiles. Britain herself will have great difficulty in producing the required goods in sufficient quantity for some time to come. This problem raises the subsidiary question as to how far it is justifiable to use the 'profits' upon these bulk-buying transactions for equalisation funds, research schemes or for other purposes which only indirectly benefit the individual consumer.

It will be clear that this is a subject which raises deep matters concerning the relationship of Britain with her colonies and the kind of economic control which, while Africans are still unable to assert their own policy, these relations justify. It raises the still deeper, or at least wider, international issue of the integration of an imperial economy controlled by a socialist government with the dominant free-enterprise system of the United States.

¹ *The Times*, April 15, 1947.

² For a very informative discussion upon this subject see the House of Commons debate upon the Cocoa Prices Order, May 13, 1947. Also see the *Statement on Future Marketing of West African Cocoa*, Cmd. 6950. 1946.

The advent of the economic crisis during the summer in which this book is being sent to the press has brought these issues into the headlines of British newspapers. The shortages of food and of the dollars with which to buy it have turned the national attention upon the part the colonies might play in helping to meet Britain's urgent need. The ground-nut schemes have already pointed the way. They have been followed up by the announcement that a Colonial Development Corporation with total borrowing powers of the order of £100 million is to be set up to establish or assist in the colonies any enterprise which is designed to increase their general productive capacity.¹ At the time of writing legislation to establish the Corporation has still to be introduced, but the announcement has naturally contributed to the public hopes of finding some part of the answer to Britain's immediate difficulties in the colonies. These hopes, some of which seem to be based upon rather too optimistic an assessment of colonial resources, have at once brought Britain into conflict with the 'non-discrimination' terms of the American loan. The international aspects cannot be raised here, but there are some comments upon the imperial questions which are suggested by the contents and purposes of the book.

A vigorous British policy to develop colonial resources in relation to metropolitan needs has both great possibilities and great dangers. The possibilities lie in the application to the colonies of capital, science and managerial skill upon a scale never before conceived outside the realm of dreams and theories. What this could mean to a country like Nigeria has been shewn by Professor Forde's analysis of rural poverty and by Mr. Mars' proposals which to some who read them seemed unrealistic even at the very recent date at which they went into type. But rapid economic development raises social and political questions which must be answered if the new plans are to succeed. On the social side, as the first chapters of Volume I have shewn, such development is bound to impose heavy strains upon the way of life in African families and villages. These strains must come, but the planners should at least know what they are doing and take measures to study and to soften the less beneficial effects of their measures.

Far more obvious and immediate, though not more important, are the political questions raised by the increased scale and pace of the development policy. There is the danger that in turning to the colonies for help in her difficulties, Britain may use or seem to use the large powers at present in her hands more in her own interests than in theirs. The nature of the plans requires a novel measure of initiative and guidance from Whitehall and wide powers in the field for managers, scientists and experts of various kinds who must at the present stage of colonial education be mainly European. Yet the schemes are being launched at the very moment—this is certainly true of Nigeria—when the colonial people are beginning to demand large advances in political responsibility. Behind the apparent

¹ 439 *H. C. Deb.*, cols. 441-6 (25.6.47)

conflict between these two developments there is a harmony because, as this book should shew, the political ambitions of Nigerians can never be fully realised until their standard of life has been raised and the territory as a whole has built up a more mature and balanced economy.

It will be the task of the British by word and act to convince the peoples of Nigeria, as of other colonies and, indeed, other countries, that this harmony exists. The present Secretary of State has shewn himself well aware of this need. The simpler phase, in which British administrators concentrated mainly upon political tutelage, has come to an end and now the immense enterprise of economic development has to be integrated with the simultaneous promise of a speedy progress towards self-government. It will not be possible to bring these designs into unity in an atmosphere of political distrust such as exists already among some circles in Southern Nigeria, since their success must depend upon the co-operation and understanding of Africans at every level upon which action is being planned or executed.

There is no one magic formula by which the British can command success for their policy. There is, however, one suggestion which is appropriate in the introduction to a book of this kind. It is that if colonial economic development is to become, in a way that it has never been before, a national policy, in which British interests and those of the colonial peoples are to be equally served or, indeed, fused, then there must be more national understanding of what it is that Britain is attempting. Knowledge of colonial economics, of colonial interests and conditions, must become known far outside the circle of officials, experts and commercial men most directly concerned. They should not be asked to bear the great political responsibilities of the new measures. The colonial peoples, and especially their leaders, must be shown that there is in Britain a widespread and sympathetic understanding of their economic, as well as of their political interests, and that there is a desire to study their conditions and to bring them in to collaborate in that study. This book, provisional though it must be, has been planned with these considerations in mind, as a contribution towards a fuller appreciation of the difficult but inspiring work of human betterment which the British have set themselves to do in their tropical dependencies.

MARGERY PERHAM.

*Nuffield College,
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1947.

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PART ONE

COMMERCIAL ORGANISATION¹ AND TRADE POLICY

Chapter I

THE MINING INDUSTRY¹

BY PENELOPE BOWER

I. GENERAL CHARACTERISTICS

(a) THE RÔLE OF THE MINING INDUSTRIES

The importance of the Nigerian mining industries in comparison with those of other colonial areas in Africa and their importance in relation to some other industries within Nigeria is revealed by the following facts and figures. In 1936, a year of moderate prosperity, Nigeria exported minerals valued at £2,124,213 and was, therefore, fourth in importance among the mineral-producing British colonies and mandated territories in Africa, being surpassed by Northern and Southern Rhodesia and the Gold Coast whose mineral exports were valued respectively at £5,094,000, £4,422,000 and £4,248,000. In the case of both Rhodesias, minerals comprised over 70 per cent of the value of total exports, and in the case of the Gold Coast more than a third, while Nigeria exported minerals worth only 14 per cent of her total exports in 1936. The importance of tin among the domestic exports of Nigeria, though considerable, was less than that of palm-kernels, palm-oil, ground-nuts or cocoa, while other minerals were of minor importance.² The comparative unimportance of the mineral industry in Nigeria has certain advantageous aspects. In the first place, in view of the extra-territoriality of capital invested in colonial industries and the relatively greater amount of capital equipment required for the extraction of

¹ This chapter owes a great deal to information supplied by experts in the Nigerian tin industry who wish to remain anonymous. The author is grateful for their very co-operative and helpful attitude even where there was disagreement in matters of interpretation and opinion. Responsibility for these rests with the author alone.

² See table I in Volume I. For the 10 years ending December 31, 1936, the cumulative values of the exports of these commodities were as follows: palm-kernels, £31,006,000; palm-oil, £23,204,000; ground-nuts, £20,390,000; cocoa, £17,051,000; tin, £14,778,000.

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minerals compared with that needed for produce trading it is probable that for every £100 worth of exported agricultural produce stated in the *Trade Reports* a larger proportion accrues as income to Nigerians than in the case of mineral exports, the value of which includes a large proportion of profit and depreciation payments. In the second place the inevitable exhaustion of mineral deposits must involve a re-distribution of resources at some period, which can be effected more easily if there are many co-existent industries to which labour and capital can be transferred as mining activity diminishes.

(b) GEOGRAPHICAL SITUATION OF MINERAL DEPOSITS

The Nigerian minerals which are, or have been until recently, commercially significant are tin, gold, columbite, wolfram and coal, while there exist also deposits of lignite, iron, mica, brine and possibly mineral oil which are either completely untouched or being exploited on a small scale by native enterprise.¹

Although outlying deposits have been reported, the most important deposits of cassiterite or tinstone lie in an area centred on the Plateau which is about 200 miles long and rather less than 100 miles wide.

The tinstone was originally deposited in lodes and veins in the granite. In the course of time, these deposits were almost completely broken down by erosion so that only rare traces of the original lodes remain and the tinstone was deposited in ancient river beds. The process of erosion continued changing the landscape to its present form and much of the tinstone was re-deposited in the existing river beds, while other deposits became buried under clay and earth. A large area of the tinfield is covered by a layer of volcanic basalt which renders the deposits beneath it very inaccessible. The first deposits to be worked were those connected with the modern river-system. These have now been largely exhausted and the companies have turned their attention to the older deposits which lie under a layer of earth or 'overburden' which may be many feet deep.²

The inaccessibility of some of the older deposits, which are in some cases buried under 80 feet of volcanic³ rock, is one factor which accounts for the uncertainty of forecasts regarding the life of the mining field.⁴

¹ There are in addition various earthy minerals such as limestone and clay suitable for cement, bricks and pottery which will not be dealt with here.

² Jones, W. R., *Tinfields of the World*, 1925, pp. 261-266.

³ See *Report on the Mines Department, 1939*, and *Tin Ores* (Imperial Institute Monograph) 1919, p. 49.

⁴ In 1925 Dr. W. R. Jones, *op. cit.*, predicted that all the alluvial tin deposits of the world would be exhausted 'in a few years'. According to Dr. Fortes the Mines Department of Nigeria has recently made a forecast which has not been published. To make an estimate by adding up the proved and probable ore reserves of companies would be pointless, since it is customary for mining companies to carry on prospecting sufficient only to maintain their own reserves at a level which would enable production to be carried out at the present rate for five years.

Columbite and wolfram are both found in association with tinstone in this region, Nigeria being the foremost producer of the former mineral which, until its utility as an ingredient in alloy steels was recognised, was regarded as a worthless constituent occurring with tinstone in various mining districts such as Jantar, Jos and Kagerko.¹ It is now being recovered from tailing dumps in these areas as well as being mined for its own sake usually in conjunction with tinstone. Unlike tin and columbite, wolfram which is used for hardening steel is hardly ever found in alluvial deposits, since saturation with moisture in a tropical climate causes it to disintegrate, but mainly in lodes and veins and sometimes in detrital² deposits on well-drained slopes. The chief deposits are at Kalato, Lireui, the Rishi and Tongolo hills, Daga Allah, Gomber and Kwándonkaya.³

Gold deposits are widespread in Nigeria, especially in the western half of the northern provinces, where lies the established working field of today.⁴ In 1939 the greater part of the output came from Niger, Sokoto, Ilorin and Kabba provinces, but during the second world war large deposits have been worked at Ife-Ilesha. Although lodes are known to exist, most of the output up to the outbreak of war was won from alluvial and detrital deposits.⁵ Deposits of galena or silver lead occur at Arafu, Akwana and Jebjeb in Benue province and at Abakaliki in Ogoja. There has been no exploitation of these deposits by European companies since 1937.⁶

The Nigerian coalfield lies in the eastern provinces, outcropping along the eastern escarpment of the Donga Ridge of hills, and in 1938 in the area so far prospected, the proved reserves amounted to 113,000,000 tons, while the possible reserves amounted to 400,000,000 tons.⁷ Mining has been carried on since 1915 by the government colliery.

In 1936 the output value and exports of the more important Nigerian minerals mentioned above were as follows:⁸

¹ See 'The Production, Utilisation and Marketing of Columbite-Tantalite Minerals', *Bulletin of the Imperial Institute*, v. 34: 348-353, 1936.

² Detritus is material which has been worn from the original deposits.

³ Haag, H. L., 'Wolfram in Nigeria', *Bulletin of the Institute of Mining and Metallurgy*, No. 458:1-34, 1943.

⁴ Russ, W. J., *The Nigerian Goldfield*, Sessional Paper No. 17 of 1935.

⁵ It is not known whether there has been an increase in lode mining for gold since 1939.

⁶ Falconer, J. D., *The Geology and Geography of Northern Nigeria*, 1911, p. 270; and 'The Occurrence and Utilisation of Zinc Ores', *Bulletin of the Imperial Institute*, v. 13: 632-633, 1915.

⁷ *Report on the Colliery Department, 1938*, p. 3. Further prospecting for coal, i.e. beyond the area prospected by the Mineral Survey of Southern Nigeria from 1910 to 1914, was prohibited by Notice 145 of 1917.

⁸ *Trade Report, 1936. Report on the Mines Department, 1936. Annual Report on the Government Railway and Colliery, 1936-7*. The *Trade Report* gave the total value of exports of columbite and silver lead together. The value of silver lead was

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	Tin Con- centrates	Gold	Wolfram	Colum- bite	Silver lead	Coal	Total Value of Exports
	tons	oz.	tons	tons	tons	tons	£
Production	13,432	33,364	6.46	511	1,275	(297,053)	
Exports	13,108	34,793	10	511	1,216	46,975	
Value of Exports	£ 1,835,120	£ 243,842	£ 986	£ (49,531)	£ (24,320)	£ 42,678	£ 2,196,477

Iron ore of various types exists in many parts of the northern provinces¹ and has been mined extensively by Africans. The deposits on Mount Patti near Lokoja are said to be best suited for exploitation on a larger scale from the point of view of both quality and ease of transport.² Lignite has been found in an area measuring about 4,500 square miles extending from Benin to Onitsha (west to east) and from Ubiaja to Newi (north to south). Although analysis has shown the lignite to be of fairly good quality, the deposits have never been commercially exploited.³ There are deposits of marketable mica in Ilorin and the Cameroons which have never been mined to any great extent owing to their inferior quality and the low price of the Indian product. From time to time prospecting has been carried on in the southern and eastern provinces for mineral oil, but there has been no success up to the present. There are salt springs in Benue province around Awe and further east in Adamawa near Bomenda and Jenoc, and there are brine pools in south-eastern Bauchi from which salt has been won by native enterprise.⁴

(c) DECLINE OF AFRICAN MINING ENTERPRISE

Since the growth of European economic enterprise in Nigeria, native mining has been on the decline because of the *de facto* monopolisation of deposits by Europeans, or on account of technical inadequacy or through the competition of European products with the final products of native mineral industries. In 1884 it was found that the tin used by the Hausa for tinning their brassware was mined by Nigerians in the Naraguta district, and smelted in primitive clay furnaces,⁵ but by 1923 this indigenous industry had completely disappeared.⁶ Galena was mined for use as a

estimated by taking the estimated London value per ton (see Table IV), while that of columbite was obtained residually. The tonnage of coal produced in 1936 was obtained by interpolation, as the reports give figures for fiscal years only.

¹ Falconer, *op. cit.*, pp. 154-180 and 199-211.

² Calvert, A. F., *Nigeria and Its Tinfields*, 1912, p. 126, and Falconer, *op. cit.*, p. 269.

³ Wilson, R. C., *Brown Coal in Nigeria* (Geological Survey of Nigeria, Occasional Paper I), 1925.

⁴ Falconer, *op. cit.*, pp. 265, 266.

⁵ Calvert, *op. cit.*, pp. 129-130 and 136-137.

⁶ Hastings, A. G., 'The Romance of a Mining Field', *British Empire Review*, v. 49: 400, 1929. By 1911 so much of the tin-bearing areas had been taken up by European companies that it was considered necessary to allocate a concession of 100 acres to the native tin-smelters. This grant which was of little value was later

cosmetic both at Arafu, south of the Benue, and at Abakaliki in Ogoja. In the former area African workings continued for some time side by side with European enterprise but ceased a few years ago owing to the inability of African miners to cope with floods, while at Abakaliki activities appear to have ceased before the occupation.¹ According to Falconer 'the surface ironstones were at one time generally utilised throughout the Protectorate as a source of iron',² but owing to the competition of imported bar iron products, the local smelting industry has largely died out. The only districts where it is definitely known to continue are Bida³ and Bamenda in the Cameroons,⁴ although it may have survived elsewhere. Similarly, the African salt-making industry in the districts mentioned above has been much curtailed since the introduction of European salt.

When the charter of the Niger Company was revoked in 1899, the company ceded 'all its land and mining rights of whatever sort and however acquired for £150,000 and half the proceeds during 99 years of a royalty to be imposed on all minerals worked in Northern Nigeria in an area bounded on the west by the main stream of the Niger and on the east by a line running direct from Yola to Zinder.'⁵ Though the price has always been considered heavy, Nigeria has benefited to some extent by the national acquisition of all mining rights before any development had taken place. Had all mining rights remained in the hands of the company, as in the case of Northern Rhodesia and Southern Rhodesia until 1935,⁶

commuted into a money payment of £26 10s. per annum. It is, of course, theoretically possible for Africans to enter the modern mining industry as entrepreneurs. In practice, lack of capital has almost invariably prevented them from entering the tin industry. The difficulty has been enhanced by the Restriction Scheme which made it impossible for anyone to embark on mining operations in a large area comprising most of the tin deposits without purchasing an output quota which might be very costly. During the second world war the situation has been altered in two respects. Firstly, Africans are now in possession of more money capital than ever before and, secondly, the Mines Department has inaugurated the 'Temporary Admitted Claim' by which anyone considered efficient by the Mines Department may acquire the right to mine within the tin controlled area without purchasing a quota. As the result of these changes a very few African concerns have been started. They appear however to be impeded by lack of entrepreneurial and technical skill.

¹ See *Nigeria Handbook*, 1936, 11th edition, p. 107, and Calvert, *op. cit.*, pp. 260-7. Galena for cosmetic use is, however, still found in most native markets in Nigeria.

² *Op. cit.*, p. 268.

³ See Nadel, S. F., *Black Byzantium*, 1942, pp. 260-7.

⁴ Information supplied by Mr. T. Deans of the Imperial Institute at a private interview.

⁵ Niger Company Treasury Minute, 30th June, 1899. *Parliamentary Papers*, vol. LXIII, p. 417. In practice the annual payment includes a share of rents and now tax on profits as well as of royalties.

⁶ The British South Africa Company's mineral rights were purchased by the state for £2,000,000 in 1933.

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subject to revision at intervals of seven years,¹ while the holders of all titles are obliged to compensate landowners for disturbance and damage to buildings and crops.² But the 'owner' of land or other property of a native community means the chief or head of a community unless the land in question is private or held under a grant from the Crown.³ Since land occupied by African farmers is more likely to be of the former type, the question arises whether the rent or compensation generally reaches the affected persons. No legal provision is made for procuring new farming land for the dispossessed farmers, presumably because land is considered plentiful in mining areas. The possibility of inconvenience arising from dispossession is dealt with below.⁴ A defect in the law which affects the African as an occupier of land in the Plateau area is the absence of any restriction on tree-felling or obligation to replant on the part of mining companies. To meet demands for wood for mining purposes and fuel, all available trees in the neighbourhood have been cut down with the result that fuel has become an expensive item in the budget of both miners and peasantry, and problems of deforestation and soil erosion may arise.⁵

As employees of mining companies, Africans are affected by the law both as regards their welfare and the degree of participation to which they are permitted or assisted.

The principle of legal enforcement of a minimum standard of welfare in industry is slowly emerging in Nigeria. Until 1943, welfare legislation was largely of a negative nature, controlling abuse and compensating injury rather than providing for the betterment of living conditions beyond general African standards. Thus, the Labour Regulations provide that no labourers should be allowed to work more than ten hours a day.⁶ Apart from a restriction on the employment of women at night and the prohibition of the employment of children under 16 underground⁷ or on machine work, the law affords no protection to women and children in industry. Major Orde Browne has drawn attention to the tendency of the tribute system of mining in gold-mining areas to lead to the employment of women and children.⁸ Regulations under the Minerals Ordinance enforce the regular payment of wages in cash without deduction and the repatriation with maintenance of workers recruited from a distance whenever they wish to return.⁹ Safety conditions are laid down in the Safe Mining Regulations, 1927-29,¹⁰ and provision for compensation for injuries sustained in mining employ is made in the Minerals Ordinance.¹¹

¹ *Laws*, cap. 93, sec. 32 (2).

² *Ibid.*, sec. 17 and 34.

³ *Ibid.*, sec. 2.

⁴ See pp. 13-14.

⁵ Orde Browne, p. 55.

⁶ Hailey, p. 678.

⁷ Labour Ordinance No. 1 of 1929, Part IV.

⁸ Pp. 26, 27.

⁹ Minerals Regulations (*Laws*, vol. III, cap. 93, sec. 44, p. 576).

¹⁰ Minerals Regulations Nos. 4 and 30 of 1927; No. 29 of 1929 (*Supplement to the Laws of Nigeria*, 1930, pp. 720-722).

¹¹ *Laws*, cap. 93, sec. 58.

The first attempt on the part of the Nigerian government to secure an improved standard of life for industrial workers was the institution of the 'labour health area' for which minimum standards of housing, water supply, sanitation and medical attendance and treatment were prescribed.¹ The first areas to which this provision was applied were mainly in the Cameroons, but in 1936 the government coal mine at Enugu was included in the list of labour health areas, in which it remained until 1941.² The colliery was thus the first among Nigerian mining industries to attempt to provide for its workers an environment embodying some of the technical aids to communal living which civilised Europe can offer. These are needed to mitigate the disorder produced when a very congested African population, using primitive methods of building and sanitation which are better suited to the shifting settlements of agricultural communities, attempts to settle permanently. This can be attributed partly to the temper of the colliers³, which is more robust than that of the tin and gold miners, and may also have been partly due to a desire of the government to cast the beam from its own eye. By 1939 some progress had been made. A housing programme had been started and a full-time Labour Welfare Officer had been appointed, but Major Orde Browne still found much to criticise on the coal field⁴, although in the gold and tin-mining areas, where *laissez-faire* in welfare matters was still the rule, he apparently saw little room for improvement apart from the need to burn down or recondition periodically the huts of the workers.⁵ It is hard to see why workers in the other mining industries should not also benefit from the labour ration recommended for coal miners since there is no evidence that the customary diet on the Plateau or on the goldfields is more adequate to sustain heavy manual labour than that of the collier.⁶

By 1942 the standard of health and general welfare of workers at the colliery had been much improved,⁷ but it was only in that year that the need to attract and retain⁸ Africans to work in the tin mines raised the

¹ Labour Ordinance No. 1 of 1929, part I. Ditto: Regulations under Section 62, Part III (*Supplement to the Laws of Nigeria*, 1930, pp. 416 and 1,222).

² Notice No. 1490 of 1936 (*Laws of Nigeria*, 1936, p. F.55) and Notice No. 27 of 1941 (*Laws of Nigeria*, 1941, p. G.19).

³ See below pp. 28-9.

⁴ Pp. 61-63.

⁵ P. 54, paras. 50 and 53.

⁶ Orde Browne, p. 61, para. 80.

⁷ 385 *H. C. Deb.*, col. 544 (Macmillan, 19.11.1942).

⁸ That this motive can work wonders even in the absence of organised political pressure is shown by the behaviour of mining companies at Broken Hill where the labour force at the zinc mines is subject to the attraction of higher wages at the copper and coal mines in other parts of Northern Rhodesia. The workers at Broken Hill are consequently provided, in addition to wages and housing, with five-acre farm plots and full rations for men and part rations for wives, while the

question of welfare in this industry; this resulted finally in the Labour (Wage Fixing and Registration) Ordinance of 1943. The provisions and probable effects of this salutary Ordinance are discussed below in connection with the tin industry.¹

There has been no organised attempt to enable the African to enter the mining industries save at the lowest level as unskilled or semi-skilled labour. In fact, the law has been positively restrictive with regard to African participation in the industry. Until 1927 it was prescribed that the agent left in charge of a mining lease, the lessee of which is absent from Nigeria, should be a European and likewise the engineer 'in charge of any plant, the indicated horsepower of which is over 12'.² If this legislation had not been intended to discriminate against Africans it could have been phrased to prevent 'unqualified persons' from performing the functions mentioned. The complement of these regulations was the complete absence of organised training facilities to fit Africans for skilled or responsible posts. In this connection it is interesting to note that one large mining firm employs twelve Eurasian engineers trained in India to operate its six draglines at salaries of £45 a month, since 'no African has yet been found equal to the job',³ although other machines such as dredges and tractors owned by the same company are driven by Africans under European supervision. It is to be hoped that future educational development in Nigeria will include some provision for elementary mechanical training in the mining area.⁴

(e) GAINS AND LOSSES DUE TO THE MINING INDUSTRY

Table I, which shows a rough estimate of the disbursements of the mining industry in Nigeria over the trade cycle period, is the first step in companies also 'maintain order, water and sanitary services in their own compounds and assist the government to maintain welfare clinics there'. Wilson, G., *An Essay on the Economics of Detribalisation in Northern Rhodesia* (Rhodes-Livingstone Institute), 1941, Part I, pp. 22 and 23.

¹ See pp. 25 a and b.

² *Laws*, cap. 93 sec. 22 (2); Regulation 33 (vol. III, p. 571) and Further Regulations, Section 70 (No. 31 of 1917), No. 3. Amended by Regulations 3 and 4 of 1927 (*Supplement to the Laws of Nigeria*, 1930, pp. 710 and 720).

³ Information kindly supplied by Dr. Fortes.

⁴ In India evening classes on mining subjects for native miners were started over thirty years ago. They were so successful that the Department of Mines has been able to institute examinations of all grades of persons employed in mines in responsible positions including illiterate persons for whom a practical type of education has been devised. Fermor, Sir L. L., *Report upon the Mining Industry of Malaya* (Kuala Lumpur), 1939, p. 215. The establishment of a technical school at Tarkwa to serve the mining area in the Gold Coast, as suggested by the Gold Coast Chamber of Mines, is recommended in the *Report of the Commission on Higher Education in West Africa*, Cmd. 6655 (1945), p. 121. There is no mention of a similar provision in Nigeria, unless the somewhat tentatively suggested technical institute at Kaduna (see p. 120) is intended to meet the need for trained Africans on the Nigerian minefield.

an attempt to assess the gains and losses accruing to the Nigerian economy as a result of the mining industry. Row 7 shows that the total incomes generated and retained in Nigeria owing to the mining industry have fluctuated between about £1.3 million and £0.3 million during the last trade cycle period and represent from 60 per cent to 38 per cent of the total value of minerals exported. A remarkable feature of the series is the lower absolute value of Nigerian disbursements, which also forms a much lower proportion of the value of output, in the peak year 1937-38 compared with the earlier peak year 1927-28. This fall in local disbursements has been attributed to the increasing mechanisation of the metalliferous mining industry. This may be true with regard to the tin industry for in 1927 there were 3.2 Africans employed per ton of output and only 2.4 in 1937, but the gold industry, which only employed 9 Africans in 1927 and 9,400 (or 20 per cent of the total Africans employed in metalliferous mining) in 1937, was mechanised only to a very small extent. A factor of greater importance was the fall in African wages which was steep enough to offset a considerable rise in the total number of Africans employed in metalliferous mining (i.e. from an average of 37,000 in 1927 to 49,500 in 1937).¹ In the calendar years 1927 and 1928 the average wages of African miners were 6s. 7d. and 6s. 6d. per week respectively, while in 1938 and 1939 they were only 3s. 3d.² and 3s. 5½d.³ Wage statistics for the colliery which are not given separately in Table I show the opposite tendency between the years 1927-28 and 1937-38, although the total revenue fell. The 'total cost of labour' rose from £40,591 to £49,836 and the average wage from 6s. 6d. to 7s. 6d. per week.⁴

The large fluctuations in government revenue from mining, shown in row 5, are due partly to changes in the volume of output over the trade cycle period, and partly to the reduction of rents and the lower royalty on tin during the depression. Unlike the royalty on other minerals in Nigeria, the royalty on tin is progressive, being calculated by a sliding scale based on the price of tin metal. Thus, if the price is less than £180 per ton, the royalty is 2 per cent of the value of the output, and when the value is over £300, the royalty is 10 per cent.⁵

The reader is warned against inferring from Table I that if the metalliferous mining industry were predominantly intra-territorial the disbursements in Nigeria would be 100 per cent of the value of the output. Foreign capital would have been necessary in any case, and this would have involved the outward transfer of interest and depreciation payments.

¹ *Report on the Mines Department, 1938*. Appendix C.

² *Blue Books*, Sections on Wages and the Cost of Living.

³ *Report on the Mines Department, 1939*, p. 17. During the slump years 1933 to 1935 wages were as low as 2s. 6d. a week.

⁴ See *Reports on the Government Railway and Colliery*. Average wages based on 'total cost of labour' may include an element of wages in kind.

⁵ *Mining Royalties and Rents in the British Empire*, p. 32.

TABLE I

ESTIMATED DISBURSEMENTS IN NIGERIA OF MINERAL INDUSTRY OVER TRADE CYCLE PERIOD, 1926/27—1938/39

Fiscal Years beginning 1st of April	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
(All figures are expressed as £'000)													
1. Estimated Nigerian Disbursements of Colliery	149	130	126	129	111	86	83	77	80	77	92	123	115
Estimated Nigerian Disbursements of other Mining Industries:													
2. Estimated Wages of Africans	495	644	648	510	269	134	122	157	234	298	421	448	429
3. Estimated Expenditure in Nigeria out of European Salaries	188	210	191	122	71	52	50	69	103	123	125	137	148
4. Railway Freight of Tin Concentrates and Columbite	123	96	119	132	95	78	43	44	63	87	111	123	70
5. Government Revenue from Mineral Industry	129	135	102	74	15	19	23	48	93	111	112	131	15
6. Estimated Other Disbursements	89	105	105	84	48	29	24	30	44	55	71	77	70
7. Total Disbursements (Rows 1 to 6)	1,173	1,320	1,291	1,051	609	397	345	420	617	750	931	1,039	847
8. Estimated Total Value of Minerals Output	2,377	2,218	2,182	2,028	1,054	884	603	946	1,501	1,963	2,437	2,748	1,462
9. Percentages: Values of Total Disbursements : Values of Total Output	49	60	59	52	58	45	57	44	41	38	38	38	58

Sources: Annual Reports on Nigerian Railway and Colliery, 1926/27 to 1936/37; Annual Reports on Colliery Department of Nigeria, 1937/38 and 1938/39; Blue Books, 1926 to 1938; Annual Reports on the Mines Department, 1936 to 1939; Trade Reports, 1926 to 1938.

Notes:

Row 1: This series was estimated by subtracting from the annual revenue of the colliery the estimated value of imported stores and the estimated external remittances of European officials.

Row 5: The figures do not include the portion of revenue from rents and royalties paid to the United Africa Co. Ltd. It will be noticed that during the depression years 1928/29 to 1931/32 the government revenue from mining amounted to £210,000 and was much less than the corresponding figure of £237,000 during the depression years 1932/33 to 1935/36 although exports of tin concentrates in the second period fell to about 68 per cent of their volume in the first period. This apparent discrepancy is due to the fact that the royalty on tin is based on the price of tin which was on the average higher in the second period and also to the rapid growth of the gold industry in the second period (see Table IV). The sudden drop in the government revenue from mining in the year 1938/39 was due to 'reduced production consequent upon much lower quotas, and a new system (which was introduced at the commencement of 1939) of collection of rents of mining leases whereby they are now paid half yearly in advance, instead of yearly in advance. This had the effect of bringing approximately only one half of a year's rents into the accounts of this financial year'. (Report on Accounts and Finances, 1938/39, p. 7.) In addition the share of royalties and rents paid to the U.A.C. in that year amounted to 86 per cent of the total government revenue from mining which was £111,590, whereas in previous years it had not exceeded 51 per cent.

Row 6: It is impossible to make a direct estimate of such local disbursements as export duty or railway freights on imported fuel and tools, vehicle licences, telephone rents, hospital fees, cables, postage and telegrams, local purchases of timber and the portion of electricity costs which became local revenue. The Annual Report of the Mines Department for 1939, however, gives an estimate of local purchases which equals 11 per cent of the items given in rows 2, 3 and 4 of this table. As the Mines Department is in possession of full cost figures for all companies (see Minerals Regulations, Cap. 93, sec. 43 (a)), this percentage was taken as a reliable basis for estimating the figures in row 6.

Row 8: In computing these figures total receipts for sales during the fiscal year were used in the case of coal and the estimated f.o.b. value of exports during the fiscal year in the case of tin. The values of tin exports given in the Trade Reports were apparently derived from the London market price of pure tin including smelting charges, ocean freights and British handling charges. Allowance for these items was made in estimating the average values f.o.b. Nigeria. In the case of other metals the values of exports as given in the Trade Reports were used. This may involve a small amount of overestimation.

The interest payments might not fall far short of the present average net profit and if inflexible would be a heavier burden in depression periods.¹

Other advantages which cannot be measured numerically are the opportunity afforded by the mining industry to Africans to acquire a limited amount of skill and labour discipline and the development of railway and road communications and building of dams, reservoirs and electric power stations in the tin-mining areas.

The inhabitants of the Plateau area, who were formerly extremely warlike, must have also benefited from the more peaceful conditions which have been enforced since the country was opened up by the tin-mining industry.

The chief disadvantages of the mining industry in Nigeria from the point of view of colonial welfare appear to be connected with the tin industry and its disruption of the life of an agricultural community. Deforestation and the dangers of erosion resulting from mining activities on the Plateau have been mentioned above. It is also alleged that the soil on the Plateau, which is naturally infertile, is in many areas rendered quite valueless for subsequent agricultural use by the method of mining which involves the stripping of surface soil which is dumped without consideration for the correct order of the layers. In some open-cast mining areas it is possible to replace the overburden so that the top soil remains uppermost and the fertility of the soil is preserved. In Nigeria, however, owing to the depth of the overburden, this is a costly process which is seldom enforced by the Mines Department.² This disadvantage may, however, be offset by the beneficial effects to the area of the silt from tailings which are said to have raised the river beds thus preventing the excessive lowering of water tables and erosion in the dry season. The exact gain or loss in fertility resulting from mining activities could thus only be assessed accurately by a special survey which has not yet been undertaken.

Another disadvantage, which is accentuated by unwillingness of the local pagan tribes to participate in the mining industry, arises from the right of leaseholders to dispossess natives farming land on which they wish

¹ Supposing £5 million capital had been raised for the development of the Nigerian tinfield (cf. Table II), allowing for the present degree of mechanisation but without inflated lease values, and this had been raised at 5 per cent, the annual interest payment would be £250,000. The estimated annual average net profit over the trade cycle period from 1926 to 1938 was £380,000. The average annual depreciation payments might be about the same as they actually were. Therefore, the saving in external payments would be about £130,000 per annum or 1½d. per head of the population.

² Cf. Fermor, *op. cit.*, p. 158, para. 22. This is done in the case of iron deposits in Northamptonshire and Lincolnshire which lie under valuable agricultural land. Replacement of overburden has only been insisted on in three leases in Nigeria, namely where a company wished to mine a deposit lying under the pagan village of Zawan.

to commence mining operations and even to require them to quit after their crops have been sown. Compensation must be given, the rate being about £2 per acre.¹ The dispossessed native farmers are obliged to hire land in other areas at a rent from 5s. to £1 per acre without the security of tenure which pertained to their former holdings. In the opinion of administrative officials in the Plateau district, this results in overcrowding on the agricultural land fringing the mining areas, tends to shorten the fallowing period, and may cause the farmer to have to walk as much as 20 miles from village to farm. This pressure is said to affect in varying degrees the whole population of the minefield, or about 50,000 people.² It would, of course, be mitigated if more farmers were willing to become miners.

A more general demerit of the metalliferous mining industry as conducted hitherto is the apparent absence of any deliberate attempt to conserve the mineral resources of the colony.³ Hence, when national consciousness arises in the Nigerians, which may be some time after the last tin deposits have been worked out, there may remain no permanent legacy of an industry which in twenty-six years produced an output valued at £37 million⁴ save some reservoirs and motor roads.⁵ The people may then feel that they have been deprived of one of their richest national assets without having derived any great benefits from its exploitation. This criticism does not apply to the coal industry since further prospecting for coal was prohibited shortly after the establishment of the government colliery, from which the companies are obliged to buy any Nigerian coal they require. In the case of coal, the government, therefore, controls the rate of exploitation through time.

¹ This is the rate at which the government compensates land-holders.

² The material contained in the last paragraph was supplied by Dr. Fortes during his recent visit to the tin minefield.

³ The terms of revocation of the Charter of the Niger Company do not appear to be conducive to a mineral conservation policy, for it was promised that 'Her Majesty's Government will pay to the Niger Company or to its assigns, one half of the receipts from any royalty so imposed for a period of 99 years from the revocation of the charter and no specific taxation shall be imposed on the mining industry, as such, which would prevent the imposition of such an amount of royalty as may be compatible with the development of that industry in the territory in question'. (Niger Company Treasury Minute, 1899).

⁴ *Report on the Mines Department, 1939*, p. 6. The period in question was 1914-1939.

⁵ The three power stations now owned by the Nigerian Electricity Supply Corporation and capable of supplying 14,500,000 kilowatts per annum will only retain their value after the disappearance of the tin industry if other industries arise which are sufficiently prosperous to make use of electric power. This depends on the economic policy pursued in Nigeria in future.

2. THE NIGERIAN TIN-MINING INDUSTRY

The world consumption of tin in manufacture has been roughly estimated for the year 1936 as follows:¹

	<i>Long Tons</i>		<i>Long Tons</i>
Tin-plate - - -	62,000	Foil - - - - -	5,500
Solder - - - - -	31,000	Collapsible tubes -	11,600
Babbitt - - - - -	15,000	Chemicals - - - -	5,200
Bronze - - - - -	11,000	Miscellaneous - - -	22,700
Total - - - - -	-	- - - - -	164,000 <i>long tons</i>

In most of these industrial uses tin is used together with other metals and in all cases the proportion of tin in the final product tends to be low; for example, it has been estimated that American motor-car radiators contain on the average only about two pounds of tin, although about half the annual consumption of tin in solder is used for this purpose.² Hence the price elasticity of demand for tin is very much less than its income elasticity. In other words, in the past the price could rise to a high level before the demand for tin was diverted to substitutes or to secondary tin,³ and a fall in price would not necessarily lead at once to an increased use of tin, while the demand tended to be closely related to the general level of industrial activity. This inelasticity of demand leads to large price fluctuations, for a slight over-supply causes the market to be flooded, while a shortage causes a drastic rise in price.

The loss of 75 per cent of the world's tin-producing areas to Japan has given an enormous stimulus to the search for substitutes for tin in allied

¹ For table see International Tin Research and Development Council, *Statistical Year Book*, 1938, p. 63. The chief qualities of tin which determine its industrial uses appear to be its capacity to resist corrosion, the facility with which it adheres to a clean steel or copper surface and its low temperature malleability. The first two qualities have led to its use in tin-plate, largely used to make containers for food. Mixed with copper, tin acquires strength and hardness as bronze which is used for springs, turbine blades, coins and shafting in which the qualities of strength and low corrosion are required. Solder, a mixture of lead and tin which melts at a low temperature and has the adhesive quality of tin, is used for joining other metals. Babbit metal is a mixture of tin with a small proportion of copper and/or antimony which give hardness; it is used for lining bearings (or junctions in machinery involving moving parts) and is particularly suited for this purpose because it is capable of retaining a thin oil film on its surface and, should the machine seize, it is soft enough to give way and so to avoid scoring the shafts. Foil and collapsible tubes are two of the few products using tin alone without another ingredient. Among miscellaneous uses, one of the most important is in linotype. In the absence of a cleansing flux, tin does not adhere to a metal mould but forms a very accurate cast. See Macnaughton, D. J., *Tin and its Uses* (Miscellaneous Publications of the International Tin Research and Development Council, No. 4), 1935.

² Gillet, H. W., 'Tin-Plate and Solder from the Strategic Viewpoint', *Metals and Alloys* (Pennsylvania, U.S.A.), v. 12: 641-645, 1940.

³ The U.S.A. output of secondary or reclaimed tin reached its pre-war peak of 33,000 tons in 1927 when the price of tin was also extremely high.

countries, which may have a profound effect upon the future demand conditions for tin. Formerly there were stabilising factors, including the cost of research into new materials, the necessity to retain skilled workers, and the low proportion of tin used in combination with other raw materials. But the acute shortage of tin during the second world war made it essential to discover and to make use of substitutes,¹ and these new techniques are still available. Whether the result will be a downward shift in demand, an increase in price elasticity or a combination of both will depend on such factors as the relative cost and efficiency of substitutes, and the ability of artisans to switch from one method to another, when the relative prices of raw materials change.²

In 1936 the chief tin-producing countries in order of importance were Malaya, Netherlands East Indies, Bolivia, Siam, China and Nigeria, together producing about 86 per cent of the world's total output of metal which was 180,100 tons. With the exception of Bolivia, where the tin occurs in lodes and costly underground mining is necessary, the methods of working are approximately the same in all these areas. In the other areas where alluvial deposits predominate, costs, though generally lower than in Bolivia, vary according to many factors such as the nature of the deposits, the types of plant needed on production, the cost of stores and material, rail freights, salaries, wages, etc. Costs of production in Nigeria are on the average higher than in Malaya because although wages are lower in Nigeria, transport costs are lower in Malaya and many spare parts, which must be imported to Nigeria, are produced in Malaya by low-cost Chinese foundries.

The reduction in transport costs resulting from the development of the Nigerian railway system has contributed largely to Nigeria's present position as a leading tin-producing country. In 1908, when tin was still being carried to the coast by human portage and river craft at a cost of £29 10s. per ton, only 545 tons were exported. After 1911 tin could be carried a short distance to Rigachikum on the Lagos-Kano railway, and by 1913 exports had already jumped to 4,142 tons. The year 1914 witnessed the completion of a light railway from Bukuru on the tinfield to Zaria on the main line, and in the following year exports had increased to 6,545 tons, and in 1928, when exports were 13,009 tons, the freights on tin were still further reduced from about £11 to £8 per ton when the Eastern Railway from Port Harcourt reached the Plateau.

¹ An example of the economies now employed is the reduction of the tin content of certain Babbit alloys from 80 to 90 per cent to 0 to 5 per cent, Beard, G. F., 'Meeting the Tin Problem', *Canadian Metals* (Toronto), v. 5: 277, 289, 1942, cf. 'Symposium on Tin Conservation', *Canadian Metals*, v. 5: 98-107, 1942.

² In 1936, allied nations, excluding U.S.S.R. and China, were consuming about 64 per cent of the world's apparent tin consumption, i.e. a large enough proportion to influence the total demand. See International Tin Research and Development Council, *Statistical Year Book*, 1938, p. 64.

In Nigeria the tin-bearing ground sometimes occurs in shallow, terrace deposits, but it is usually covered by a varying depth of barren ground—the 'overburden'. This overburden is removed by hand labour or by mechanical means, such as drag-line excavators and steam shovels, leaving the tin-bearing wash to be lifted by various methods. Apart from this operation mining can be divided into three stages: (1) breaking or excavating the tin-bearing ground, (2) elevating such broken ground to the surface, and (3) separating the tin concentrate from the gangue or earthly residue near the actual place of work. At the most primitive level all these operations can be done by hand. The Nigerian tributor,¹ or semi-independent tin-miner, digs alluvium with pick or hoe, carries it on his head to water where it is washed by means of rocking in calabashes or running through sluice boxes. The hand labour employed by the larger concerns usually works in organised gangs using picks, shovels and head-pans. The typical gang consists of four or five labourers working on a task system, each man performing the operation allotted to him—i.e. either digging or carrying. Another hand method is ground sluicing, whereby water is allowed to run over a slope from which it washes the alluvium into sluice boxes where it is concentrated.

All the operations are also performed by various kinds of machinery. The deposits can be mined by using jets of water under natural or artificial pressure to wash the soil away. This method is known as hydraulic mining and can only be used when the lie of the land makes it possible for the tailings to flow away below the workings, a circumstance which is now rare in Nigeria. Artificial pressure is usually used in conjunction with a gravel pump which elevates the broken ground to the sluice boxes for washing. Steam and diesel shovels are also used for excavating, and trams and trucks can be used for transporting the tin-bearing wash to a treatment plant. The drag-line which is the latest innovation in tin-mining machinery combines the operations of excavating and elevating and is consequently very cheap to operate. The dredge is a highly complicated machine floating on a pontoon over a flooded area of tin-bearing ground which it raises by means of a chain of buckets and washes on board. The tailings are dumped behind in the previously worked-out area of the deposit. The operating costs of the dredge are also very low.² The follow-

¹ In 1938, out of a total labour force of 31,865, 13,599 were 'tributors'. These native miners are provided with huts and tools by the leaseholder to whom they sell what tin they can gain on his land.

² Much of the material in the paragraphs on mining methods was kindly supplied by mining experts with knowledge of the area. See Fell, Sir G., 'The Tin-mining Industry in Nigeria', *Journal of the African Society*, v. 38: 247-258, 1939; Calvert, *op. cit.*, pp. 178 ff.; Cope Morgan, H. R., 'Steam Shovel Mining in Nigeria', *Mining Magazine*, v. 38: 87-88, 1928.

18 COMMERCIAL ORGANISATION AND TRADE POLICY
ing table gives the comparative costs of and area treated by the various methods in use in Nigeria in 1939.¹

Method	Cu. yds. '000	Cost per cu. yd. in pence	Remarks
Hand methods - -	3,500	5.5	includes ground sluicing and tributing
Drag lines - - -	3,296	2.6	electric
Gravel pumps - - -	3,183	8.8	electric
Dredges - - -	1,779	2.9	electric
Shovels - - -	390	6.4	steam and diesel
Pillar and stall ² - -	13	31.9	dry leads

The increasing use of machinery over the trade cycle period 1926 to 1938 is shown by row 5 of Table II. Row 4 shows the average all-in costs

¹ Report on the Mines Department, 1939, p. 10.

² The pillar and stall method is used when the depth of the overburden makes underground mining necessary.

TABLE
TIN INDUSTRY, OUTPUT, COSTS,

Calendar Years ending 31st December		1926	1927	1928	1929
(1) Annual Output of Concentrates	tons	10,595	11,509	13,041	15,335
(2) Annual Exports of Concentrates	tons	10,562	10,926	13,069	15,129
(3) Estimated f.o.b. Value of Exports ²	£	2,102,000	2,101,000	2,013,000	2,020,000
(4) Average all-in cost per ton (excluding smelting charges and including depreciation)	£	114	128	123	107
(5) Horse power of machinery in use during year		6,300	9,100	12,200	11,100
(6) Average price received per ton from Smelter, excluding smelting charges	£	205	198	158	137
(7) Average net Profit per ton	£	91	70	35	30
(8) Total Profit (Row (1) × Row (6))	£	964,000	806,000	456,000	460,000
(9) Average Depreciation per ton	£	13	15	16	11
(10) Estimated rate of Depreciation on Capital	%	2.2	2.2	2.3	2.2
(11) Total Estimated Depreciation	£	141,000	169,000	202,000	175,000
(12) Smelting charge per ton (year ending October 31st)	£	8.2	7.4	7.4	6.5
(13) Total African Wages in Tin Industry	£	446,000	631,000	665,000	571,000
(14) Yearly average number of Africans employed		31,206	36,815	39,333	38,333
(15) Nigerian Standard Tonnage	tons metal ⁴	—	—	—	—
(16) Average of Quotas during Year	%	—	—	—	—
(17) Nigerian Export of Pure Tin permitted under Control Scheme	£	—	—	—	—
(18) The weighted annual average Sterling Price of Tin (metal) London	£	291.4	289.1	227.2	203.9
(19) Range of Fluctuations (difference between highest and lowest price)	£	59.7	62.3	60.2	55.7

Sources: Reports on the Mines Department; Annual Reports of Companies; Statistical Year Books (International Tin Research and Development Council).

¹ The Trade Report states that the 1936 exports amounted to 12,000 tons. The Report on the Mines Department, however, gave 13,108 tons. This figure was also given by the 1938 Statistical Year Book of the International Tin Research and Development Council.

² The average f.o.b. price per ton was estimated by taking the average price received from smelter (including smelting charges), deducting estimated smelting charges (see row 12) and estimated transport charges per ton. The resulting value is slightly underestimated since it excludes Nigerian transport from mine to railhead and Nigerian handling charges.

per ton of Nigerian concentrates in each year, including freight, royalty and London Office expenses, but *not* smelters' returning charges.¹

The supply of tin is inelastic in the short period. The causes of this inelasticity are mostly related to the situation of tin deposits in backward tropical countries. It is usually difficult to recruit and train an increased supply of native labour and once having done so a producer is loath to cut

¹ The *Reports on the Mines Department* state the average all-in cost including smelters' returning charges. The price of concentrates appears to be stated in the same way. As it appears to be usual for the Nigerian companies to sell their concentrates to a smelting company in Liverpool, there seems to be no reason for this curious manner of stating costs unless it is intended to conceal smelting costs from the public. As it was possible to form estimates of smelting costs shown in row 12 from information given in the annual reports of one of the Nigerian mining companies they were deducted from the cost and price figures given in the *Reports on the Mines Department* to yield the figures shown in Table II.

[I

PRICES AND PROFITS 1926-1938

1930	1931	1932	1933	1934	1935	1936	1937	1938
11,902	9,800	6,000	4,956	6,897	9,044	13,432 ¹	14,872	12,382
12,067	10,794	5,967	5,216	7,528	8,948	13,108	15,035	10,056
1,081,000	776,000	514,000	593,000	1,171,000	1,444,000	1,835,000	2,496,000	1,279,000
81	74	69	60	75	72	73	85	101
6,700	6,000	5,278	6,220	4,922	4,956	6,824	10,777	10,126
93	75	89	117	159	158	143	169	132
12	1	20	57	84	86	70	84	31
143,000	9,800	120,000	283,000	579,000	778,000	940,000	1,249,000	312,000 ²
13	11	20	27	27	25	13	12	15
2.1	2.0	2.2	2.5	3.9	5.3	4.2	4.2	4.2
141,000	106,000	118,000	133,000	185,000	230,000	179,000	181,000	187,000
5.7	5.1	5.3	6.3	6.8	6.2	5.4	6.1	5.8
301,000	139,000	118,000	98,000	131,000	147,000	227,000	329,000	290,000
28,904	20,763	18,089	14,911	20,138	21,829	24,590	36,142	31,865
—	10,734 ³	10,734	10,734	10,890	10,890	10,890	10,890	11,638
—	69.1	43.7	33.3	45.0	58.8	92.5	107.5	48.7
—	5.925	4.499	3.431	5.015	6.398	10.073	11.707	5.309 ⁴
141.8	118.6	136.0	194.8	230.4	225.7	204.6	242.3	189.6
76.0	41.6	55.4	86.3	21.7	37.2	69.3	130.4	64.0

¹ Based on tonnage exported since the proportion of stocks permitted by I.T.C. to remain on mines was raised from 25 per cent to 50 per cent.

² The basis used in calculating exports of tin in the form of ore (concentrates) is the true tin assay of the ore exported. By the 'true tin assay' is meant the assay before any deductions are made by the smelters. For the purpose of calculating the royalty the average assay value of Nigerian tin is regarded as 72.5 per cent. The average assay of one company since 1930 has been 74.2 per cent.

³ The Tin Control Scheme came into operation on March 1st, 1931.

⁴ Excluding 10 per cent contribution to Buffer Stock for last six months of year—545 tons.

NUMBER OF CONCERNS IN THE TIN-MINING INDUSTRY,

	1926	1927	1928	1929	1930
1. Number of Individuals operating during year - - - -	66	78	70	70	48
2. Number of Companies operating during year - - - -	72	82	83	74	59
3. Estimated Aggregate Issued Capital of Companies shown in row 10 - - - -	£7,059,000	8,359,000	9,881,000	8,701,000	7,598,000
4. Annual Import of Mining Machinery - - - -	£ 41,475	—	350	—	24,758
Distribution of companies with issued capital:					
5. From £0 to £99,999 - -	45	48	48	36	25
6. „ £100,000 to £199,999 -	13	18	17	16	13
7. „ £200,000 to £299,999 -	3	2	1	2	2
8. „ £300,000 to £399,999 -	3	3	4	3	3
9. „ £400,000 and over - -	1	4	6	5	5
10. Total Number of Companies of which the issued capital could be traced - - - -	65	75	76	62	48

Sources:

Rows 1 and 2.—Reports on the Mines Department.

Row 4.—Trade Reports.

Rows 3 and 5 to 10.—Annual Reports of Companies.

down his staff when prices fall. This applies to Nigeria in particular. The opening up of new deposits is often hampered by transport difficulties. It takes time to order machinery from remote places and install it.¹ With the exception of Bolivia and the Netherlands East Indies where the industry is carried on by a very small number of concerns, the structure of the industry with its numerous small companies and individual operators is another factor which hinders rapid changes of output. A large concern can have continuous employment of part of the labour force and lay off the requisite amount of plant if the price falls, but a small concern which can reduce output only by closing down for part of the year runs the risk of losing its entire labour force.² In Nigeria there has been since 1939 a tendency for the number of concerns to diminish while their size has increased (see below). But before 1930 the Nigerian output figures revealed a marked inelasticity of supply. The average price of concentrates (row 6) was falling steadily after 1926, but output (row 1) was maintained and even increased.

Not only did existing companies fail to reduce their output but new concerns and capital entered the industry (see rows 1, 2 and 3 of Table III). In 1926 the average of monthly visible stocks of tin was lower than it had ever been since 1919, the average price was higher than it had been since

¹ It is said to take eighteen months to two years to transport and construct a dredge in any of the tropical tinfields; see *Canadian Metals*, v. 5: 98, 1942.

² Fermor, *op. cit.*, p. 136.

III

CAPITAL OF COMPANIES AND THEIR RELATIVE SIZE

1931	1932	1933	1934	1935	1936	1937	1938
55	54	53	41	39	47	44	39
52	52	47	44	36	39	37	31
5,539,000	5,300,000	5,182,000	4,881,000	4,742,000	4,635,000	4,697,000	4,856,000
3,838	—	546	9,159	3,618	14,043	205,783	123,562
24	27	25	23	24	23	22	18
9	5	6	7	6	5	6	4
1	1	1	—	—	—	1	3
1	1	1	—	—	—	—	—
3	3	3	3	4	4	4	4
38	37	36	33	34	32	33	29

Note.—The discrepancy between the figures in rows 2 and 10 can be accounted for as follows: The capital of some companies could not be traced since they were not registered in Great Britain. The Niger Co. and the United Africa Co. were not included because it was impossible to estimate the proportion of their capital invested in mining. A few companies were omitted from rows 5 to 10 because their activities and Nigerian assets were negligible in the year in question because they were in the process of formation or dissolution. The omitted companies were not very important and the error in row 4 is probably of the order of -5 per cent.

1920, and consumption had been rising. There are indications that this situation was regarded as a stable one due to the increasing scarcity of tin,¹ and evidently this consideration, reinforced by the prevailing optimism of those years, led to continued investments during 1927, 1928 and 1929 even though the market was falling. In 1929 Nigerian output reached a peak, but in the following year, when the true situation became obvious, the Nigerian producers were evidently near to realising a loss (see row 8 of Table II). An attempt was made by the Tin Producers' Association, an organisation of British and Dutch producers, to raise the price by voluntary restriction. When this proved ineffective, approaches were made to the governments of Malaya, Netherlands East Indies, Bolivia and Great Britain with a view to imposing compulsory restriction. Agreement was reached and in February 1931 the International Tin Control Scheme came into being. It was administered by the International Tin Committee representing the signatory governments and Siam, and its object was to reduce the world output of tin with a view to improving the price.² Each of the producing areas affected by the agreement was allocated a standard

¹ Eastham, J. K., 'Rationalisation in the Tin Industry', *Review of Economic Studies*, v. 4: 20, 1936-7.

² In the words of Sir John Campbell, the chairman of the International Tin Committee, its object was 'to provide the world with all the tin which it demanded, throughout these catastrophic events, at a reasonable price'.

tonnage (row 15 of Table II) based on its contribution to the world output of 1929, and it was agreed that current output should be regulated by quotas based on the standard tonnage and periodically fixed by the Committee, the usual period being a quarter. The annual average quotas and the annual output of pure tin permitted to Nigeria are shown in rows 16 and 17 of Table II.¹

The figures in rows 4 and 6 of Table II reveal that the restriction scheme was very much in the interest of the majority of Nigeria's tin producers, although a few firms, with costs below the average, might have continued to exist if nothing had been done to maintain the price. As it was, about a quarter of the total number of concerns were eliminated by the disastrous fall in price of 1930, the assets of many being taken over by more powerful companies. Average costs (row 4 of Table II) fell considerably, largely owing to the fall in wages (see row 13).² The process was assisted by the elimination of marginal firms, concentration on more easily worked deposits, the introduction of labour-saving machinery³ and by concessions made by the Nigerian government. Rents were reduced by 80 per cent and labour obligations were suspended. Although the scheme failed to help the consumer by reducing price fluctuations (see row 19 of Table II), it succeeded in raising and maintaining at a remunerative level the average price received for concentrates⁴ (see row 6 of Table II), and enabled a steady level of profits to be maintained for several years (see rows 7 and 8 of Table II).

Table III (row 3) shows how the capital invested in the Nigerian tin-mining companies was gradually reduced by 1936 to less than half its

¹ For a detailed discussion of the working of the International Tin Control Scheme and the various buffer stock schemes see Eastham, *op. cit.*; Rowe, J. W. F. *Markets and Men*, 1936; Yates, P. L., *Commodity Control*, 1943; *Papers relating to the International Tin Control Scheme*, Cmd. 4825 (March, 1935); *Papers Relating to the International Tin Control Scheme, Main Control Scheme, Buffer Stock Scheme, Research Scheme*, Cmd. 5879 (Nov., 1938). The distribution of the quota among the Nigerian producers is in the hands of a Quota Committee first appointed in 1931 and representing officials, large and small companies, and individual propositions; see *Quota Committee Terms of Reference* (Jos), 1st January, 1937.

² See below page 23, note 3.

³ This change accounts for the rise in depreciation rates shown in row 9.

⁴ The product exported from Nigeria referred to here as tin concentrate is also known as cassiterite, tin oxide (Sn O_2), black tin and tinstone, and contains about 70 per cent of pure tin. This percentage content of tin which varies around 70 per cent is known as the assay value. The price per ton received by the producers from the smelters depends on the market value of pure tin, and varies with the assay value, and the character and extent of impurities. It is believed that the market price at a specified time is taken as basis. Units may be deducted from the assay value to allow for impurities, and the deduction is said to be higher the lower the tin content of the ore. From the value of the remaining units are deducted the smelters' charges and the cost of marketing the metal. See Imperial Mineral Resources Bureau, *Report on Tin*, 1922.

high level in 1929. The usual process by which this reduction was effected was voluntary liquidation of companies, followed generally by the purchase of their assets by other companies at a reduced value or occasionally by the formation of a new company in the same name, but with less capital.¹ Rows 5 to 9 of Table III give some idea of the change in the structure of the industry over this period. The greater ability of large concerns to restrict output without getting into difficulties has already been mentioned, and the emergence of such companies in Nigeria is an outstanding feature of the restriction period. In 1928 the six companies with capital over £400,000 produced 5,008 tons or 38 per cent of the total output, but in 1938 the four largest companies (see row 9 of Table III) produced 7,008 tons or 57 per cent of the total output. Two of the latter companies, having in 1938 a capital of £1,950,000 between them, were amalgamated in 1939 to form Amalgamated Tin Mines of Nigeria Ltd., which produced 7,050 tons of concentrates in the year ended 31st March, 1940, or 47 per cent of the estimated total output in this period. This company is controlled by the London Tin Corporation Ltd., which also has large interests in Malaya.

The steady level of profits and increasing quotas during the three years preceding 1936 apparently checked the shrinkage of capital (see row 3 of Table III), and heavy investments in mining machinery were made in the last two years of the trade cycle period (see row 4 of Table III). These figures refer to drag-line excavators² and dredges installed by the three largest companies at this time.

It is interesting to compare the relation between total profits (row 8 of Table II) and total African wages (row 13) before and after the operation of the Restriction Scheme. The Africans employed in the industry appear to have benefited from restriction considerably less than the shareholders. The reason for this appears to be the freedom of the tin industry from competition in the labour market,³ and the absence of trade union organ-

¹ This process of consolidation was assisted by the method of allocating quotas within the industry. Any concern failing to produce its quota for the year forfeiting 50 per cent of the deficit for the next period. The margin thus created was re-distributed among concerns producing above their quotas.

² A drag-line excavator which works at a very low cost (see table on page 18) is capable of moving about 3 million cu. yds. of soil during its lifetime and this, apart from the high initial cost of £50,000, limits its use to big concerns controlling sufficiently large deposits.

³ A glance at the wages and cost-of-living sections of the *Blue Books* shows that wages tend to be higher in the southern provinces. There the African who desires regular manual labour can choose between cocoa or rubber plantations and farms, the timber industry, dockwork, etc. Average earnings per week of African miners in the northern provinces as given by the *Blue Books* and *Reports on the Mines Department* were as follows:

1926 5s. 6d.	1929 5s. 9d.	1932 2s. 6d.	1935 2s. 6d.	1938 2s. 3d. to 4s. 3d.
1927 6s. 7d.	1930 4s.	1933 2s. 6d.	1936 3s. 6d.	
1928 6s. 6d.	1931 2s. 7d.	1934 2s. 6d.	1937 3s. 6d.	

isation or minimum wage legislation. In 1926, when the industry was expanding, there was a severe labour shortage¹ and it was necessary to pay a fairly high wage, but by 1931 there was evidently a sufficiently large core of labour, which was thoroughly broken in to mining, willing to continue to work at a very low wage, and there was nothing to prevent the mining companies from imposing drastic wage cuts, the average wage falling from 6s. 6d. to about 2s. 7d. Although the demand for labour increased after 1931, wage rates had only increased slightly to an average of 3s. 6d. by 1937, and they fell again in 1938. This was probably because another decade of civilisation had increased the desire to earn wages and the former difficulty in recruiting labour was not experienced to the same extent.

The unskilled and skilled labour on the minefield are distinct types. The unskilled labour force which is employed on pick and shovel and head-pan work is composed of pagans from the Plateau area and Hausa who have immigrated, in many cases permanently, from other parts of the northern provinces. Both these types are largely illiterate and speak no English. Most of the pagans are mainly occupied in hunting and agriculture and only come to the mines to work for a short period after the harvest. The minor supervisory and skilled or semi-skilled jobs are filled by Hausa and Yoruba or Ibo from the southern provinces. Headmen and men in charge of sluice boxes are usually Hausa, while the southern immigrants tend to work as fitters, electricians or clerks.

The unskilled labourers employed by the larger concerns generally work in gangs under a headman who is paid a basic wage plus a proportion for each man and generally supplements his income by charging interest on advances to his men. The greater part of pick and shovel and head-pan work is done by contract, that is, the labourer is paid so much per cubic yard of ground excavated or, in the case of head-pan labour, so much per cubic yard excavated and carried away in head-pans to a dump or, if dam-building, to the embankment forming the dam. The payment for the task is agreed upon beforehand and divided out at the end of the week. If a labourer can earn sufficient for his needs in five days he will not work longer. Thus, the average rates of pay given earlier² cannot be referred to any specific number of man-hours worked. The tribute labour mainly employed by small concerns also works in gangs, the only difference being that the partially cleaned concentrates are sold to the entrepreneur at an agreed rate, the proceeds being divided among the workers. A few unskilled and probably most of the skilled workers are paid on a time basis.

Apart from the pagans, who live in their own villages, the labour force is housed in huts of the village type provided by the companies in addition

¹ *Report on the Mines Department, 1926*. It was said that the industry could absorb twice the men available.

² P. 23, note 3.

to their wages. No rations are provided by the companies, although, in times of scarcity, stores of corn are bought by the companies and sold to the workers at reasonable rates to prevent local profiteering. Labourers have been completely free to move from one headman to another or one company to another and may leave in the middle of a week if they wish.

After the fall of Malaya in 1942 and the consequent necessity to increase output the companies were impelled by the urgent need for extra labour to seek assistance from the government, since the supply of local voluntary labour which had already been depleted by recruitment for the army and the programme of increased production of local foodstuffs was insufficient to meet the demand for additional men. 'An attempt was therefore made in February (1942) to import 10,000 men conscripted under Nigeria Defence (Compulsory National Service) (Essential Mines Northern Provinces) Regulations No. 23 of 1942, from the provinces in Northern Nigeria, but in the absence of any proper organisation for their welfare during the period of their service desertions were frequent and only 515 of these men were still at work at the end of July. The failure of these early experiments gave rise to the provision of special machinery to deal with the situation. . . . These Regulations provided for the appointment of . . . an Administrative Director of Minerals Production with wide powers to recruit the necessary labour, to fix wage rates and to provide for the welfare of the "selected labourer" during the period of 4 months for which their services were required at the mines. To assist the Administrative Director, two Administrative Officers were posted to the mines field to act as Labour Welfare Officers. At the same time two other Administrative Officers were specially detailed for constant touring and propaganda work in the Plateau province to stimulate the flow of voluntary labour from the tribes which are accustomed to meet the requirements of the mining industry. The results of this re-organisation may be regarded as very satisfactory. At the close of the year the total mines field labour force had reached 70,800 men, of whom 14,000 were compulsorily recruited from other provinces, and 15,000 voluntarily recruited within the Plateau province, the balance of 42,000 being made up of permanent employees of the mining companies and voluntary labour from various regions adjacent to the Plateau.'¹

Despite these modifications compulsory recruitment was short-lived, for in February, 1944, the mining companies received a notice from the Nigerian government informing them 'that all selected workers would be repatriated by the end of April, 1944, and that those who became due for repatriation meanwhile would not be replaced'. This change of policy may be due to the fact that further installations of machinery have reduced the need for this extra labour, which inexperience must have rendered costly. The criticism aroused by the measure in Britain

¹ *Report on the Department of Labour, 1942*, p. 2.

may also have influenced the government to abandon it at the earliest opportunity.

It is likely, however, that the offices of Director of Mineral Production and labour welfare officers will survive. It is, therefore, possible that compulsory recruitment may have been the germ of a more positive policy with regard to the welfare of native workers on the tin mines. Up to this point, although the labour policy of both the companies and the government appears to have been humane, it could hardly be called progressive.

Although there is not sufficient information available to make a full calculation, it is probable that the proportion of disbursements in Nigeria by the tin-mining industry to the total value of the output has risen considerably during the war (cf. Table I). During the month of September, 1943, the average weekly earnings of the 23,000-odd African labourers employed by one company was 7.04s.¹ The royalty was fixed at 8 per cent, rail freights rose and an import duty on mining machinery was introduced. This is a form of taxation on mining, of which the proceeds, like those of the company income-tax, do not have to be shared with the United Africa Company.²

The existence of a tin smelter in the Belgian Congo raises the question why a smelter has never been established on the Nigerian tinfield particularly since 1930 when electricity became available, since it would have made possible a saving of roughly 30 per cent of transport costs or about £4 per ton of concentrates.³ At present (1945) there is no large-scale tin smelter using electricity except possibly in the Belgian Congo, since the method used there is not known. The reason for this is that tin oxide melts at a low temperature and the necessary heat can, under the prevailing conditions, be obtained more cheaply from coal or coke. This has hitherto precluded smelting in Nigeria. There would be little saving in transport costs if coal were brought to the Plateau or if tinstone were taken to Enugu. In addition the amount of electricity generated by the present installations in Nigeria is inadequate for mining purposes. However, if the hydro-electric resources of Nigeria are fully developed in future,⁴ electric power may become so cheap that local smelting on a large scale would be practicable.

¹ It was made clear to the companies that the example of the government in granting a cost-of-living allowance should be followed. Local agitation ensued that, when a cost-of-living allowance was granted to miners early in 1943, it should be made retrospective for nine or ten months, as in the case of government employees.

² The information concerning labour on the tinfield was kindly supplied by a mining expert. See also Orde-Browne, pp. 54-56.

³ The total cost of transport from the minefield to Liverpool has been about £12 a ton in pre-war years since 1928, about £8 being railway freight.

⁴ Cf. Huxley, Julian, West African Survey I, *The Times*, 6th June, 1944.

The estimated smelting charges shown in row 12 of Table II, if correct, show that the smelting industry was in a weaker position *vis-à-vis* the mining industry under restriction than it had been before 1930; the high charges of that period were not reached again.

3. THE COAL-MINING INDUSTRY

Table IV gives statistics of the less important Nigerian mining industries.

The colliery at Enugu was administered by the government railway from its opening in 1915 until 1937 when a separate colliery department was formed. Most of the output is sold to the Nigerian railway and other government departments; about thirty thousand tons per annum is exported to the Gold Coast, and the remainder is purchased by mining and trading companies. The proportion sold to firms has fallen considerably during the period under review. In 1927-28 25 per cent of the output was sold to companies. In the following year this proportion fell to 17 per cent, and in the three years ending in March, 1937, the percentage of coal sold to companies averaged only 6 per cent. This change may be partly attributed to the electrification of the tin-mining industry which has taken place since 1930 and the falling price of British coal (see row 8 of Table IV) which in addition to its superior quality seems to have caused a steady increase in imports which were largely from this source (row 7 of Table IV)¹.

The costs as given in the colliery accounts include maintenance of machinery and buildings but not interest on capital, depreciation on fixed plant and buildings, development redemption, royalty or pensions. In 1938-39 these items amounted to about 30 per cent of the other costs. The profits shown in row 3 are, therefore, over-estimated and in some years there may have been a net deficit. In early years labour was scarce, but the attraction of a steady wage soon became manifest and workers became so plentiful as to constitute a problem. The majority of the workers come from villages within forty miles of the colliery and are housed on the mine in dwellings provided for them. They are largely illiterate and new recruits are completely unskilled. The figures in row 6 show there had been a steady increase in the skill of the average hewer up to 1937-38 when output fell owing to labour unrest and the deterioration of underground conditions. Although underground conditions are said to be better than

¹ According to the *Report on the Government Railway and Colliery, 1934-35*, in January, 1935, the f.o.b. at Port Harcourt per ton of Nigerian coal was reduced to 19s., and judging by the fall of only about 27 per cent in the average receipts (row 2) at this time, its previous price was probably not much more than 26s. per ton. Nigerian coal has therefore always been cheaper than imported coal (row 8) but the latter is able to compete because of its superior quality and the fact that the fire bars of ships re-fuelling with Nigerian coal must be rearranged, which may be inconvenient.

TABLE

OTHER MINING

COAL

<i>Fiscal years starting 1st April</i>		1926	1927	1928	1929
1. Sales of Nigerian Coal	tons	348,133	344,238	330,526	382,235
2. Average Receipts per ton	shillings	9.75	8.70	7.91	7.58
3. Profit per ton	shillings	4.7	3.4	2.6	2.6
4. Average number of Africans employed		2,001	2,401	2,384	2,086
5. Average Weekly Earnings	shillings	7.4	6.5	6.4	6.6
(Total labour cost ÷ Row 4)					
6. Output per shift per hewer in Nigeria ¹	tons	3.45	3.48	3.69	4.02
7. Imports of Coal into Nigeria	tons	12,168	15,738	18,216	20,853
8. Average price (C.I.F. Nigerian ports)	shillings	44.8	41.8	40.0	37.6

GOLD

<i>Calendar years starting 1st January</i>		1933	1934	1935	1936
9. Output of Gold	ounces	133	22	86	192
10. London daily average price per fine oz.	shillings	84.92	84.92	84.92	84.92
11. Average all-in cost per oz.	shillings	—	—	—	—
12. Average number of Africans employed		61	9	—	36

SILVER

13. Output of Silver Lead	tons	240	316	31	71
14. Estimated value per ton	£	34	29	29	27
15. Average number of Africans employed		—	—	—	309

COLUMBITE AND

16. Output of Columbite	tons	—	—	—	—
17. Estimated value per ton (New York)	£	—	—	—	—
18. All-in cost per ton	£	—	—	—	—
19. Output of Wolfram	tons	—	—	—	—
20. Value per unit	shillings	—	—	—	—
21. African labour employed in mining columbite and wolfram and silver lead		—	—	—	—

Sources: Reports on the Government Railway and Colliery (1926/27 to 1936/37). Reports on the Colliery Department (1937/38 and 1938/39). Reports on the Mines Department (1926 to 1938).

in many British mines the efficiency of Nigerian miners is still far below that of British miners.¹

The average weekly earnings shown in row 5 compare favourably with the wages of miners in the northern provinces.² During the depression a cut of only 1d. in the shilling was made which was restored in March, 1937. The relatively high level and steadiness of the average wages at the colliery despite an almost unlimited supply of labour may be attributed

¹ According to the *Statistical Abstract for the United Kingdom*, Cmd. 5903 (1939), pp. 314-5, the average output per annum per person employed in coal mining in Great Britain in 1927 and 1937 were 245 tons and 304 tons respectively. The average output per annum per Nigerian coal-miner in the years 1927-28 and 1937-38 were 144 and 154.

² See p. 23, note 3. As in the tinfield, in addition to their wages, miners employed at the colliery receive free housing, the standard of which has been appreciably improved of late (*Report on the Colliery Department, 1938*, para. 17). There is also a training scheme which enables educated Africans to qualify for technical posts in the colliery (*ibid.*, 1939, para. 4).

IV

INDUSTRIES:

1930	1931	1932	1933	1934	1935	1936	1937	1938
330,526	269,915	253,671	237,531	255,855	261,311	311,411	391,159	323,266 ¹
7.74	7.65	7.44	7.51	5.58	5.96	6.68	7.03	(7.96)
2.6	2.7	2.7	2.7	1.1	.9	2.5	2.24	(1.85)
2,108	1,800	1,470	1,537	1,530	1,418	1,634	2,538	2,848
6.1	5.2	6.1	5.0	5.6	6.0	6.4	7.5	7.0
4.5	5.25	5.54	5.92	5.79	6.5	5.6	2.93	2.7
27,466	23,812	31,100	26,460	27,015	29,283	32,596	38,143	37,118
35.0	32.8	33.6	32.2	32.8	31.6	31.0	34.2	36.4
259.5	698.7	2,700	17,718	37,023	38,962	33,364	26,444	24,815
84.92	92.52	118.00	124.78	137.65	142.10	140.27	140.76	142.55
26	not stated	—	5,384	14,235	90.0	91.0	96.0	109.25
—	—	—	—	—	15,821	16,694	9,102	8,547
LEAD								
561	2,015	683	979	675	1,160	1,275	851	—
20	29	17	17	18	24	20	24	19
249	not stated	—	514	—	not stated separately (see row 21)			—
WOLFRAM								
—	—	—	3.233	15.63	67	339	717	533
—	—	—	—	—	29.4	37.7	116.5	150.3
—	—	—	—	—	—	—	70 to 115	89 to 155
—	—	—	—	5.31	15	6	8	44
—	—	—	15.65	36.75	34.75	30.96	64.75	56.25
—	—	—	—	339	1,602	6,768	2,475	2,474

¹ Figure for output of coal. The figures for average receipts and profits in 1938 were estimated.

partly to the fact that the concern is run by a government department not solely intent on making profits, and partly to the pugnacity of Ibo coal-miners who, unlike the more docile pagans and Hausa of the tinfield,² resorted to combined action at an early stage. There were strikes at the colliery in 1920 caused mainly by the unpopularity of paper money, and another in March, 1937, which resulted in the restoration of the wage rate reduced during the depression and the award of a fixed day-wage to the hewers in addition to their piece rates. Unrest continued, however, and a further comprehensive award was made in February, 1938, which was finally accepted.

The eagerness of the Ibo to obtain work at the colliery had led to the practice of work-sharing whereby the majority of miners worked only

² There appears to be no record of any organised combination on the part of workers in any of the mining industries of the northern provinces in pre-war days. During the last two years workers on the tinfield have started to form unions.

part-time, their actual earnings being consequently reduced below the level of possible average earnings, assuming that all workers work full-time, which are shown in row 5. At times, there were over 3,500 men on the register, whereas the number who could actually be employed full-time varied between 1,500 and 2,500 (see row 4). This system caused dissatisfaction among men who preferred to work regularly. It was, therefore, decided to reduce the number of daily paid workers on the register, and between February, 1939, and October, 1940, 1,440 of the most recently recruited workers were retrenched. The retrenched workers presumably returned to their villages to aggravate imperceptibly the condition of under-employment in agriculture already existing there, while the workers who remained at the colliery enjoyed a rise of 3s. in their average earnings after November, 1940.

It seems, however, inevitable that periods of unemployment for part of the labour force will continue owing to the fluctuating demand for coal and difficulties of storage which make a regular output impossible. A very large proportion of the coal produced, i.e. 60 per cent in 1936-37, is purchased by the railway and must be transported from the colliery during the slack season for produce. A regular output cannot be maintained, and periods of high average costs and under-employment are unavoidable. This difficulty must have increased with the declining demand for coal from companies. It appears that no attempts have been made¹ to solve the problem by finding out how to store coal under tropical conditions without deterioration or to stimulate the demand for coal for new uses.

4. THE GOLD-MINING INDUSTRY

The gold-mining industry in Nigeria developed rapidly during the thirties as a result of the rise in the price of gold and the sudden appearance of an increased and well-trained labour supply. This appeared owing to the Tin Restriction Scheme which greatly curtailed the employment opportunities for native workers on the tinfields. Thus, in the immediate pre-war years, gold had become one of the ten most important export products of Nigeria.

Compared with the industry in the neighbouring colony of the Gold Coast, the gold-mining industry in Nigeria is at a primitive stage; for the reasons mentioned above,² little capital has been attracted to the industry and the average concern is small. During 1938 there were only 19 operating companies which employed on the average a labour force of 130 Africans, while 71 individual operators employed on the average 87 Africans.

¹ According to Dr. Fortes, one of the obstacles to selling Nigerian coal is said to be lack of adequate screening and washing plant which makes it impossible to grade the coal properly.

² See p. 7.

The greater part of the output is won from alluvial and detrital deposits by hand methods, most of the Africans working as tributors. A number of small auriferous quartz lodes are also worked by primitive methods, the quartz being crushed by hand and panned.¹ Only one company, Nigerian Gold Mines, which had a labour force of over 800, made use of machinery, operating with two steam-driven gravel pumps with monitors.² The value of the Nigerian assets of this company per African employed in 1936 was about £150.³ A more typical concern is one described by Dr. Fortes in 1941; its proprietor was a Syrian with a capital of £1,000 employing from 50 to 200 labourers⁴ as tributors.

Average all-in cost figures are only available for a few years and are entered in row 11. An idea of the gross profit per ounce can be derived by comparing rows 10 and 11. The estimated gross profit per individual operator in 1938 was about £560. It thus seems that the gold-mining industry is one of the most lucrative fields of enterprise for the African or Levantine entrepreneur with a little capital.⁵

The earnings of African employees in the industry are probably about the same as in tin mining. In 1935, £2 per ounce was paid for tribute gold.⁶ The average output per worker in this year was 2.5 ounces,⁷ so that the average annual earnings were £5, and the weekly earnings, assuming that each worker worked full time for half the year, were 3s. 7d. The tributors working for the Syrian mentioned above were earning 3s. to 4s. a week in 1941.

In 1935 Dr. Russ announced the opinion that alluvial gold mining in Nigeria had reached its zenith. This was apparently correct as the figures in row 9 show a decline in output after that year.⁸ He thought, however, that in view of areas still remaining to be prospected within and

¹ *Report on the Mines Department, 1939*, p. 12.

² A 'monitor' is an apparatus which throws a jet of water under pressure.

³ This may be compared with a corresponding sum of £660 per worker employed in the fiscal year 1936-37 by Tano Alluvials, a Gold Coast alluvial mining company.

⁴ The variation in the number of workers is caused by the scanty rainfall in the gold-mining area in the north-west of Nigeria. A good water supply is necessary for alluvial gold mining by the panning method, and presumably lack of capital has prevented the building of dams for water conservation, by means of which the same problem was solved in the tinfield. Lack of water is thus another obstacle to the development of the gold-mining industry.

⁵ The majority of the names of operators given in Appendix A of the *Report on the Mines Department, 1938*, are English, but there are a fair number of Levantine and some obviously African names.

⁶ See Russ, *op. cit.*, p. 8, para. 21 (a).

⁷ By 1938 the output per head had risen to 2.9 ounces. The average output per worker of two Gold Coast alluvial companies (Akantim Gold Mines and Bremang Gold Dredging) in the year ending March 31st, 1938, was 35.6 ounces per head.

⁸ *Op. cit.*, p. 10, para. 24.

without the goldfield area an output of 40,000 to 50,000 ounces per annum could be maintained for another three or four years. It is believed that the output of gold was very high in 1942. This increase of output may be attributed to the opening up of a new alluvial goldfield at Ife Ilesha mainly by African and Syrian miners. Towards the end of 1942 further development in this area was prohibited in order to prevent the drainage of essential labour and materials from the tinfields. It seemed that local investors, whose savings must have reached an unusually high level owing to increased incomes and lower spending, had found in the gold industry one of the rare investment opportunities that Nigeria provided before the end of the second world war.

5. MINOR MINERAL INDUSTRIES

Very little information is available concerning the silver lead industry (Table IV, rows 13 to 15). In the early years most of the output was mined as a side line at Abakaliki by the Nigerian Base Metals Corporation, which was mainly engaged in tin mining. In 1926 the profit margin was said to be low and by 1932 production by this company had ceased. Meanwhile, in 1928, a promising lode had been discovered at Zurak in Adamawa. Development in this area was hampered by transport difficulties which were finally solved by the use of lorries which took the ore to the Kudu river, whence it was carried to Lokoja by canoe. In 1932 machinery was installed by North Nigeria Lead Mines Ltd. to exploit the ore at depth. This company was a private one so that no continuous cost figures are available. In 1934, however, the Mines Department published a cost figure from which it may be inferred that the all-in cost per ton of ore as shown in row 13 was in the neighbourhood of £18.¹ Thus, a profit can only have been made if the value of the ore shown in row 14 was underestimated.² However, the 33 per cent rise in price during the following year evidently encouraged the company to install costly equipment and to increase output. In the following year the main lode on which the company was working was found to be 'faulted at depth' and could not subsequently be traced. In 1937 operations ceased and the company was liquidated.

The columbite and wolfram mining industries have arisen recently in Nigeria. The demand for both these minerals depends mainly on the level

¹ See *Report on the Mines Department, 1934*, p. 5.

² The figures in row 14 were estimated on the assumption that a ton of Nigerian silver lead ore contained on an average 60 per cent of lead and 120 ounces of silver. The annual average London prices of lead and silver published by the *Metal Bulletin* were used. The estimates of lead and silver contents were based on figures published in the *Reports on the Mines Department, 1936, 1937 and 1938*, and might have been exceeded in the years in question. Even so, the profit margin could not have been very high.

of activity in certain heavy industries, and has thus been greatly increased by the war.

Columbite, of which Nigeria is now the foremost source, is used in certain steel alloys to increase their ductility and resistance to corrosion and oxidation, for welding chromium nickel steels, in wireless valves and in the manufacture of certain cathodes. It was formerly regarded as an impurity occurring with tinstone from which it had to be removed by means of magnetic separators.¹ The tailing dumps of certain mines have since proved remunerative sources of columbite ore, and it is now mined for its own sake. Reliable price quotations were not published in this country in the years under review and the values given in row 17 are based on American import statistics.² The low prices of 1935 and 1936 were obviously paid for samples. The price improved when a regular market became established, but if the range of all-in costs given by the Mining Department (see row 18) is correct, the profit margin cannot be very high for many producers.

The outstanding quality of tungsten is its hardness and its ability to combine with carbon to form a strong, extremely hard compound which maintains its strength at high temperatures. Its main use in industry is in the manufacture of machine tools either as tungsten carbide or as a steel alloy, containing about 18 per cent of tungsten metal, the so-called 'high-speed steel'. A small proportion is used for electric filaments and in the chemical industry.³

The demand for wolfram is said to be unstable owing to the ease with which it can be reclaimed from scrap high-speed steel, so that periods of heavy demand and high output are likely to be soon followed by slumps in the demand for newly mined tungsten.⁴

Little is known about the cost of producing wolfram in Nigeria. In the first few years of the industry, the output was mainly won from detrital deposits on hillsides and the cost of production may have been about the same as in tin mining. When these were exhausted, operations were concentrated on lode deposits. These can be mined fairly easily by open-cast methods, but costs increase with depth, since the harder rock must be drilled and blasted. In 1942, the mining costs at a depth of 50 ft. in one

¹ *Bulletin of the Imperial Institute*, v. 34: 348-353, 1936. Columbite and tantalite which are used for similar purposes are generally found together. The Nigerian deposits of these associated minerals are exceptional in that until recently columbite predominated. At the present moment, however, newly discovered deposits containing a high proportion of tantalite are being worked for the sake of the latter mineral which finds a good market in America.

² *Minerals Year Book* (Washington), 1939, p. 761; and 1940, p. 743. America imported most of the Nigerian output of columbite.

³ *Minerals Year Book*, Review of 1940, p. 622.

⁴ Vogel, L. F., 'Tungsten, Its Uses and Manufacture', *Metallurgia*, v. 15: 149-150, 1937.

mine were about £160 per ton of wolfram. In that year the controlled price was only 50s. per unit¹ or £125 per ton containing 50 per cent of wolfram, and owing to the high costs, deep-level mining became uneconomic and output dropped. In the following year the price was raised to 75s. per unit,² and at this price, which was much above the pre-war level (see row 20), activity increased. Taking into consideration the unstable nature of the demand and the high costs of production, the outlook for this young industry in Nigeria after the second world war does not appear to be very promising, especially since supplies will again be available from Burma and China which were the foremost sources of wolfram in pre-war days.

6. PROSPECTS OF THE NIGERIAN MINING INDUSTRIES

It is difficult to examine in detail the effect of the second world war upon the mining industries of Nigeria, since output figures have not been published since the fall of Malaya and at the time of writing no report on the Mines Department had reached this country dealing with any year after 1939, so that little of importance can be added to the few allusions to war-time developments in the foregoing pages.

It may, however, be remarked that the output of tin in the producing areas available to the allies was extremely high during the war years.³ This will have two important consequences after the war. Firstly, the period of maximum production will have shortened the life of the deposits, and secondly, the uneconomic exploitation of deposits in order to maintain a high output is likely to cause a rise in cost in future. The second effect, which applies particularly to Nigeria, makes the future market for tin an interesting subject for speculation. In looking ahead, three different periods may be distinguished; namely, the period of post-war readjustment, the period of normal conditions, and the distant period of shrinking supply through exhaustion of deposits.

It is convenient to start by considering demand conditions in the second period or the period of normal conditions and to abstract from inflationary price changes which have occurred from 1939 to 1945 by discussing the problem in terms of the 1934 to 1939 purchasing power of money.

It is probable that within certain high price ranges the price elasticity

¹ The price of wolfram is quoted per unit of tungstic acid (WO_3) contained in the ore. 1 unit = 1 per cent.

² Haag, *op. cit.*, pp. 23-24. On page 9 there is a table showing the wolfram content of various samples from a detrital deposit at Kalato. The values varied from 33 per cent to 64 per cent wolfram. Values as high as 90 per cent have been found but seem to be rare.

³ Nigeria is capable of producing about 15,000 tons of tin (metal). Bolivia 46,000, and the Belgian Congo 30,000 per annum. It may be assumed that all three areas are producing to the maximum extent.

of demand will still be small. Furthermore, the amounts purchased within this range (given normal conditions of prosperity and allowing for inflationary price changes) will probably be less than were bought at these prices before the war. The reason for this is that the margin of substitution at which tin consumers will decide to use secondary tin or alternative raw materials will be reached sooner owing to the knowledge and practice of substitution acquired during the war. It would be fairly plausible to suppose that between the prices of £250 and £300, speaking in terms of 'deflated' or 1934-39 purchasing power of money,¹ the amount demanded would not vary much above or below 125,000 tons.² Above and below this range greater elasticity could be expected, i.e. at deflated prices below £200 tin would probably be better able to compete with secondary tin and other substitutes for newly mined tin, and more would be demanded.

The world supply of tin during the period of normal conditions may be supposed to conform to the pattern of increasing costs. This means that if the industry is contracting the costs decrease the more the output is contracted. If the industry were competitive, there would probably be reached an equilibrium between the demand and the supply at a fairly low price, perhaps £120 per ton of metal,³ and at that price, most Bolivian, and some Nigerian and Malayan mines would have to close down unless unprecedented prosperity should substantially increase the demand for tin. If alternative opportunities for capital, which succeeded in disentangling itself from the tin industry, and alternative employment opportunities for tin workers were available in abundance, the closing down of high-cost mines would be in the interests of both producers and consumers the world over. The supply of tin, unlike the supply of tropical vegetable products, shows great elasticity when contracting, since European tin-producers are more willing and able to cease production when they fore-

¹ Since this chapter went to press it has been possible to add the following footnote based on 1946 figures. If these pre-war prices are inflated to correspond with the 1946 price level by the application of the percentage increase in Moody's weighted index of commodity prices (which by the summer of 1946 had risen to 77 per cent above the average level from 1934 to 1939), they amount to about £440 and £530. The average of controlled prices of tin current in 1946, which amounts to £339 per ton, has risen by only 5.5 per cent above the average of tin prices from 1934 to 1939, which is very little compared with the general rise in commodity prices of approximately 77 per cent. Tin is, thus, a relatively cheap raw material, and it is not surprising that the demand for tin at controlled prices ranging from £289 to £422 per ton appears to be infinitely elastic. Cf. *Tin*, June, 1946, pp. 1-2, and July, 1946, pp. 1-2.

² 125,000 tons equals approximately 75 per cent of the total world consumption of tin in 1936. Much greater economies have been achieved during the war. It is assumed that some of the new methods will be retained throughout, thus reducing the volume of tin for which price elasticity will be low to a level somewhat below the pre-war level.

³ Cf. Sir Lewis Fermor's 'lower governing price', i.e. the price to which he thought the price of tin would drop if the restriction scheme were abandoned, *op. cit.*, p. 123.

see further price falls than native farmers in the same situation. The first to disappear in the former case are likely to be the high-cost producers. During the initial fall of price of some 10 or 20 per cent the output is not much changed but thereafter the supply is rather elastic. That being so, the buffer stock scheme is, from the consumers' point of view, preferable to a quota scheme for the regulation of the tin industry since the latter is designed to enable high-cost producers to continue in production. A buffer stock scheme, in which the low-cost producers and the consumers would hold the majority of the votes, could eliminate all erratic day to day fluctuations of price by operating on the market for tin and could also smooth out effectively all cyclical variations in both output and price. A buffer stock of about 20,000 tons would serve as an 'ever normal' source of supply and if it were increased in a serious crisis to 160,000 tons it would be an ever normal source of demand. It would be a low-cost insurance against price fluctuations. If the capital for financing the stocks were borrowed at 3 per cent, the annual cost would only amount to from 1 per cent to 2 per cent of the price. Exporters, brokers and importers could sell to and buy from whom or where they liked, and there would be no obstacle in the way of production moving to the low-cost areas of the world or any impediment to changes in taste or technique.

Price control by means of a pure buffer stock scheme would, however, involve a considerable waste of resources in the high-cost countries, which would at the outset be forced out of production. Labour forces would be dispersed and equipment would deteriorate during the period when these countries were unable to produce at the ruling price. (Of course, in the long run, when the low-cost deposits had been exhausted, the high-cost countries would enter production again at a higher fixed price.) It is, therefore, likely that political pressure would be exerted on behalf of high-cost producers in favour of a quota restriction scheme as hitherto. The low-cost producers could be prevented from reaping extra profits under such a scheme, if the pre-1939 free market for tin were replaced by a single world buying agency purchasing all tin from the producers on a cost plus profit basis. The price to the consumer could be lower than under pre-war conditions, since it could be the average of prices paid to producers plus smelting and marketing charges. The restriction scheme of the thirties aimed at fixing a price high enough to yield a profit to the highest-cost producer.

The industry is already committed to a new quota scheme for the period after the war, for in the autumn of 1942 a new five-year agreement was completed between the Nigerian, Malayan, Netherlands East Indies and Bolivian governments. The following discussion is based upon the assumptions that this new five-year agreement will be carried out and it leaves open the question of the advisability of a quota scheme in preference to a buffer stock scheme.¹

¹ The foregoing discussion of a buffer stock scheme owes much to Mr. J. Mars.

Should the restriction scheme become a permanent institution and, in view of the probable demand conditions for tin discussed above, it would at the first glance appear to benefit the producers if they were to restrict more drastically than ever before: that is to say, to cater for the 'rock bottom' world consumption of about 90,000 tons and charge a very high price for it, enabling large profits to be made. Uneconomic concerns could be closed down at the outset, so reducing the average cost of production, although over a period of time costs would again rise gradually as the best deposits were exhausted.

Though under such a drastic restriction scheme the Nigerian output of tin concentrates would have to drop to about 7,300 tons¹ per annum, the Nigerian economy would probably derive certain benefits from such a situation. Royalties and rents could cut more deeply into the profit margin and the new minimum wage regulation could be used to raise the average earnings of Africans to perhaps more than twice their pre-war level. Though the number of Africans employed may fall to about 20,000, it seems better for a smaller number to be employed at a good wage, especially if employment opportunities for the superfluous workers were provided by the introduction of secondary industries. The problem of providing alternative occupations for the tin miners is bound to occur ultimately when the deposits are exhausted, and, in any case, the Plateau is one of the most suitable situations for the establishment of secondary industries in northern Nigeria since it has very good communications² and electric power installations and contains large areas of land which are unsuited for agriculture.³

It may also be argued that resources of a valuable mineral, which at the present rate of exploitation might be exhausted within a generation, should

¹ See Table II, row 1, for annual outputs in the past.

² See *An Economic Survey of the Colonial Empire (1937)*, Colonial No. 179, 1940, p. 149. The mean minimum distance from main transport lines in the Plateau province is 3.2 miles. Only in Kano is the distance less, namely 2.8 miles. The maximum distance in the northern provinces is 10.2 in Bornu.

³ In this connection it is interesting to note that Sir Lewis Fermor has suggested that, since the tin industry of Malaya is depleting a valuable natural asset, the government might set aside part of the revenue derived from the export tax on tin in order to build up an amortisation fund. This might either be spent on developing the other resources of the country in the hope that when the tin is exhausted additional revenues will accrue from new products or the fund might be invested elsewhere in order that the interest might compensate Malaya for the loss of revenue from tin exports (*op. cit.*, p. 144).

It can be inferred from the material supplied by Dr. Fortes, mentioned in Section 1, that much under-employment in agriculture already exists in the Plateau area as a direct result of the mining industry. The reward recently promised to the native tin miners for their part in the war effort might very suitably take the form of alternative employment opportunities in secondary industries to be provided as soon as possible after the war.

be conserved for the benefit of future generations by a collective time-preference decision.

The consumers, however, would have good reason to be dissatisfied with such a situation and, if the full monopoly price were exacted, would probably introduce more rigid economies so that the position of the producers would worsen. It would, therefore, probably pay the producers to maintain an output somewhat larger than the monopoly output at a lower deflated price, perhaps not more than £250 a ton. The advantages to the Nigerian economy would still accrue, but to a less extent than before, the consumers would not be over-exploited and the conservation of tin supplies could be maintained.

The foregoing discussion of the future demand and supply conditions for tin does not take account of advertisement on the part of the industry; this may have a much greater influence on market conditions than hitherto.

Although the Tin Producers' Association was established as early as 1929 'with the objects of the protection and betterment of the tin-producing industry' and was soon followed by the International Tin Research and Development Council set up for the purpose of developing and publicising the industrial uses of tin, it appears that the pre-1939 expenditure on advertising tin was considerably less than that on other non-ferrous metals such as nickel and aluminium, the sales of which increased at a much higher rate during the thirties than those of tin.¹

It is proposed that, in post-war years, selling costs, including research, should be raised to an average of about £300,000 per annum.² Assuming that, after the immediate post-war adjustments have been made, the demand at a price from £200 to £260 per ton will be at the inter-war average level of 150,000 tons per annum, it is suggested that, if selling costs at the average rate of £300,000 are incurred for ten years, it will be possible to increase the world output that can be marketed to 250,000 tons presumably at the same price. It is believed that such an increase can be achieved by increasing sales in previously low consuming countries, such as Russia, China and India, etc., where industrialisation will increase rapidly after the second world war, by overcoming resistance to tin consumption in Germany and by pushing new lines in Great Britain and the U.S.A.

If such a large volume of sales could be achieved by incurring selling costs, it is extremely unlikely that the price would be higher than the inter-war level, allowing, of course, for changes in the purchasing power of money. Such a result would certainly not benefit the high-cost producers, Nigeria and Bolivia, for the achievement of such a high output would mean a continuation of the present all-out production. Real costs in 1944

¹ Ireland, J., *Proposed Organisation for the International Tin Research and Development Council's Activities in Post-War Years*, March, 1943, pp. 4-6.

² *Ibid.*, pp. 2 and 4.

were very high in Nigeria and are expected to be higher in future owing to the exhaustion of high-grade deposits.

In 1944 the demand for tin by the allied nations seemed to be perfectly elastic at a high price.¹ Immediately after the cessation of hostilities it might be expected that the amount demanded at given prices would fall considerably owing to the switch-over to peace-time production by the allies, unless the adjustment to peace-time demands should take place more rapidly than was the case after 1918.² As industrial activity and the export trades of the occupied and defeated countries revive, demand may be expected to expand somewhat. But the difficulties of the Bolivian, Nigerian and Belgian producers in adjusting to the initial contraction of demand will probably be mitigated by absence of supplies from the eastern producing areas for some time. It is believed that the Japanese have destroyed much of the mining machinery in the conquered tinfields for the sake of scrap metal and it is said to take about two years to transport and construct a dredge,³ so that the present producers will have ample time in which to scale down their output to the level they consider suitable in the long run.

The 'period of shrinking supply' in the future is of some interest to Nigerian producers since it will probably be only when alluvial deposits are nearly exhausted that the question of mining the deeper deposits will arise. When that time comes, the demand for tin may have become even more elastic through the discovery of further substitutes, in which case the deep deposits might only be worth mining if new and cheaper methods were discovered. No hypothesis can be made about such unpredictable conditions.⁴

¹ The controlled price for tin in Great Britain was £275 per ton. The total available supply was then probably about 95,000 tons per annum.

² The average retained imports of tin by Great Britain, France and the U.S.A. during 1919-1920 were about 80 per cent of the average imports during the years 1915 to 1918. It should be remembered, however, that the motor industry was then in its infancy and a less important factor in the demand for tin than it is to-day.

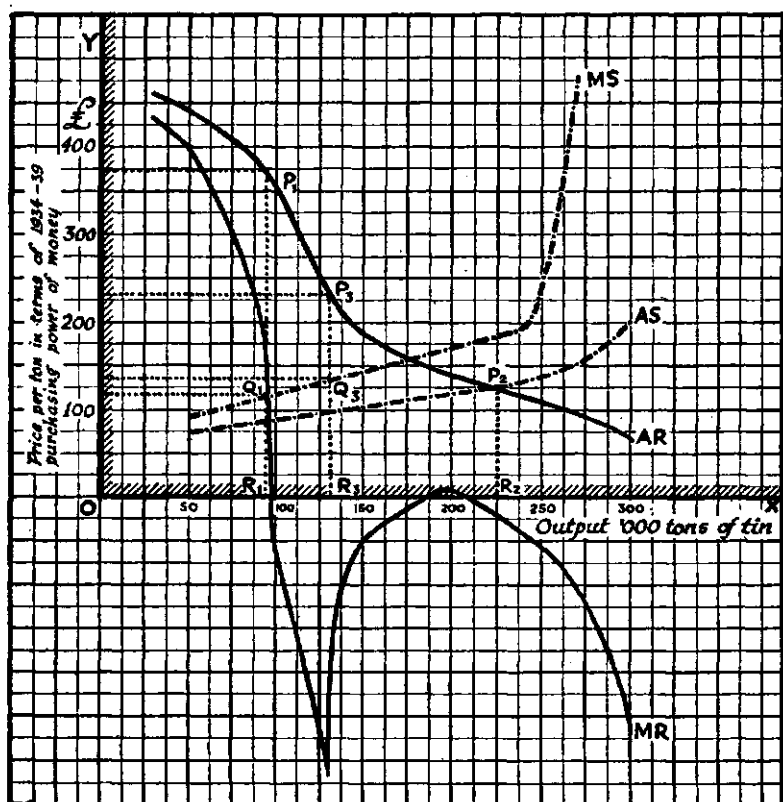
³ See *The Mining Year Book*, 1943, p. xx, and *Canadian Metals*, v. 5: 98, 1942

⁴ The foregoing analysis of the possible future prospects of the tin-mining industry can be illustrated diagrammatically. The diagram on p. 40 represents the total demand and supply conditions of the industry in the period of normal conditions after the war. It is, of course, hypothetical, but was constructed with due regard to past data and reasonable inferences as to future circumstances.

It is assumed that selling costs are incurred at the pre-war level. *AR*, the average revenue curve, shows the quantity that will be demanded at each price. It is a long period curve allowing for technical adjustments, and is drawn in accordance with the reasoning given in the text.

MR is marginal to *AR* and shows the addition to total revenue that will accrue as the result of producing each successive unit of tin.

AS is the reverse supply curve of a contracting industry and shows the quantity that could be supplied at each successive price, assuming that only 'normal profits' are made. It is also a long period curve. It is assumed that within the range shown economies of large-scale production will be retained as output shrinks.



MS is the reverse curve marginal to *AS* and shows the decrement in the quantity supplied at each successive fall in price.

The point of monopoly equilibrium is where *MR* and *MS* intersect at Q_1 . Monopoly profits are maximised when the output is OR_1 (about 100,000 tons), and the price P_1R_1 . P_1Q_1 is the average monopoly profit per ton.

OR_2 (225,000 tons) is the amount that would be produced under competitive conditions at the price P_2R_2 .

Owing to the probable instability of demand at the monopoly price P_1R_1 , a safer output for the restrictionists would probably be OR_3 (130,000 tons), although the average monopoly profit P_3Q_3 would be very much less. The difference in total profits can be seen by comparing the two rectangles subtended by P_1Q_1 , and P_3Q_3 .

Changes in the level of incomes induced by the trade cycle can be represented in this diagram by lateral movements of the revenue curves. During the downswing *AR* would move to the left and during the upswing to the right. The supply curves would move in the same direction but probably to a less extent. Incidentally, the fact that under the Restriction Scheme in the later thirties, more tin was sold at a higher price than in the early thirties was not due to restriction alone but to increased prosperity and the great price inelasticity of the demand for tin in pre-war years.

With regard to the coal industry, it seems that the mine could be run more economically and steadier employment provided in an over-populated district if the output could be raised above its present level so that the coal customarily bought by the railway should form a smaller proportion of total output. This is desirable because the fluctuations of railway demand for coal are the chief cause of the fluctuations in output during the year. Since the prospect of increasing the demand for coal as fuel seems slight owing to its quality and to transport difficulties, this object might be achieved if southern Nigeria becomes generally industrialised, since there would then be scope for an electric generating station at Enugu.¹ Short of a general industrialisation programme, the demand for Enugu coal might be raised and steadied by the introduction of some local industry in isolation. Pottery has been suggested by an official since suitable clay is available near Enugu.

The disappearance of the native iron-smelting industry owing to the competition of imported bar-iron and cheap ready-made hoes, chiefly from Germany, has already been mentioned. The more expensive locally-made hoes are, however, said to be preferred by Africans, and, if the level of incomes in Nigeria should rise as a result of further industrialisation, the local iron products which are actually of better quality would be able to compete again and their manufacture might therefore be encouraged as an element in the industrialisation programme.

It appears that with the present technique of native iron smelting the product is more costly than imported bar-iron so that the native blacksmith derives a higher profit by using the latter. Thus, though the forging industry may be able to expand with rising incomes, the native smelting industry will lag behind unless a suitable improved technique is discovered enabling Nigerian iron to compete with foreign material.²

According to an expert with experience in Nigeria, the future of the mining industry probably lies in mineral oil and small lode gold mines. Recently, prospecting for the former mineral has been carried on with increased activity, but no results have been published. The idea of supplying the tin-mining industry with oil derived from Nigerian lignite has occurred to at least one entrepreneur during the war.³ It is not known whether any action has been taken. The future of Nigerian gold mining will depend on the maintenance of the monetary demand for gold and

¹ Even in the present circumstances, an increased output of coal might be converted into electric power and used to supplement the supply of hydro-electric power to the tinfields which is inadequate and cannot be expanded owing to the shortage of water on the Plateau.

² Deans, T., *The Production and Trade in Hoes in African Colonies* (Imperial Institute Mineral Resources Department unpublished memorandum), 1943.

³ Information supplied at a private interview by Mr. Beard of the Imperial Institute.

possibly also upon the emergence of alternative and more reliable investment opportunities for small quantities of local capital, against which the gold-mining industry would have to compete.

From the review of the Nigerian mining industries emerges the opinion that, unless there is some important new discovery, the relative importance of minerals among the exports of Nigeria may be expected to decline after 1945 although the absolute pre-war level may be maintained for a few years. It is probable, however, that if Nigeria becomes industrialised the output of minerals such as coal, lignite, iron, mineral oil and perhaps lead, which have hitherto been of minor importance, may be expected to increase, mainly for internal consumption.

Chapter II

EXTRA-TERRITORIAL ENTERPRISES

BY J. MARS

I. INTRA- AND EXTRA-TERRITORIAL ENTERPRISES

(a) DEFINITION OF TERMS

In the widest sense of the term, an enterprise means any combination of factors of production which is under the independent direction of one entrepreneur or board of directors. If the directing body or principals have their main economic interests and their permanent residence outside the country where the principal business operations are carried out or the main capital equipment is located, the enterprise may be termed an extra-territorial enterprise. Conversely, an enterprise, the directing principals of which have their main economic interests and their permanent residence inside the country where the principal business operations are carried out or the main capital equipment is located, may be denoted as an intra-territorial enterprise. In most cases extra-territoriality of directorship presupposes extra-territoriality of ownership of capital, but there are cases when capital is intra-territorially owned but directorship is extra-territorially supplied. The device of a 'management agency' met with in India is a case in point. Such cases of internal ownership but external directorship either do not exist or are quite rare in Nigeria to-day. The term extra-territorial enterprises as used below should, therefore, ordinarily be understood as implying the extra-territoriality of both directorship and ownership of capital unless the extra-territoriality of ownership is specifically excluded.

It is not always easy to decide whether a particular business is intra- or extra-territorial. There is in West Africa a company which, before it passed under the control of the United Africa Company (hereafter cited as the U.A.C.) in 1935, had its head office and its board of directors and shareholders abroad, but which had a resident managing director in

¹ This chapter does not deal specifically with the mining companies, for which see Chapter I. Nevertheless, what will be said about extra-territorial enterprises in general applies fully to extra-territorial mining companies.

² This is an extract from a comprehensive unpublished study about four times the size of the present chapter. The extract covers only half the ground of the full version. In particular, it omits any analysis of the specific functions and operational methods of extra-territorial merchant firms.

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West Africa in whom all real power was vested, the board hardly ever challenging or reversing his decisions.¹ This company was, therefore, apparently extra-territorial, but, practically speaking, intra-territorial in so far as the decisive entrepreneurship came from within.

A deceptive case of the opposite type also occurs. There are some companies in West Africa which have a full local board and are thus ostensibly intra-territorial companies. On analysis it appears that the resident directors in West Africa are only shadow directors, nominated by home interests and holding only the few shares necessary for a director's qualification. They are only the nominal owners of these shares, as a blank signed transfer certificate is kept by the real directors at home. The main reason for establishing an outward appearance of intra-territoriality is the desire to evade home taxation; there is no E.P.T. in Nigeria and undistributed profits are subject only to a 25 per cent income tax.

It will be the purpose of later sections to describe in detail the consequences of the extra-territoriality of ownership and directorship.

(b) ORGANISATION OF THE COMPANIES

The extra-territorial businesses in Nigeria take the form of sole proprietorships, partnerships and private or public companies. The commercial law of Nigeria is, in fact, very similar to that of the United Kingdom. The Companies Ordinance of 1922² was modelled on the British Companies Act as it existed at that date. This Companies Ordinance makes the same provision for the incorporation within Nigeria of companies incorporated outside Nigeria, as the British Companies Act makes for companies incorporated outside Great Britain and carrying on business here.

The Companies Ordinance requires every company incorporated outside Nigeria which establishes a place of business in Nigeria to file with the Registrar of Companies a certified copy of the legal instrument defining the constitution of the company and a list of directors. No act of incorporation is necessary. The company has, however, to submit to the Registrar a balance-sheet such as would be required if it were incorporated and registered in Nigeria and it must state the country in which it is incorporated in written or printed business communications.

It appears from this summary of the Companies Ordinance that it is very easy for companies incorporated outside Nigeria to carry on business in that country. This is quite in keeping with the open-door tradition of

¹ The company in question is the Swiss African Trading Co., operating in the Gold Coast. The director referred to was Mr. Hintermann, a Swiss, who had served twenty-five years in West Africa and was respected by government, the Africans and other companies alike.

² No. 54 of 1922.

Nigeria. It will be pointed out below, however, that there need be no interference with an open-door tradition if the registered extra-territorial companies were required to give fuller accounts to the Registrar of Companies.

A description of the internal organisation of extra-territorial firms will bring out the characteristics and the extent of extra-territoriality of businesses more clearly than has emerged from the general account above. The principal firms differ, of course, in several respects in their internal organisation but there is sufficient similarity in the general set-up for a description of the general organisation of one firm to serve for all.¹

'The firm in question is divided at headquarters in the United Kingdom into four main departments, dealing respectively with imports, exports, steamship services and administration, the latter covering, among other things, structural organisation, policy and personnel. In the Gold Coast and Nigeria, there are local headquarters for each trading area, at which several European officials are stationed under the area manager, who is responsible for the whole area. There are sub-stations at minor centres with one or two European officials in charge, and bush depots in up-country places in charge of African clerks. The managers are on an equal footing with each other and there is no manager-in-chief in a superior position to the rest. Trading policy is worked out by the administrative department at headquarters, partly on general commercial principles, partly in accordance with the accumulated knowledge and experience of those officials at headquarters who have themselves served in West Africa, and partly on the basis of the reports sent in by the men on the spot. Decisions on policy are circulated to the managers in all areas, not only to the manager of the area in connection with which the point at issue may have arisen. Information coming in to any one department at headquarters is, when relevant, relayed to the other three, and decisions upon policy are taken and put into effect only after consultation between the heads of the departments and approval by the board of directors, which meets usually once a week.

'Managers send to headquarters indents for all their stores and copious reports describing not only their activities and expressing their views upon all the commercial problems within their own purview, but also supplying any special information for which they may have been asked. Within the limits of the general policy laid down from headquarters, a high degree of freedom and trust is accorded to the officials in West Africa, and their indents are questioned only in extraordinary circumstances. They are kept well-informed by frequent despatches on general commercial matters; and from time to time suggestions in connection with new lines of trade or the development of existing lines are sent out, to be followed up by

¹ The following description is taken verbatim from an unpublished MS. written by Mr. Angus MacKintosh for Nuffield College.

the men on the spot according to their individual judgments and initiative. The firm also has agents all over the world in close and constant touch with the movements of the produce markets; on the basis of their reports, prices are decided at headquarters and cabled to the officials on the Coast. Some firms send these cables daily, others less frequently.¹

Nevertheless, it is clear that the share which the local agent, i.e. the man on the spot, has in determining the policy of any extra-territorial company is limited. Most of the operations of extra-territorial companies cover other colonies besides Nigeria, and many of them require a full knowledge of the world demand for and world supply of the exported and imported commodities, with the possession of which the local agent is not credited.

'Notwithstanding the claim of the Colonial Office to lay down only the broad general lines of administrative policy from London, leaving the colonial governments free to make all their own decisions within that wide and flexible framework, the firms believe that they can influence economic trends in the West Coast with greater effect indirectly through the Colonial Office rather than by direct approach to the colonial governments, although they also practice the direct approach whenever it seems likely to avail.'

Shareholders, boards of directors, and head offices are rather jealous of their power, and consequently are unwilling to delegate it; they, therefore, do not appoint agents of greater authority than area managers within each colony. This deliberate restriction of responsibility and, incidentally, of career naturally limits the value which the services of first-rate men would otherwise possess. Men of the highest calibre may, therefore, either not be attracted to such jobs or change over to jobs with higher prospects at the first opportunity.

The purely administrative functions of local agents are increasing at the expense of their entrepreneurial functions. Thus, the agents of extra-territorial trading companies are often provided with fixed prices for buying and, under import agreements, also for selling, and their mere routine duties, such as the monthly stock-taking, prevention of fraud, supervision of clerks, take up by far the greater part of their time. Thus, when the extra-territorial traders became the agents of the West African Produce Control Board during the second world war, they felt no change whatsoever in their position.

No attempt has been made by extra-territorial companies to establish local boards of directors in Nigeria. Even Barclays Bank (D.C. and O.), which has been a pioneer in the establishment of local boards of directors in other parts of Africa, has not yet done so in West Africa.¹

¹ Barclays Bank established local boards consisting of three members each at Alexandria, Cape Town and Northern Rhodesia in 1927, and in Palestine in 1934. By 1942, in addition to the boards just mentioned, there were also a local director in New York, two local directors in South Africa, and a local director in the West Indies, and a South African board.

2. STATISTICAL DATA

(a) NUMBER AND NATIONALITY OF NON-MINING FIRMS

Table V has been prepared on the basis of information about the principal European, Levantine and Indian non-mining firms contained in the *Nigeria Handbooks* for 1921, 1929, 1933, and 1936. The list is restricted to the enterprises which the compiler of the book (i.e. Chief Secretary's Office, Lagos) considered important enough to be included. No information is given as to what criterion was used for the inclusion or exclusion of companies.¹

¹ Reliable criteria might have been the amount of capital or labour employed, the annual turnover of purchases (for export) or sales, but it is to be doubted whether any such statistical criteria were used. It would not be surprising if the actual method used was merely the scanning of the list of registered companies by some official for the purpose of extracting companies which he thought important. Thus, if the official had not much knowledge of the northern provinces he would not know that such Greek firms as J. Menguissoglou, or such Levantine firms as G. Calil, Ferris George, A. J. Karouni, K. Maroun, Minaise Bros., S. Raccach were important firms. Their names are actually omitted from the lists.

The register of companies in Nigeria is in any case a very unreliable guide as the companies please themselves very much as to whether (a) they should trade and register their business in their own name (if they do not there would be under-registration) and (b), in case of amalgamations, they should cancel the registration of the absorbed company or keep it alive on the register (if the latter, there would be over-registration). Illustrative of practice (a) are the oil companies which have been carrying on activities for a long time in Nigeria, some of them, like the Shell Company having resident representatives who were technical advisers to the firms which acted as agents. Thus, the U.A.C. was the agent for the Shell Company. Lately, however, when the technical installations for handling the oil became more complicated and expensive, the oil companies were providing them directly and have for this purpose registered subsidiary companies in Nigeria; thus, the Shell Company of West Africa, the Texas Company (Overseas) Ltd., the Atlantic West Africa Company Ltd., the Socony Vacuum Oil Company (the last three having petrol bulk stores at Apapa) and the Oil Storage Company of Apapa Ltd. have lately come into existence. In the case of practically all these oil companies the registration meant no change of business at all. The registration was only a formality.

The cases of over-registration are probably more frequent and certainly more important than those of under-registration. The subsidiary nature of companies is clearly indicated by the fact that clerks at the European head offices are generally registered as the secretaries and directors. There are several reasons why parent companies wish to keep absorbed companies alive on the register though they are no longer subject to independent entrepreneurship. They are:—(a) It is very much more convenient to sue for outstanding debts in the name of the original company than in the name of the successor company. (b) The customers' attachment to the individuality of a trading firm (the so-called goodwill) is very valuable, especially in a primitive community where relationships always tend to be much more personal than in our rather impersonal type of society. (c) A company already in existence can be used for some new forms of business activity without the bother and trouble of new registration. (d) If the business is formally

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Needless to say, many important firms have come into existence or have disappeared since 1936.¹

The total of these principal European non-mining firms showed a decrease between 1921 and 1933 from 101 to 83, and started to increase again between 1933 and 1936, after the severe depression years of 1933 and 1934 had been overcome. It appears from Table V that all the British firms (pure British, Anglo-American, Anglo-French and Anglo-Italian firms) have decreased rapidly in numbers from 99 in 1921 to 43 in 1936, while all the non-British firms have increased very rapidly from two French companies in 1921 to 41 companies of eleven different nationalities in 1936. The number of non-British firms in 1936, i.e. 41, is only 2 less than the number of British firms in 1936, i.e. 43, but this does not mean that the British firms in Nigeria have declined in importance. The combined capital power and turnover of the British firms represents a much greater proportion of the total capital power and turnover of all firms in 1936 than in 1921. The decline in number of British firms is chiefly due to the fact that 17 big trading firms which were previously independent were absorbed by the two parent firms of the U.A.C. between 1921 and 1929.

The table also shows that of all non-British firms the German firms have increased most rapidly in number, but they began to grow only after 1924 when an Ordinance was passed permitting ex-enemy aliens to acquire interest in ex-enemy immovable property in the British Cameroons.² The Germans thereupon began to buy back their former plantations in the Cameroons which had been confiscated during the first world war.

and fictitiously kept alive as a separate entity, a semblance of competition can be maintained which companies desire for political and economic reasons. Some of these puppet firms are allowed a certain amount of sham—approaching sometimes even genuine—competition to this end. The government of Nigeria might well consider whether it is in the public interest that the identity of the entrepreneurial control of businesses should be concealed both from itself and from the public.

¹ Examples are: the Metal Containers of West Africa, Ltd., the Inland Transport and Supply Company, the Nigeria Printing and Publishing Company, Ltd. (Publishers of the *Daily Times*), etc.

² British Cameroons Ex-Enemy Immovable Property Disposal Ordinance, No. 220, 1924.

TABLE V

NATIONALITY OF PRINCIPAL INDEPENDENT EUROPEAN,
LEVANTINE AND INDIAN NON-MINING FIRMS

<i>Nationality of Firms</i>	<i>Number of Firms operating in</i>			
	<i>1921</i>	<i>1929</i>	<i>1933</i>	<i>1936</i>
British - - - -	94	64	40	38
Anglo-American - - - -	1	1	1	1
Anglo-French - - - -	1	—	—	—
Anglo-Greek - - - -	2	3	3	3
Anglo-Italian - - - -	1	1	1	1
All British Firms - - - -	99	69	45	43
American - - - -	—	1	1	1
Czechoslovak - - - -	—	1	1	1
Dutch - - - -	—	2	1	1
Dutch-German - - - -	—	—	1	3
French - - - -	3	8	9	8
German - - - -	—	10	14	16
Greek - - - -	—	—	3	1
Italian - - - -	—	—	2	4
Indian - - - -	—	—	2	2
Levantine - - - -	—	—	1	2
Norwegian - - - -	—	—	1	1
Swiss - - - -	—	—	2	1
All non-British Firms - - - -	3	22	38	41
Total Firms - - - -	102	91	83	84

Sources: *Nigeria Handbooks*, 1921, 1929, 1933 and 1936.

(b) FORMATION, LIQUIDATION AND AMALGAMATION OF FIRMS

Table VI is based upon the same source as Table V, and its figures are consistent with that table. It gives the type of business in which the principal European non-mining firms in Nigeria were engaged in the years 1921, 1929, 1933 and 1936. (See columns 2, 6, 10, 14). Nine different types of business activities have been distinguished. They are not mutually exclusive. The first classification 'trade only' includes pure importers, pure exporters and so-called two-way companies, i.e. firms engaged both in import and export trade.¹

¹ Examples of pure import firms are J. Christian & Co. (a Lancashire cotton firm importing textiles from Manchester), and the two Indian firms, Chanrai & Co. and Chellaram & Sons. Examples of pure export firms are Cocoa Manufacturers Ltd. (a subsidiary of Cadbury Bros., Fry & Sons and Rowntrees) and the English and Scottish Joint Co-operative Wholesale Society, both engaged in exporting cocoa.

TABLE VI
FORMATIONS, LIQUIDATIONS AND AMALGAMATIONS OF PRINCIPAL EUROPEAN NON-MINING
FIRMS IN NIGERIA

(CLASSIFIED ACCORDING TO INDUSTRIES)

Industrial classification of firms (1)	No. of firms operat- ing in 1921 (2)	Changes in the number of firms between 1921 and 1929			No. of firms operat- ing in 1929 (6)	Changes in the number of firms between 1929 and 1933			No. of firms operat- ing in 1933 (10)	Changes in the number of firms between 1933 and 1936			No. of firms operat- ing in 1936 (14)	
		Newly formed (3)	Liquid- ated (4)	Amalga- mated (5)		Newly formed (7)	Liquid- ated (8)	Amalga- mated (9)		Newly formed (11)	Liquid- ated (12)	Amalga- mated (13)		
1. Trade (only) - - -	88	20	48	1	59	24	17	18	48	10	12	0	46	1.
2. Plantations and trade - -	1	8	1	0	8	4	2	0	10	4	2	0	12	2.
3. Manufacturing and trade -	2	0	0	0	2	0	0	0	2	1	0	0	3	3.
4. Shipping and trade - - -	1	0	0	0	1	1	0	0	2	0	0	0	2	4.
5. Plantations, manufactur- ing, shipping and trade	0	0	0	0	0	1	0	0	1	0	0	0	1	5.
1-5. All trading firms (mixed and unmixed)	92	28	49	1	70	30	19	18	63	15	14	0	64	1-5.
6. Shipping (only) - - -	1	9	1	0	9	3	0	3	9	0	0	1	8	6.
7. Manufacturing (only) - -	5	3	2	0	6	3	3	0	6	1	0	0	7	7.
8. Banking and Insurance - -	2	3	0	0	5	0	0	1	4	0	0	0	4	8.
9. Professions - - - - -	2	0	1	0	1	0	0	0	1	0	0	0	1	9.
1-9. Total - - - - -	102	43	53	1	91	36	22	22	83	16	14	1	84	1-9.

Sources: Nigeria Handbooks, 1921, 1929, 1933 and 1936.

Note: The manufacturing activities referred to in rows 3, 5, and 7, include the provision of aerated waters, cigarettes and tobacco, building, ice, dry dock and engineering, transport, engineering, soap, singlets, publishing.

The second to the fifth classifications are really mixtures of trade with one or several other industrial activities. A few comments on these four mixed classes may be called for. Most German firms are engaged in plantations and trading.¹ The British-American Tobacco Company and the British Cotton Growing Association are engaged in manufacturing (mechanical processing) and trading.

John Holt & Co. is engaged in shipping and trade, and the U.A.C. is engaged in plantation manufacture, shipping and trading.²

The trading firms import and export, partly on their own accounts and partly for other firms, that is they act both as principals and as consignment agents for other principals. As export agents they handle exports, such as rubber, on commission, and as import agents they import chiefly textiles from Lancashire manufacturers. In the import trade some firms prefer to concentrate on wholesale, others on retail trade. Holt's, for instance, is mainly a wholesale firm; Paterson, Zochonis & Co. are retailers to a larger extent than the other major two-way trading companies.

It will be seen that the number of pure trading firms has been almost halved between 1921, when there were 88, and 1936, when there were 46. The only increase in the mixed trading firms is in the group 'plantations and trade' which increased from one firm operating in 1921 to 12 operating in 1936. The (horizontal) row, giving all trading firms, mixed and un-mixed, which summarises the first five rows, allows a convenient examination of the rate at which trading firms were formed and dissolved.

The big shipping firms about which information is contained in row 6 do not contribute much directly to the national income of Nigeria. After war-time control of shipping disappeared in 1919, the number of shipping firms calling at Nigerian ports increased. Row 7, showing manufacturing firms only, is remarkable both because, between 1929 and 1933, half the companies were newly formed, replacing the half which had been dissolved, and because the number involved is so very low between 1921 and 1936. The firms included are engaged in the production of aerated waters, timber, building, dry docks and engineering and motor repairs.

¹ The Custodian of Enemy Property was in control of 21 German plantations in 1942 (*Report of the Labour Inspectorate, 1942*). The total acreage was 239,814, of which only 36,618 acres were cultivated: they employed 14,975 natives. The Custodian reports with justifiable pride that a European supervisory staff comprising only 22 persons reached a higher output in 1942 than the 200 odd German supervisory staff before the war.

² These two companies are the two largest non-mining companies operating in Nigeria. A special section below is devoted to the U.A.C. Owing to lack of material, it has been unfortunately impossible to devote a chapter equally to John Holt & Co., a company which is in many ways remarkable. It is a family business, now in the third generation, and established in West Africa for over ninety years. The six directors are all members of the family and each is a working manager. All the shares are held by the Holt family.

The banking and insurance firms include, apart from the Bank of British West Africa and Barclays Bank (D.C. & O.), the two British insurance companies, General Accident, Fire and Life Assurance and Royal Exchange Assurance, and the Hamburg Assurance Association.

The professional enterprises referred to in row 9 are the Hope-Waddell Institute at Calabar and a French syndicate for the study of equatorial forests which ceased to operate between 1921 and 1929.

The significant fact brought out by this table is the rate of formation and dissolution of the extra-territorial non-mining firms. It is not only an indication of the degree of risk of any non-mining enterprise, but also an indication of monopolistic¹ and monopsonistic¹ tendencies commented upon below. Table VI permits the inference that altogether 197 independent non-mining firms existed at one time or another during the period 1921 to 1936,² but only 14 firms had an unbroken independent existence from 1921 to 1936 inclusive.³

There were, therefore, 183 firms which existed for only part of the period 1921-1936, that is more than thirteen times as many as had an independent unbroken existence. These 183 firms either came into existence after 1921 or were liquidated or amalgamated by 1936. Of the 14 firms with an unbroken, independent existence, G. Gottschalck & Co., has been taken over by the U.A.C. since the outbreak of the second world war. Thus, the number of principal European non-mining firms with an unbroken independent existence from 1921 to 1943 inclusive comprises only 13 firms. This is very startling evidence of the high rates of formation, liquidation and amalgamation of European non-mining firms in Nigeria.

¹ Monopoly (*monos*, alone; *polein*, to sell) denotes a market situation where there is only one seller (either one firm or a group of firms acting under a single direction) and monopsony (*opsoncin*, to go to the market to buy) denotes a market situation where there is only one buyer (again either one firm or a group of firms acting under a single direction).

² This number is obtained by adding columns 2, 3, 7 and 11 in the last row.

³ These firms are:

1. Ambrosini Ltd., Trader.
2. Bank of British West Africa.
3. Barclays Bank (D.C. & O.).
4. British-American Tobacco Company, Manufacturing and Trading.
5. British Cotton Growing Association.
6. British West African Timber Company.
7. Church Missionary Society Bookshops.
8. Compagnie Française de L'Afrique Occidentale.
9. Co-operative Wholesale Society, Exporter.
10. Gottschalck, G., Trader.
11. Holt, John & Co., Shipping and Trade.
12. Hope-Waddell Institute, Professional.
13. London and Kano Trading Company, Trader.
14. Paterson, Zochonis & Co., Ltd., Trader.

(c) AREAS OF OPERATION OF PRINCIPAL FIRMS

The principal European non-mining firms in Nigeria do not all cover the same area. The following table classifies the 84 non-mining firms in existence in 1936 according to the main area of operation.¹

TABLE VII

 AREA OF OPERATION OF PRINCIPAL INDEPENDENT
 EUROPEAN NON-MINING FIRMS IN 1936

In Lagos only (including Apapa)	-	-	-	-	23 principal firms
In southern provinces only (including Lagos, Onitsha and Enugu)	-	-	-	-	28 " "
In northern provinces only	-	-	-	-	4 " "
In Cameroons only	-	-	-	-	11 " "
In all parts of Nigeria	-	-	-	-	18 " "
					84 " "

It will be noticed that the greater number of firms operates in Lagos and in the southern provinces, i.e. 51 firms altogether. The 18 firms which operate in all parts of Nigeria, however, are the most important firms from the point of view of capital employed and volume of trade.

Most of those firms which operate in all parts of Nigeria, (e.g. the U.A.C., John Holt & Co., Paterson, Zochonis & Company, etc.) also operate in neighbouring colonies.

(d) CAPITAL EMPLOYED BY EUROPEAN EXTRA-TERRITORIAL ENTERPRISES

Professor S. Herbert Frankel estimated in *Capital Investment in Africa* the total amount of external investments in Nigeria between 1870 and 1936. This is a cumulative total of all new capital which, presumably, has entered Nigeria between 1870 and 1936 without making provision for depreciation. The figures given by Frankel² are as follows:

				£
Public listed ³ capital ⁴	-	-	-	34,721,000
Private " " ⁵	-	-	-	36,790,000
Non-listed " "	-	-	-	3,576,000
				75,087,000

¹ *Nigeria Handbook*, 1936, pp. 367-69.

² Frankel, S. H., *Capital Investment in Africa*, 1938, pp. 158-159.

³ The term 'listed capital' refers to such issues to the general public as are listed on the Stock Exchange or in the financial press. It comprises both equity and loan capital. The term 'public capital' refers to public loans raised by the government and other public bodies and the term 'private capital' refers to capital raised by private business. All of this capital (except a small fraction which was advanced by the United Kingdom government) came from private investors, chiefly in the United Kingdom.

⁴ This figure excludes public listed capital obtained in 1936.

⁵ Includes capital invested not only in Nigeria, but in other West African territories by such companies as John Holt & Co., African and Eastern Trade Corporation, Ltd. and the U.A.C., etc.

The figures reveal that private capital has supplied in the neighbourhood of £40.3 million or 53½ per cent of all external capital invested between 1870 and 1936 in Nigeria.¹ Considering that there was no restriction on private investment this is a small percentage.²

The Commission on the Marketing of West African Cocoa states³ that the total capital expended in Nigeria by the existing trading firms was £13,000,000, of which 72 per cent, or about £9,400,000, was invested in produce business. Professor Hancock quotes the following items of which this total was composed:⁴

	£
Merchandising trade (i.e. import trade) - - - -	7,834,498
Produce trade (i.e. export trade) - - - -	5,245,638
	13,080,136 ⁵

The following is an estimate of the capital employed in the two-way trading sector of the Nigerian activities of the U.A.C.⁶

¹ This percentage is somewhat overstated as probably £2 million of the private listed capital of the U.A.C. (and one of its forerunners) and of John Holt and a few other firms, though invested outside Nigeria, is wrongly included in the Nigerian private listed capital.

² If the paid up capital of British companies were expressed as a percentage of the sum of such capital plus public loans (national plus local debts) a much lower percentage would be obtained, e.g. 37.4 per cent for December, 1933. But such comparison would be misleading for two reasons: (a) the Nigerian company capital is practically all the business capital there is, while British company capital is only a fraction of total business capital; (b) the Nigerian public loans represent tangible property (loans for the redemption of old loans were omitted by Frankel), while British public loans represent chiefly unproductive war expenditure and only little tangible property (such as ordnance factories, naval harbours, local utilities, etc.). Comparability would exist only if total British business capital (of companies, partnerships, sole proprietorships, co-operative societies, etc.) were compared with Nigerian company capital and Nigerian public loans with tangible property financed out of public loans in the U.K. An estimate for 1932 to 1935 along such lines yielded a figure of 72.8 per cent as the percentage ratio of private business capital to the sum total of private business capital and local and central government property. For the sake of complete comparability this percentage requires to be raised as only a portion of British public property was actually financed out of loans.

³ *Cocoa Commission Report*, p. 48, footnote.

⁴ Hancock, p. 220, footnote 1.

⁵ Though the two totals agree the two subdivisions are entirely contradictory.

⁶ Excluding fixed and semi-fixed assets owned by subsidiary companies of the U.A.C.

	<i>Sept. 30th</i> 1938	<i>Aug. 31st</i> 1939
	£	£
Fixed and semi-fixed assets - - - - -	763,000	755,000
Floating assets - - - - -	3,637,000	2,532,000
	<u>4,400,000</u>	<u>3,287,000</u>

These figures exclude all shipping, manufacturing plant, cold storage plant and plantations, in fact all assets which have not strictly to do with buying of produce and selling of imports. Moody's Economist Service sheet gives a figure for land, buildings, plantations and plant owned by the whole of the U.A.C. everywhere on the 30th September, 1938, namely £1,597,000. If this figure is compared with the above estimate, it appears that the fixed assets employed merely in trading in Nigeria, amount to almost exactly one half of all the fixed assets owned by the company in all lines of business everywhere in 1938.

It appears from information obtained that the fixed and floating assets used by John Holt in Nigeria amount to about £1,500,000 (the company employed £500,000 in the Gold Coast). Other trading companies having a capital of less than one million pounds and operating in Nigeria are the Compagnie Française de l'Afrique Occidentale and Société Commerciale de l'Ouest Africain and Cocoa Manufacturers Ltd., (which is a joint company of Cadbury Bros., John Fry & Sons, and Rowntrees), and employ about £130,000 of capital in the Gold Coast and £15,000 in Nigeria.

(e) SHARE OF EUROPEAN ENTERPRISES IN EXPORTS AND IMPORTS

An idea of the relative importance of the various European trading companies within total Nigerian trade can best be obtained by enumerating the export quotas which were assigned by the government to the leading exporters during the second world war. The export quotas of shippers licensed to buy produce in Nigeria fixed by the West African Produce Control Board for 1943-44 are shown in Table VIII for the five products which are under the control of the Board. The licensed firms have been subdivided into four groups according to nationality. There are 13 European firms exclusive of Greeks, 5 Greek firms, 8 Levantine firms and 2 African firms engaged in the buying of all, or some of the five products. There are only 3 firms buying all the five products, i.e. the Compagnie Française de l'Afrique Occidentale, John Holt & Co., and and the U.A.C. A further 2 firms buy four products, i.e. G. B. Ollivant and Paterson, Zochonis. The remaining firms buy three products or less.

The table shows the preponderance of the U.A.C., especially if it is remembered that it controls also the produce buying of G. B. Ollivant. The total quotas controlled by the U.A.C. are shown in a separate row and it is apparent that it controls about three-quarters of palm-oil pur-

TABLE VIII

EXPORT QUOTAS OF SHIPPERS LICENSED TO BUY PRODUCE

Export Commodities	Nationality	Palm- oil	Palm- kernel	Cocoa		Ground-nuts Niger and Bénue River Area	Benni- seed
		Lagos Benin Area	Calabar and Victoria Area	Season 1943/44	Season 1943/44	Season 1943/44	Season 1943/44
Period for which Quotas are valid		21/1/44 to 28/12/44	Season 1943/44	Season 1943/44	Season 1943/44	Season 1943/44	Season 1943/44
Names of Shippers	Nationality	Percentage Quotas					
(A) European (other than Greek)							
1. Brit. W. African Timber Co.	British	·08	·28	—	—	—	—
2. Cocoa Manufacturers Ltd.	"	—	—	13·51	—	—	—
3. Compagnie Française de l'Afrique Occidentale	French	4·01	6·54	4·61	—	6·24	3·94 ¹
4. E. & S. Joint C.W.S. Ltd.	British	3·20	2·39	·94	—	—	—
5. Griffiths, W. E., & Co. Ltd.	"	1·39	·35	—	—	—	—
6. Holt, J., Ltd.	"	5·04	11·56	13·03	12·09	4·76	28·94*
7. London & Africa Overseas Ltd.	"	—	·82	2·55	—	—	—
8. London & Kano Trading Co.	"	—	—	—	—	6·07	—
9. Ollivant, G. B., Ltd.	"	8·14	8·02	10·02	3·46	5·60	—
10. Paterson, Zochonis & Co. Ltd.	"	4·45	7·37	6·81	—	3·94	—
11. Société Commerciale de l'Ouest Africain	French	7·37	4·47	2·11	—	·93	—
12. Union Trading Co. Ltd.	Swiss	·12	1·26	3·15	—	—	—
13. United Africa Company	British	65·68	54·87	37·51	84·45	40·77	71·06*
TOTAL EUROPEAN QUOTAS		99·48	97·93	94·24	100·00	68·31	100·00
Companies controlled by U.A.C. (9 and 13)		73·82	62·89	47·53	87·91	46·37	71·06
(B) Greek:							
1. Logios, T. A.	Greek	·44	—	—	—	—	—
2. Mandrides, C. S.	"	·04	·17	—	—	—	—
3. Mandrides, P. S.	"	·04	·07	—	—	2·12	—
4. Menguisoglou, J.	"	—	—	—	—	·94	—
5. Thomopoulos, S.	"	—	1·03	940 tons	—	—	—
TOTAL GREEK QUOTAS		·52	1·27	940 tons	0·00	3·06	0·00
(C) Other Levantine:							
1. Calil, G.	Levantine	—	—	—	—	1·10	—
2. George, Ferris	"	—	—	—	—	4·41	—
3. Flionis Bros.	"	—	·33	500 tons	—	—	—
4. Karouni, A. J.	"	—	—	—	—	·70	—
5. Maroun, K.	"	—	—	—	—	4·63	—
6. Minaise Bros.	"	—	—	—	—	·17	—
7. Raccah, Saul	"	—	—	—	—	17·62	—
8. Zard, C., & Co. Ltd.	"	—	—	5·76	—	—	—
TOTAL OTHER LEVANTINE QUOTAS		0·00	·33	5·76 and 500 tons	0·00	28·63	0·00
(D) African:							
1. Odutoia Bros.	African	—	·31	330 tons	—	—	—
2. Union Development Trading Co.	"	—	·16	730 tons	—	—	—
TOTAL AFRICAN QUOTAS		0·00	·47	1060 tons	0·00	0·00	—

Sources: West African Produce Control Board, Memoranda to Shippers Concerning Produce Control Schemes.

* Percentages based on actual exports during the 1943/44 season.

chases, two-thirds of palm-kernel purchases, just less than half of the total cocoa and ground-nut purchases and 56 per cent of total benniseed purchases. In the Calabar and Victoria areas, the U.A.C. controls 88 per cent of all cocoa purchases. The remainder is bought by John Holt & Co. These two firms constitute a regular duopoly in that cocoa market. The order of importance of firms after the U.A.C. is probably as follows: John Holt & Co., G. B. Ollivant, Paterson, Zochonis, Compagnie Française de l'Afrique Occidentale, Société Commerciale de l'Ouest Africain and Cocoa Manufacturers Ltd.

Of the Greek firms, P. S. Mandrides seems to be the biggest, followed by S. Thomopoulos. Among the Levantine firms Saul Raccah is outstanding, followed by K. Maroun and Ferris George. The two African firms, Odutola Bros. and Union Development Trading Company, seem to be rather unimportant.

Some indication of the relative importance of the European, Indian and Levantine firms in the retail trade with imported commodities inside Nigeria can be obtained from the list of companies which the Food Controller of Nigeria used for the rationing scheme under the Food Control (Registration of Rationed Commodities) Order, 1943, to the exclusion of all other firms. The companies in question are U.A.C. and its new subsidiary, G. B. Ollivant, John Holt & Co., Paterson, Zochonis & Co., Compagnie Française de l'Afrique Occidentale, Société Commerciale de l'Ouest Africain and the Swiss Union Trading Co., the Indian firm, K. Chellaram & Sons, and the two Syrian firms, Oriental Provision Store, Lagos and General Provision Store, Ibadan. By implication these firms handle the whole retail trade and petty wholesale trade (sale to African stores) of imported and home produced foodstuffs chiefly for European consumption (such as dried milk, flour, butter). In so far as they may also be presumed to have a similar importance in the non-food retail and petty wholesale trade, the retail trade in all European types of commodities of all the other firms must be considered to be of little importance.

The relative importance of extra-territorial companies within the Nigerian economy could best be appreciated by comparing (a) the total capital owned by extra-territorial companies in Nigeria with the national capital of Nigeria and (b) the local incomes generated by extra-territorial businesses with the whole home-generated national income of Nigeria. A calculation of the national capital yields the following figures:

		£
Outstanding capital owned by extra-territorial firms -	-	20,000,000
Outstanding capital owned by the government -	-	23,000,000
Land, buildings and implements owned by Africans -	-	36,000,000
Total	-	79,000,000

The ratio of the capital owned by extra-territorial firms to the total national capital is therefore roughly 25 per cent.

The annual income generated by extra-territorial (mining and non-mining) businesses inside Nigeria can be roughly estimated on an average for the years 1934-38 as follows:

Export duties (average 1934-38)	- - - - -	£ 400,000
Royalties and other mining revenue (average 1934-38)	- - - - -	200,000
Profits and interest on mines (approximate)	- - - - -	400,000
Profits on export and import trade ¹	- - - - -	1,200,000
Profits on other extra-territorial businesses	- - - - -	200,000
Salaries of 3,000 white employees at £575 p.a. per head	- - - - -	1,700,000
Wages of about 100,000 Africans at £14 p.a. per head ²	- - - - -	1,400,000
		<hr/>
		5,500,000

The total home-generated income may be put provisionally at £40 to £50 million. Thus, the ratio of incomes generated inside extra-territorial enterprises to total home-generated income may vary between 11.0 per cent and 13.8 per cent.

3. THE UNITED AFRICA COMPANY

(a) EXTENT OF INTERESTS OF THE U.A.C.

The U.A.C. has obvious claims to attention in the study now being attempted as it holds a predominant position among all the extra-territorial non-mining enterprises with which this chapter is concerned. On the whole the U.A.C. may probably be responsible for about 41.3 per

¹ It was assumed that the non-mining companies earned 2½ per cent and 7½ per cent on the quadrennial average of £14 million of exports and £11 million of imports respectively.

² The figures for the number of employees and the wage rates were taken from the *Blue Book, 1938*, supplemented by the inclusion of about 4,400 labourers employed by the commercial firms in the Colony. (This figure was derived from information contained in *Report of the Cost of Living Committee, Lagos, (Crown Agents), 1942*, pp. 89, 111, 112. In all cases where a range of wages was given, the average wage for each industry was calculated according to the formula:

$$\text{average wage} = \text{lower limit of range plus } (.228 \times \text{range}).$$

The coefficient of .228 was derived from the distribution of rates of earnings of labourers employed by the Lagos township and those of casual workers employed by commercial firms in Lagos respectively which are given in Appendices B and D (p. 110 and p. 112) of the report referred to above. In these frequency distributions the ratio

$$\frac{(\text{average wage} - \text{lower limit of range})}{(\text{upper limit} - \text{lower limit of range})}$$

was .227 and .229 respectively. This is no coincidence but the result of the Pareto law of the distribution of incomes.

cent of the total import and export trade of Nigeria.¹ It has large wholesaling and retailing establishments, chiefly run by subsidiaries, such as Lagos Stores, Ltd.; it runs various processing plants connected with the export business, such as the bulking plants² for palm-oil, the clarified butter factories at Jos and Kano, a biltong factory at Kano, a sawmill at Sapele, probably the biggest in West Africa, where about thirteen species of timber are exploited and where plywood is now made.

The U.A.C. has acquired long leases for some 12,400 acres of rubber and palm-oil plantations in the southern provinces.³ These plantations are situated at Ikot Mbo in the Calabar province and at Aja Gbodudu in Warri province. Rubber, palm-oil, and palm-kernels are produced at Ikot Mbo, palm-oil and palm-kernels at Aja Gbodudu. The U.A.C. also bought in the British Cameroons land which was alienated under the former German rule⁴ and sold by the Custodian of Enemy Property in 1925. The chief U.A.C. plantation in the Cameroons is N'Dian covering 7,000 acres,⁵ where chiefly palm-oil and palm-kernels are produced. Since the outbreak of war in 1939, rice and potatoes were also grown on all these plantations. Of the total land leased to non-Africans and Africans in the southern and northern provinces of Nigeria, amounting to, roughly, 16,600 acres in 1939,⁶ the above-mentioned U.A.C. leases cover roughly 75 per cent. If the total land leased and owned by the U.A.C., i.e. at least 19,400

¹ This percentage has been calculated as follows:

The total exports controlled by the U.A.C. of palm-oil, palm-kernels, cocoa, and ground-nuts during the three pre-war years 1936 to 1938 inclusive were calculated on the basis of the percentage-quotas shown in Table VIII. The following figures were obtained:

Palm-oil	-	-	£4,007,756
Palm-kernels	-	-	£5,945,293
Cocoa	-	-	£3,432,364
Ground-nuts	-	-	£3,807,500

£17,192,913

This total forms 56·71 per cent of total exports of the four commodities during these three years. It was assumed that the U.A.C. controlled a similar percentage of the total exports of all non-mineral commodities during the three years, i.e. 56·71 per cent of £36,998,000 = £20,982,000. It was further assumed that the U.A.C. imported about $\frac{1}{4}$ of the total imports during 1936 to 1938, i.e. $\frac{1}{4}$ of £34,087,000 = £11,362,000. The U.A.C. share of total Nigerian trade during the three years was then £32,344,000 out of £78,301,000 or 41·3 per cent.

² All bulk oil plants for palm-oil in Nigeria are owned by the U.A.C. They are situated at Lagos, Koko, Burutu, Abonema, Port Harcourt, Opobo, and Calabar.

³ Hailey, p. 770.

⁴ When the German estates covering 258,000 acres were auctioned in London in 1925, only 19,053 acres were purchased by British firms. *Ibid.*, p. 775.

⁵ Orde Browne, p. 74.

⁶ The *Blue Book*, 1930, gives the frequency distribution of the holdings leased to non-Africans and Africans on 31st December, 1930; 908 of these holdings were under 10 acres, 21 from 11-50 acres, and 7 over 50 acres.

acres, is compared with the total land alienated or leased in both Nigeria and the British Cameroons, the U.A.C. share is only 5.5 per cent.¹

The U.A.C. also runs some manufacturing establishments, such as a singlet factory in Lagos, and some engineering services, especially for motors.² It owns the only cold storage plant in Nigeria and apparently controls the West African Publicity, Ltd. The company also owns lighterage, coasting and river services in Nigeria.³

In all its Nigerian businesses, including the subsidiaries, the U.A.C. employed about 335 European officers in 1936 but, owing to recruitment and other war-time conditions, only 260 in 1943.

(b) DEVELOPMENT OF THE U.A.C. AFTER THE FIRST WORLD WAR

The salient facts of the economic history of the Niger Company, the parent of the U.A.C., prior to 1919 are quickly told. In 1879 a merger of several British companies was effected known as United Africa Company. On obtaining a charter from the British Government in 1886, it changed its name to Royal Niger Company. It was responsible for administration within the sphere of its operations, but the task of opening up Northern Nigeria and of warding off French pressure on the western frontier proved too large for a trading company. The monopolistic practices of the firm made another factor which induced the British government to revoke the charter in 1899, compensating the company for its administrative expenditure by a capital payment and by a promise of a half share in any future government revenue from mining. The Niger Company subsequently devoted its energies to the development of the tinfields, but after

¹ The *Annual Report on the Social and Economic Progress of the People of Nigeria, 1938*, p. 36, states that there were 334,720 acres of plantation land in the Cameroons, of which in 1942 the Custodian of Enemy Property controlled 239,800 acres, or 71.6 per cent. (See the *Report of the Department of Labour, 1942*, p. 9.) Some 95,000 acres, or 28.4 per cent, are therefore held by firms of British and allied nationality. The total land alienated or leased in both Nigeria and the British Cameroons amounted to about 351,290 acres.

² The West African Soap Co. Ltd. at Apapa is not a U.A.C. subsidiary but, like the U.A.C., is owned by Unilever and Lever Bros. It was established in 1924 and rebuilt in 1929, employs some 70 people and produces laundry bar soap. It buys its palm-oil and palm-kernels exclusively from the U.A.C. The relation between both companies is, therefore, close.

³ No figures for the number of these craft exclusively used in Nigeria are available. In the whole area of its operations from Dakar to the Belgian Congo, the Company has bought or built, between 1932 and 1939, 548 river or coastal craft, ranging from very small craft to large river steamers, which either replaced old craft or were added to existing stock. In addition, the Company's fleet of fourteen modern cargo vessels, each of about 13,000 tons dead weight, and two tankers, which transport palm-oil in bulk, call at Nigerian ports. (Information derived from a speech by Lt.-Col. E. H. A. Beddington, Vice-Chairman of the U.A.C., March 23rd, 1939.)

1910 was content to encourage other companies to develop the tin-mining industry.

After the first world war, the two chief competitors of the Niger Company in Nigeria, i.e. Miller Brothers and F. A. Swanzy, combined in 1919 with a third company known as the African Association and a number of smaller firms to form the African and Eastern Trade Corporation Ltd. (A. & E.T.C.). The issued capital of the new corporation was £6,000,000 (the capital of the Niger Company being £10,000,000). There were thus two firms of outstanding importance and great financial resources in the field. The outcome of their struggle could only be either voluntary amalgamation or the supremacy of one of them.

Lever Brothers entered the Nigerian scene in 1920. They paid £8,500,000 for the purchase of the assets of the Niger Company in 1920, the shares being bought at a premium of 550 per cent, i.e. at 6.5 times their nominal value. The Niger Company possessed a great advantage over other companies after this acquisition; it had a two-way produce agreement with Levers, so that, on the one hand, it had the right, if Lever Brothers were in the market to buy, to sell all the produce it had bought to Lever Brothers at the ruling market price, and, on the other hand, if Lever Brothers wanted to buy direct from the Niger Company instead of via the market, the company was obliged to sell to Lever Brothers all they offered to the market. In addition, the Niger Company was in a formidable position *vis-à-vis* its rivals because it possessed its own fleet. Thus, when the shipping companies serving West Africa combined to raise the freight rates against the exporters of West African produce, the Niger Company did not suffer from a similar increase of its transportation costs.

At the time of acquiring the Niger Company, Lever Brothers made an attempt to bring about amalgamation with the African and Eastern Trade Corporation, but the attempt did not succeed. In the period up to 1929 when the amalgamation finally took place, however, the firms concerned continued to expand at the expense of smaller ones; there were many companies which could not stand the aggressive competitive policy which both the Niger Company and the African and Eastern Trade Corporation pursued towards them. When the weak companies were at the point of failure, they had to sell out to one of the two big companies.

In April, 1929, the United Africa Company Ltd. was formed to acquire the entire trading assets of the African and Eastern Trade Corporation Ltd. and the Niger Company. It also acquired the West African interests of the Margarine Union Ltd. and of the N. V. Margarine Unie, the former firm being known after reconstitution as Lever Brothers and Unilever Ltd. and the latter as Lever Brothers and Unilever N. V. The U.A.C. owns all the shares of some 37 companies and the controlling interest in about 20 others. Most of the directors of most of these subsidiaries of the U.A.C. are entirely under the direction and control of the U.A.C. directors and general

managers on the Coast. Only those of the subsidiaries which have a large public shareholding have directors of standing, but they too naturally take their instructions from the U.A.C. The area of operation of the 37 companies lies chiefly between the Belgian Congo and Dakar and it includes some firms which were originally French or Belgian as well as British. But the company operates also in East Africa, Syria, Mesopotamia and Turkey. At the time of its formation, the issued share capital was stated to be £15,713,600.

It was assumed in 1929 that the Niger Company and A. and E.T.C. had brought an equal amount of capital into the business. Consequently half of all the issued share capital, i.e. £7,856,800, was assigned to the Niger Company and an equal amount to the A. & E.T.C. In 1931 a re-valuation of the assets was undertaken. It was found that the true worth of the assets was in the neighbourhood of £8 million. The difference was partly due to destruction of capital value through the depression,¹ but partly due to the fact that the assets of the A. & E.T.C. appear to have been over-estimated in 1929. The Niger Company had pursued a policy of rigorous depreciation while the A. & E.T.C. was apparently less pessimistic in its valuation policy. A balance sheet value of £11 million was decided to make a settlement between the two parent companies easier. But the difficulties did not end there. The U.A.C. owed about £3 million to the banks at that time. Either the board of the U.A.C. or that of Lever Brothers decided that the U.A.C. could not go on owing this sum. The shareholders of the A. & E.T.C. were asked to put up one half and Lever Brothers was willing to put up the other half of the £3 million. But the shareholders of the A. & E.T.C. were unable to comply with this request. Lever Brothers alone had to find the whole of the £3 million.

The financial situation was now as follows:

Lever Brothers had brought to the company about £7·8 million trading assets and added £3 million money capital in 1931-32. The A. & E.T.C. had contributed assets worth considerably less than £7·8 million. As a result of negotiations, a redistribution of the share capital took place in the accounting year 1931-32. Lever's share was increased from 50 per cent to 80 per cent and the share of the A. & E.T.C. was reduced from 50 per cent to 20 per cent. Accordingly, the *Stock Exchange Year Book* for 1939 records that 80 per cent of the U.A.C. is owned by the Niger Company and 20 per cent by the A. & E.T.C. Actually a few years after this settlement Lever Brothers made an offer to the shareholders of the A. & E.T.C. and bought them out. Thus, both the Niger Company and the A. & E.T.C. are controlled by Lever Brothers and Unilever to-day. The U.A.C. is but a branch of Lever Brothers and Unilever.

The business interests of the U.A.C. outlined above naturally coincide

¹ The imports had declined from £12·6 million in 1930 to £6·5 million in 1931 and the exports from £15·0 million to £8·8 million.

with those of the parent company, Lever Brothers and Unilever Ltd. The parent company operated with an issued capital of £69.6 million in 1943,¹ of which the U.A.C. accounted for a little more than one sixth. The U.A.C. transacts about 80 per cent of the total business of the (British) Lever Brothers and Unilever Ltd. in the British crown colonies. As mentioned above, the British and Dutch oil, margarine and soap interests reconstituted themselves on January 1st, 1937, as the (British) Lever Brothers and Unilever Ltd., controlling (since December, 1939) all the assets in the British and French empires and the (Dutch) Lever Brothers and Unilever N.V. controlling all the assets in the rest of the world. The two companies are interlocked in two ways. The (British) United Holdings holds half of the deferred stock of the (British) Lever Brothers and Unilever Ltd. and 1,200 ordinary shares of the (Dutch) Lever Brothers and Unilever N.V., thereby holding a controlling interest in both the British and Dutch companies. The (Dutch) Overseas Holdings (Proprietary) Ltd. holds exactly the same controlling interest in both the British and Dutch Companies. Moreover, the board of directors of the (British) Lever Brothers and Unilever Ltd. includes Dutchmen, Czechoslovaks and other continentals from the Dutch sister company and the (Dutch) Lever Brothers and Unilever N.V. includes Englishmen from the British counterpart. Thus the business interests of the U.A.C. must be conceived of as merely a section of the combined business interests of both the British and Dutch sister companies.

Between 1929 and the outbreak of the second world war the U.A.C. either engaged in competition with its rivals or succeeded in making agreements with them concerning the prices of imported goods or the prices and quantities of export goods and the areas of operation. The French companies which had never been a party to an agreement before 1930 finally entered the circle in that year. All the time, the number of competitors was reduced by liquidations and amalgamations; thus the Swiss firms of Guedan Frères and Weiberl went out of business in 1936.

(c) THE U.A.C.'S SHARE IN GOVERNMENT MINING REVENUE

The cumulative total of the share of the government mining revenue received by the Niger Company (and the U.A.C. as its successor) between 1906 and 1944 was in the neighbourhood of £2½ million.

The Secretary of State has provided the following information to the Fabian Colonial Bureau concerning the nature of the amounts paid to the Niger Company or its successors or assigns.²

'On the revocation of the charter of the Royal Niger Co. in 1900 one of the conditions under which the rights and the possessions of the

¹ The information about Lever Brothers and Unilever Ltd. is derived from the *Stock Exchange Year Book*, 1943.

² Fabian Colonial Bureau, *Supplementary Information Sheet*, April 1943.

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company were transferred to the Crown was that the company or its assigns should receive for a period of 99 years one half of the mining revenue derived from the imposition of:

- (1) a royalty or percentage on the gross value of the output or the exports or
- (2) a tax on mining profits or
- (3) fees for the granting of licences to prospect or mine over that area of the present Northern Provinces bounded on the west by the river Niger and on the east by a line running direct from Yola to Zinder.
- (4) The company also derives a half share of mineral rents accruing from exclusive prospecting licences, mining rights and mining leases.¹

At the time when the Bill for the revocation of the charter of the Royal Niger Company was discussed in Parliament, the opinion was voiced that the compensation paid to the successors of the Royal Niger Company was excessive. The result of the settlement was unforeseeable as nobody could know in 1899 and 1900 what the mining revenue of the government of Nigeria would be for the next 99 years. If the share in the mining revenue continues to be paid, difficult problems are likely to arise. Some awkward problems have already arisen, which have affected the relationship between the Nigerian government and the U.A.C. It would probably be in the best interests of the U.A.C. and the Nigerian government to explore the situation afresh. The directors of the U.A.C. would probably not be unwilling to receive a compensation for surrendering the right to half the mining revenue of the Nigerian government, but it would depend, of course, on the amount offered. Whether any attempt will be made by the British government to alter the existing arrangement cannot, of course, be predicted, but the following considerations, which might prompt them to do so, readily suggest themselves:

(i) At the date of the revocation the settlement was a gamble as the total outlay up to 1899 of the Niger Company for mere administrative purposes¹ and the compensation for it, i.e. the half share in the future mining revenue of the Nigerian government, could only be guessed. As the mining revenue proved to be larger than anticipated by either party, especially by the Chancellor of the Exchequer, the settlement made in

¹ Some expenditure, e.g. on the military or on courts, is clearly administrative; but there is much expenditure which may be both administrative and commercial. Examples are among others: a road built exclusively to bring mining products to the Benue; a large police escort or armed carriers for a trader; an agent who spied upon the French as much for military as for commercial reasons; a stockade around a trading station as much a protection against wild animals as against attacking Nigerians; the large staff at such a trading station used for fighting and trading; the presents to emirs to induce them to make political treaties as well as commercial concessions, etc.

good faith on both sides calls for a revision on moral grounds. If no revision takes place, it might be difficult for the U.A.C. to dissuade the government from engaging in practices outlined under (iv) below.

(ii) If the Nigerian government should inaugurate a policy of conserving its tin or other mineral resources, so as to benefit Nigeria in the event of a possible future world scarcity of such resources, a conflict of interest between the U.A.C. and the Nigerian government would be inevitable.¹ Both parties would greatly deplore this conflict, but would have to fight it out, causing needless ill-feeling.

(iii) The view is apparently held in government circles that the U.A.C. should not be entitled to claim half the mining revenue without having contributed towards the cost incurred by the government to produce that mining revenue. In particular, it may be held that the U.A.C. should pay half the cost of the geological survey of the area from which it derives its half share, of the Mining Department, of the railway deficit on the lines which were specially constructed for the mining industry and of collecting the mining revenue and some other minor items.

(iv) The government of Nigeria, being a government of a very poor colony, cannot be blamed if it tries to find ways and means for reducing the annual payments which the U.A.C. receives from it. The most obvious method of reducing the share of the U.A.C. in mining revenue is to reduce that part of the government revenue from mining of which the U.A.C. receives a half share, while more than recouping the loss by increasing that part of the government revenue from mining of which the U.A.C. receives no share. Thus, the rates of royalty,² export duty and tax on mining, the fees for prospecting licences, mining leases and rights of which U.A.C. receives a share, can be kept low, but survey fees and railway freights³ can be raised, and import duties on mining machinery imposed.

(v) Finally, it might be considered rather ignominious for any government to have some of its revenue hypothecated for the benefit of a company under its own jurisdiction.

4. ECONOMIC BEHAVIOUR OF EXTRA-TERRITORIAL ENTERPRISES

Extra-territorial companies have grown up in Nigeria as in other colonies for three reasons: Nigeria could not supply the entrepreneurship,

¹ For the shareholders of the U.A.C. could not afford to postpone the earning of part of their profit for so long and would be afraid that new substitutes for tin, etc., in most of their uses might be found in future, greatly depreciating its value.

² The royalties can be reduced both by lowering the percentages of the London price which is payable as royalty and by calculating a low quarterly London price. The *Nigeria Gazette*, 21st January, 1943, states that the quarterly price per ton for the calculation of royalty is £265 but for the calculation of export duty £275.

³ The railway freights on minerals were reduced from 1931 until the outbreak of the war. Since then they have risen again.

the technical skill and knowledge and the capital for such business activities, these factors of production had consequently to come from abroad or be lacking in Nigeria. As the climate is not suitable for permanent residence of whites, no resident entrepreneurial and capital-accumulating class of white people could emerge. Nor was the colonial government in the past, nor is it at present, authorised, willing and able to run the economic activities along collectivist lines. In these circumstances all export and import trade and mining naturally fell into the hands of extra-territorial companies. If it were even desired to introduce changes in the economic activities at present controlled by the companies, it is first of all necessary to examine the results of the working of extra-territorial businesses in Nigeria from the point of view of the social economy of Nigeria as a whole.

The fact that the controlling principals and the owners of the capital are situated outside Nigeria is bound to have important effects on the behaviour of extra-territorial companies in Nigeria. This is not the result of a basically unsympathetic attitude of the companies to Nigeria or of a selfish desire to exploit the colony, but merely the result of a natural focussing of interests. The controlling principals and owners of capital feel naturally much more strongly attached to the country of their residence; they owe to it their primary allegiance. If it were possible for them to live their lives in the colonies, their economic interests would be much more intensely bound up with colonial affairs, and they would, in consequence, exhibit an entirely different type of economic behaviour. It is essential for a proper estimate of the rôle which the extra-territorial companies play in Nigeria to become fully aware of all the economic consequences of the extra-territoriality of the companies.

But that is not enough. The operations of the companies in Nigeria can be fully appreciated only if the economic functions and the methods of operation of colonial merchant companies are first fully understood. They have three functions: that of providing the service of mere intermediaries between producers and ultimate or manufacturing consumers; that of incurring the speculative risk of carrying stocks or promising future delivery, relying on the emergence of future supplies; that of financing their supplies or their creditors. Most of their risks are much higher than those of comparable metropolitan businesses. They regard the freedom to fix prices or a guarantee of profits by a controlling authority as essential conditions for their very existence. Their riskiness leads to high casualty rates, and they claim that the profitability of a merchant business must consequently not be judged by the few successful survivors. As most merchant businesses are composed of many buying and selling units, many tricky cost calculation problems arise, reminiscent in many ways of a collectivist economy. A further essential feature is the short-run planning of their business operations. This is a great disadvantage to the

colonies, one third or more of the economic life of which may depend entirely on such merchant companies. If colonies are in urgent need of industrialisation the influence of merchant companies may retard desirable changes. If, in future, more and more of produce trade is internationally controlled, the functions of merchant companies will be limited to the import trade. Their salvation seems to lie in changing their nature in the direction of combining wholesale import trade with the promotion of industrialisation. They are not at present prepared to consider such a change of function. But they could eliminate completely the painfulness of a transition period by becoming the leaders of a desirable change instead of being driven by circumstances. All these problems can merely be enumerated here as lack of space prohibits their development and analysis.

(a) EXTRA-TERRITORIALITY AND THE BALANCE OF PAYMENTS

Nigeria, like other British colonies, has no manufacturing industries worth mentioning. In particular, it has no construction goods industries which could produce the capital equipment so badly needed to increase the national output of the country. It is, therefore, of the utmost importance that the economic activity, which as a result of comparative cost differences can be carried on profitably inside Nigeria, should provide it with the greatest possible claim to foreign goods and services, not only for its current consumption but also for its development.

Were it not for the extra-territorial companies, the exports of Nigeria, as of any other colony, would be much smaller and, in consequence, the claim to foreign goods and services would be much smaller than it is at the present time. This favourable effect on the balance of payments cannot be sufficiently stressed. It is the major contribution which the extra-territorial companies have made to Nigeria. It is true that exports would take place if no extra-territorial companies were present, but for many years to come they would be smaller than they are in consequence of the stimulus and exertions of extra-territorial companies. But the problem arises at once whether these favourable effects go as far as they well might. There are some counteracting tendencies at work which must also be considered.

The adverse effects of extra-territoriality on the balance of payments can be summarised as follows:

(i) All the entrepreneurial profits and the creditorial interest and the surplus liquid assets, such as reserve capital, depreciation reserves and surplus cash, are immediately transferred abroad without any attempt being made to find some use for them inside the colony. It may be true that such uses, compatible with liquidity and security, do not now exist, but extra-territorial companies are, as experience proves,

less zealous in seeking or creating them than intra-territorial enterprises would be.¹

(ii) An unjustifiably large part of the tax on income derived from foreign owned assets is transferred to the metropolitan country or other parts of the British Empire under the income-tax relief provisions. In 1943 the standard profits of companies domiciled in the United Kingdom were taxed at the rate of 10s. in the £ of which Nigeria got 5s. and the Exchequer 5s., while the excess profits were taxed at the rate of 20s. in the £ of which Nigeria got 5s. and the Exchequer 15s. (of which 4s. was repayable after the war).

(iii) A large part of the salaries of white employees, usually from 40 per cent to 50 per cent, is transferred to overseas countries and not spent in the colony. The lion's share of the tax on these remittances is moreover taken by the British Exchequer.

(iv) Extra-territorial companies are not as keen as intra-territorial companies would be on carrying out processing of primary materials in the colony and on industrialisation, i.e. introducing manufacturing industries. Extra-territoriality, therefore, brings about neglect of opportunities for increasing the national income. Exports are smaller than they otherwise might be and consequently a smaller claim to foreign goods and services arises, while some opportunities for the economic production in Nigeria of goods which are otherwise imported may also be lost.

The attitude of extra-territorial trading companies in this matter of processing and manufacturing is understandable, and the motives which inspire their attitude can be briefly stated. The companies do not wish to harm home manufacturers and home processors with whom they have contractual relations or in whose property they are financially interested. They do not wish to lose the import trade in manufactured commodities which compensates them for the low profit on export trade. In addition the import trade greatly reduces the overhead costs on the purchase of goods for export,² probably to about three quarters of what they would be for pure importers in comparable circumstances. In so far as an extra-territorial company is also its own carrier, as, for example, the U.A.C. and John Holt, the two-way business also helps to keep down costs of carrying. This is, to a smaller extent, also true if the extra-territorial company is not its own carrier. If there were no import traffic, the shipping rates on export traffic would have to go up correspondingly. The loss of much of the

¹ The transfers of surplus liquid assets from Nigeria to London are greatly facilitated by the easy terms of transfer between the two countries, but it would be wrong to assume that actual transfers are the result of such easy terms. If there were more opportunities for short-term investment in Nigeria, or if there were a greater will to create these opportunities, or to make better use of what opportunities there are, many transfers would not take place in spite of easy terms of transfer.

² *Cocoa Committee Report*, para. 109.

import trade in the colonies in manufactured commodities might decrease the economic importance of extra-territorial companies of which they are jealous, unless they themselves engage in manufacturing. But the great majority of the trading companies are at present not ready to engage in manufacturing in the colonies. They are primarily merchants who are naturally rather shy of embarking upon manufacturing because modern production techniques and plants are so complicated that non-technicians are quite at a loss to understand them, let alone direct them. Merchants tend to think mainly of marketing; they want to live by buying and selling alone, and want their capital to be chiefly liquid capital, i.e. readily saleable stocks. For these reasons they do not like to lock up their capital in equipment for the manufacture of domestic goods in the colonies. Moreover, they may fear that their plant would suffer from partial idleness whenever there was a shrinkage of national income in the colony, e.g. a failure of the export crop or a slump of prices for export goods on the world market. If they merely import manufactured goods they are saved this capital loss, for, if there is a reduction of revenue from export trade, they import correspondingly less and thus prevent capital from lying idle in the colonies; they use their idle capital for short-term investment at home. It is noteworthy that a similar fear does not deter them to the same extent from investing in their home countries. Until Nigeria presents short-term investment opportunities¹ as good as those of Britain and ceases to be liable to such violent economic fluctuations, this attitude will persist; but it would not of course be maintained so persistently by intra-territorial companies. Nor have extra-territorial companies realised that a colony of the size of Nigeria could pursue a full-employment programme with great chances of success. Industrialisation would also raise problems of social struggle. It would raise the wages of Africans which might be to the disadvantage of the companies and it might otherwise contribute to increasing business costs. In view of all these motives, the extra-territorial companies cannot be expected to show much interest in the industrialisation of Nigeria.

To point out that there exists this adverse effect on the balance of payments is not to argue in favour of economic nationalism. Neither here nor elsewhere in this chapter is it suggested that foreign (i.e. non-Nigerian) capital, labour, technicians and entrepreneurship should be kept out of Nigeria, or that economic autarky should be aimed at. But it is maintained that the optimum rate of economic progress and its most beneficial

¹ If an annual effort were made to invest from 5 to 10 per cent of the current savings of the United Kingdom in the British colonial empire chiefly for the purpose of developing primary processing and home manufacturing industries and if special securities and banking facilities were created (see the Author's chapter on Money and Banking) to counteract hoarding of money, a short-term investment market could be developed probably in one or two decades.

direction can best be insured if intra-territorial capital and intra-territorial firms and public enterprises predominate. More external capital, foreign technicians and entrepreneurship than ever will be needed in future. But, in order to ensure their maximum usefulness to Nigeria, they should be placed chiefly at the disposal of intra-territorial enterprises. There are several methods available by which this can be done.

(i) The owners of foreign capital and entrepreneurship could, for instance, found naturalised businesses; that is to say, the owners and directors could take up permanent residence in Nigeria and if, on retirement, they choose to live outside Nigeria, they could leave all their capital in the colony and ensure that its use was again controlled by a permanent resident in Nigeria.

(ii) Extra-territorial firms could change their Nigerian businesses into a branch company along the lines on which British firms would establish branch companies in sovereign overseas countries, e.g. dominions or in countries on the American continent.

(iii) They could form mixed (intra and extra-territorial) enterprises, the intra-territorial partners of which could be the government, native authorities or Africans and could hold a majority of shares.

(iv) They could lend some of their capital to intra-territorial enterprises or to the government, thus marrying external capital to intra-territorial entrepreneurship. This policy of reducing the preponderance of externally controlled business does not, it should be noted, preclude the establishment of further extra-territorial enterprises. It is all a matter of the relative rates of growth. As long as the number of intra-territorial businesses and the amount of internally controlled capital grow faster than the number of extra-territorial businesses and externally controlled capital, the preponderance of extra-territorial businesses is being reduced. The rate at which this reduction should take place and at what point no further attempts at reduction should be made is, of course, a matter of opinion. All these problems will be dealt with at greater length in other sections.

(b) DESIRE FOR GREATER CAPITAL SECURITY

The desire for a higher degree of capital security, i.e. the desire for a secure prospect of income on the part of the owners of capital, is a common feature of all modern business enterprises, and is primarily due to the severity of business fluctuations and chronic excess capacity of equipment. This desire appears to be much stronger in the colonies than in a metropolitan country owing, in the first place, to the much greater severity of economic fluctuations in the colonies and, in the second place, to the extra-territoriality of the companies in the colonial area. The greater severity of business fluctuations in colonial areas limits the extent to which companies which are free to choose their field of operations are willing to invest in the colonies at all. Extra-territoriality implies that the owners of

capital and the directors do not feel any appreciable attachment to an individual colony (though they show patriotic loyalty to the colonial empire as a whole) and their business decisions will therefore be dictated by economic considerations solely. They will operate in a colony only if (i) risks do not exceed a certain maximum which they would run in their home country and (ii) the profit prospects are large enough to cover the unwillingness of carrying risks of foreign uses of capital. This special riskiness and their extra-territorial outlook make the companies disinclined to get too much involved in the colonial economy unless certain guarantees are given which are designed to promote capital security. Examples of such desired guarantees are the granting of more or less permanent export quotas to existing firms,¹ the protection of projected new industries by tariffs or quantitative import regulations, the provision of direct or indirect subsidies in order to encourage the economic development of British dependencies by private enterprise, the assumption of the risk of initial experiments by the colonial government,² or the assuaging of native suspicion of exploitation by the establishment of tripartite enterprises in which natives, the government and extra-territorial companies participate,³ the appointment of companies as management agencies for new internally financed enterprises, the forming of import and export monopolies to prevent cut-throat competition, etc. The firms have so far not demanded protection against the widely practised aggressive selling or buying⁴ nor the adoption of a full-employment programme by the government as a further guarantee of capital security, though these two guarantees would benefit not only the companies but Nigeria as a whole.

The first demand for capital security by the extra-territorial companies would be a political one. It would concern a political guarantee that the institutional framework within which firms operate should not be changed, or if it was to be changed, that sufficient notice should be given to enable the firms to direct their capital into the most profitable uses left open to them. Such a demand is, of course, of rather a sweeping character. But it is not easy to formulate concretely and exactly what the companies have in mind. They are not so much laying down minimum institutional conditions under which alone they are willing to operate, as demanding that planned new institutional conditions shall be declared in good time by

¹ See *Cocoa Commission Report*, paras. 500-3, for the proposal made by Jasper W. Knight, a director of the U.A.C.

² E.g. the development by the Veterinary Department of Nigeria, of the ghee trade which was later taken over by the U.A.C.

³ E.g. the Gezira scheme in the Anglo-Egyptian Sudan; see Hailey, pp. 1053-54.

⁴ Aggressive selling or buying is the deliberate under-selling or over-buying of a competitor, at the expense of self-imposed loss, in order to drive him out of business or force him to sell out. The chief weapons of aggressive selling or buying are discriminatory prices,

the government.¹ The companies express this attitude of theirs by saying that they want the government to disclose its economic post-war policy. They think they can then decide what economic policy they themselves should pursue. They are chary of working out or disclosing their own plans to establish secondary industries before the government has made its pronouncements. They also wish to be assured that it will stand by its decisions and not change its policy without a long period of notice.

The problem of this framework of freedom from governmental interference for extra-territorial activity is as difficult as it is urgent. The failure of most European countries in the inter-war years to provide a well-defined sphere of freedom for private enterprise while the state was not ready to take over its function was a mistake that must not be repeated. Private enterprise must know how far it is free to make decisions without having them subsequently upset by government action in order to be able to display maximum initiative; otherwise it will be harassed by paralysing fears of constant interference without the government having any intention of stepping into the gap caused by this paralysis.

A government guarantee of an institutional framework in which the companies may operate is of particularly vital importance to the U.A.C., in the hands of which 57 per cent of Nigerian non-mineral export trade and about 33 per cent of import trade are concentrated. But there is probably no other company which is able or willing to put as much money into West Africa as the U.A.C. Government up to the present time has been quite unable to assign any clearly defined rôle to the company in Nigeria, thus leaving *unsolved* a major problem of economic policy. This failure to settle the relations of the U.A.C. to the Nigerian economy hampers economic development on all sides. It is, for instance, difficult to induce the U.A.C. to give up its rights to a half share in government mining revenues if at the same time all other problems are left *unsolved*.

(c) INTEREST IN FULL UTILISATION OF RESOURCES

The supreme test of the benefits which extra-territorial companies or

* ¹ How great are the political risks encountered by companies may be inferred from the *Report on Cocoa Control in West Africa, 1939-1943*, Cmd. 6554 (1944). In it the British government proposes to create a marketing organisation run in the interest of the African farmers which will buy the whole of the West African cocoa and sell it to the world market. The government furthermore expresses its willingness to participate in an international cocoa control arrangement. Nothing is said as to whether the firms may or may not have a place in this organisation. If the firms are to be used as agents a persistent agitation among Africans must be anticipated. If the firms are not made use of in one way or another not only export but also their import trade in the cocoa areas will be seriously affected. Much of their capital investments may lose value overnight. Moreover, if the cocoa scheme proves a success, as it very well may, a persistent demand by Africans for the extension of this system to the other export products can be safely anticipated and the troubles of the firms would consequently be multiplied.

any other economic institution confer upon the colony is exactly this: have they or have they not contributed to the greatest possible increase in the country's resources of skill and capital and the best possible utilisation of its human and material resources to an extent which is commensurate with their importance in the Nigerian economy?

The companies have apparently not contributed appreciably to the development of manual skill among the population. It is true that the U.A.C. is training native engineers in the river and creek fleet and agriculturalists on their plantations, but the cumulative effect of these or other schemes is quite negligible in the Nigerian economy as a whole. The scheme for training Africans in manual skill organised by the Nigerian railway is much superior, for one of the express purposes of that scheme is to train more skilled workers than the railway will need so as to enable them to set themselves up as independent workmen. Nothing is more needed than manual skill in Nigeria, for without it no real progress in civilisation is possible. Companies have also done something towards training native scientific technicians. The U.A.C. has, for instance, given African scholarships of £300 for one Nigerian and one Gold Coast student, preferably those who want to study engineering and agriculture. But, again, this signifies very little by comparison with the needs of the country as a whole.¹

Firms have so far not made any noticeable contributions to the supply of native entrepreneurship for Nigeria. The U.A.C. has one African district-manager in Abeokuta and four in Lagos, and one Sierra Leone man in a managerial position in Burutu, while there are 20 Africans in managerial or sub-managerial positions in the Gold Coast branches of the company. It is, however, difficult for the companies to recruit able Nigerians because the prestige of government employment is so much higher, and the government is able to offer higher pay at the outset.

Extra-territorial companies have to a small extent assisted the development of Nigerian entrepreneurship by the provision of cheap capital for natives and by selling capital goods to producers on the instalment system. Motor cars were sold in this way in pre-war days, but the system could well be extended to include implements for farmers, woodcutters, carpenters, builders, etc.

Extra-territorial businesses have developed new export lines and also new internal trade, but, compared with the possibilities, the actual developments are such that an examination leaves the impression of great conservatism and 'unenterprise'. There is a definite impression abroad that

¹ It is the task of the companies to provide technical education if the state does not, for companies are interested in an adequate supply of efficient technicians at a salary free from unnecessary expatriation expenses. Companies in the metropolitan country, e.g. pioneer firms in television, train their technicians in similar circumstances. They recoup themselves out of proceeds from sales.

the companies handle only those lines of import and export goods to which they are accustomed and very seldom adopt new lines even if profitable opportunities offer themselves. A competent observer spoke of lack of drive for finding new export outlets. He went so far as to speak of a 'petrification of policy'. The hesitancy to develop internal trade is even greater, but that is largely due to the resistance raised by the government and by native opinion to their entry into internal trade (see the examples below). A discussion of the promotion of new primary products or new secondary products for export or for the home market during the last decade will show the extent to which the companies have engaged in new development.

There were some successful developments. The U.A.C. showed enterprise in developing trade in clarified butter, in shea butter and in fresh vegetables. It is now shipping palm-oil in bulk from Calabar and other places. It started a singlet factory in Lagos in 1937, and a biltong factory at Kano. It developed a small power-driven pioneer mill for the expression of oil from the pericarp of the palm-fruit. Several firms have developed plants producing tapioca flour near Lagos.

Some undertakings projected or started by enterprising companies met with failure for one reason or another. The U.A.C. was dissuaded by the government from starting a spinning and weaving mill near the cotton area in Nigeria, a garment factory near Lagos and internal trade in rice. One forerunner of the U.A.C. (the African and Eastern Trade Corporation) actually tried to run a tannery and ranching plant in northern Nigeria during the twenties but a heavy loss was made.

The time was ripe for inter-colonial trade before the second world war, but it was only slightly developed in spite of urgent advocacy. Thus, rice, maize and palm-oil produced in Nigeria could have been traded to the Gold Coast and Sierra Leone; but the trade was developed mainly under stress of war. This was partly the fault of the shipping companies, for they refused to supply coast-wise one-way traffic at reasonable rates. During the second world war maize cost £3 per ton in Nigeria and £8 in the Gold Coast, while the shipping charge from Lagos to Takoradi was £2 10s. per ton. Even at these exorbitant rates for deck cargo, the price of maize in the Gold Coast should only have been £5 10s. This example illustrates how little interested traders are in inter-colonial trade and inter-colonial shipping. Nor, since the companies abandoned road transport largely to Lebanese and Africans, have they had the incentive, which they might otherwise have possessed, to press for the adaptation of the roads to vehicles heavier than the 30 cwt. and 3 or 4-ton trucks which are at present standard, and which would hardly be the most economical in all circumstances but for the limitations which the present roads impose.

A further major cause of the under-development and mal-distribution of resources was the tendency towards monopoly and monopsony. The

general problems of monopoly and monopsony in a colonial economy will be dealt with in a special section below. However, a discussion of the restrictive effects on the utilisation of resources of the price policy pursued by the companies is relevant at this point.

If a company is a sole buyer, i.e. a monopsonist, in an area, or if all companies together in the whole of Nigeria pursue a common buying price policy designed to maximise their profits so that they become greater than the normal reward of entrepreneurship, they may induce and indeed have induced Africans to produce less than they otherwise might. Palm-fruits and palm-kernels are then allowed to rot on the ground and cocoa pods are not harvested, much to the detriment of the trees, or ground-nuts are not grown for export as happened in the Baro area in the period 1937-39.

On the selling side, too, it is obvious that if prices are kept up by tacit or overt agreement the markets for the goods concerned are restricted. Short of monopoly or monopsony, the situation where there are very few firms in the market (i.e. oligopoly or oligopsony)¹ tends to have the restrictive effects just described, though in a lower degree.

Oligopsonist and oligopolist firms are usually engaged in fierce competition and resort to aggressive buying and selling (i.e. buying and selling at a deliberate loss) during booms and are desirous of a collusive monopsony and monopoly during a depression.² The actual price and output policy may oscillate between that which would obtain under free competition between many producers and sellers and total absence of competition under monopoly or monopsony. But in every case whenever an oligopsony or oligopoly is established through mergers, there will be some restriction of buying and selling somewhere even if the oligopsonies and oligopolies are chiefly competitive. The reason is that big buying and selling firms have always somewhere a local monopsony of buying or monopoly of selling,³ a fact which will be commented on below. It is thus not surprising that the sum total of trade done by the U.A.C. after its formation was less than the trade done by the African and Eastern Trade Corporation and the Niger Company when operating independently.

The result of the merger was a deliberate contraction of the business and a solidifying of the organization. Many shops and buying stations were closed down. In ordinary times this would have led to the raising of

¹ From Greek '*oligos*': few.

² There are some difficulties in defining the term 'aggressive competition' with reference to all firms under slump conditions and to inefficient firms during all phases of the trade cycle. These problems are discussed in the treatise of which this chapter is an extract. It should be noted, however, that the term 'aggressive competition' is not intended to convey moral disapproval.

³ The only shop in an English village, miles away from neighbouring villages or towns, enjoys a similar local monopoly; but a shop in an English town enjoys only a precarious local quasi-monopoly.

prices of import goods and lowering of the prices of export goods. Indeed, the feeling of the employees who were taken over from the two parent companies by the U.A.C. was that an easy time was now at hand, as cut-throat competition had disappeared. Had the years from April, 1929 (when the U.A.C. was formed), up to September, 1932, been normal, the U.A.C. should have made more profit than the two parent companies would have made in a similar period. Actually there was a depression and, in consequence of that, the result of trading during the period of 3 years and 5 months was a loss of £5,406.¹ It was only after September, 1932, that the financial results of the merger of the two parent companies made its appearance. The total profits from September, 1932, to September, 1938, amounted to nearly 6 million pounds, which works out at an average of 9 per cent per annum for each of the 6 years. Part of these profits may well be explained by real economies effected by amalgamation or the introduction of more efficient methods by the new management, but the oligopolistic and oligopsonistic position of the U.A.C. undoubtedly plays a large part in the explanation of that profit.

(d) MONOPSONISTIC AND MONOPOLISTIC TENDENCIES

It was stated above that monopolistic and monopsonistic tendencies among extra-territorial companies are one of the chief reasons why there is not full optimum utilisation of resources. It seems best to consider first the monopsonistic and thereafter the monopolistic tendencies of the major industries separately.

Even if there were perfect competition between the produce buying firms in Nigeria as a whole, there would still be many local monopsonies and oligopsonies. This is simply the consequence of the economic structure of the country. The appended Table IX shows that the number of European exporters and importers established in various localities is generally so small that in most cases there exists either a monopsony or, at best, an oligopsony. Professor Hancock has given a detailed description of the manner in which the prices received by natives for their produce are depressed as a result of the activities of local monopsonies,² and there is evid-

¹ This loss was the combined result of the policy of the new firm and of the ensuing depression. It was not realised how much the goodwill of the pre-merger firms depended on their individuality. A large loss of business was caused by the substitution of U.A.C. shops, new salesmen, U.A.C. marks, U.A.C. lines of articles for those of the old individual shops, the old salesmen with large personal connections, the marks and the particular lines of the pre-merger firms. As the depression was not anticipated the U.A.C. was saddled with enormous stocks, particularly of cotton in 1930, which were subsequently cleared at sacrifice prices. The loss of many produce brokers with their individual connections made it necessary to attract produce by comparatively higher prices in order to retain the previous volume of business.

² P. 221 and p. 222, footnote 3.

ence of agreement among firms to establish a local monopsony in respect of co-operative cocoa.¹

How great the difference can be between a local monopsony price and the full price that could be paid to a producer may be shown by an example. The government pays 2d. a gallon for Fulani milk on the plateau, which it uses for making clarified butter fat. Three gallons of milk are needed to produce 1 lb. of native butter which is usually extremely dirty. At the government price, a pound of native butter should be worth 6d. for the milk plus an allowance for the labour of working up milk into butter, less the considerable cost of extracting the dirt. Nevertheless, the U.A.C. was paying only 2½d. per lb. for—admittedly dirty—native butter in 1941–42. This is also the price at which Africans buy native butter in the local market. But it is hardly a competitive price, for the situation is likely to be as follows: African producers sell output to the buyers for the firms only if they cannot find African consumers as customers who are less exacting both as to quality and place of delivery. The monopsonist firm then buys the surplus output in a monopsonistic fashion at the supply price appropriate to the total volume of output. African consumers will, of course, have to pay the same price.

There is also evidence in the *Report of the Commission on the Marketing of West African Cocoa* of agreements between firms to establish monopsonies on a national scale. The following statement appears on page 241:

‘Agreements concerning the purchase of palm-oil and palm-kernels have been in force from time to time for nearly half a century and a ground-nut agreement has, we understand, been operated for at least the past ten years. The agreements for palm-oil and ground-nuts do not appear to have been fully effective owing to competition from outside buyers, including Syrians. The purchase of minor products, such as cotton and benniseed is also governed by agreements. . . . Efforts to conclude cocoa buying agreements have been made in the past.’

The U.A.C. is already buying some 57 per cent of non-mineral export products, and it is, therefore, increasingly capable of imposing ‘price leadership’. The prices which it pays are liable to become more and more the established prices. Small competitors will probably not venture to outbid the U.A.C. for fear that the U.A.C. might start aggressive buying against them.

There are, of course, certain exceptions to the prevailing monopsony conditions. For instance, in Kano, the chief ground-nut market, there have always been powerful outsiders buying ground-nuts. The ground-nut trade is particularly suited to interlopers as practically no fixed capital is required for it—no out-stations are needed, the ground-nuts being brought into Kano by Hausa and some Arab traders. A Mr. Raccah from Tripoli has been the most powerful competitor of the agreement firms in Kano.²

¹ *Cocoa Committee Report*, para 7.

² See Hancock, pp. 216–17.

TABLE IX

DEGREE OF IMPERFECTION OF COMPETITION

Distribution of Nigerian localities according to the number of European Exporters and Importers maintaining establishments in them

Aggregate number of European firms per locality	Number of localities in which the aggregate number of firms, stated in col. 1, maintained the following types of establishments			Names of localities in which the aggregate number of firms, stated in col. 1, maintained establishments in the year 1936. (This column merely elaborates col 4.)
	All kinds of local branches in 1921	Main local branches in 1933	Main local branches in 1936	
(1)	(2)	(3)	(4)	(5)
1	104	36	28	See footnote (a).
2	39	9	6	Ejirin, Enugu, Funtua, Lokoja Minna, Sokoto.
3	21	3	5	Abonnema, Eket, Ilesha, Opobo, Victoria.
4	11	4	5	Aba, Benin City, Ife, Ilorin, Maiduguri.
5	4	2	2	Ijebu-Ode, Jos.
6	3	1	—	
7	3	1	4	Gusau, Onitsha, Oshogbo, Sapele.
8	3	4	1	Zaria.
9	3	1	—	
10	—	—	2	Abeokuta, Warri.
11	—	1	1	Calabar.
12	2	1	1	Port Harcourt.
13	—	2	—	
14	—	—	—	
15	1	—	—	
16	1	—	—	
17	1	—	—	
18	—	—	1	Kano.
20	—	—	1	Ibadan.
23	1	—	—	
27	1	—	—	
35	—	—	1	Lagos.
40	—	1	—	"
70	1	—	—	
	199	66	58	

(a) Agege, Akotogbo, Assay, Badagri, Bansara, Bouge Bovo, Bota, Debundscha, Ekona, Garna, Ibi Ikang, Isongo, Itu, Kaduna, Kaura Namoda, Koko, Numan, Nwanaiba, Oguta, Okitipupa, Rio del Rez, Shaganu, Tiko, Tombel, Umuahia, Umunede, Yola.

Source: *Nigeria Handbooks*, 1921, 1929, 1933 and 1936.

NOTES

(1) Only general exporters or importers or two-way companies and tobacco and book importers were included. All other extra-territorial firms were excluded.

(2) In case of merger companies (i.e. the U.A.C. and its 21 subsidiaries in Nigeria), all the companies are treated as one firm even if they still trade under their own name. The inland buyers of imported goods from and the inland sellers to any of the amalgamated companies are confronted by one centralised selling and buying policy.

(3) The same European buying firm may have several shops or buying stations in any one locality, but only one entry was made.

(4) The same aggregate number of firms is usually, though not always, composed of different individual firms in different places. Thus, the two firms in one place may be the U.A.C., and Paterson, Zochonis, and in another John Holt and Company and the London and Kano Trading Company.

A competent observer is of the opinion that the only really competitive buyers—admittedly only spasmodically—were the Germans. They would buy cocoa for a whole month and raise its price by 6d. or a shilling per ton and then, after having exhausted their foreign exchange reserves, would disappear from the market. National antagonism did not prevent the inclusion of German firms in the cocoa buying agreements of November, 1937.

This national buying agreement of November, 1937, has been made public. The Nigerian version of the retro-active agreement signed by ten firms exporting about 90 per cent of the Nigerian cocoa was in operation from 1st October, 1937, to 28th April, 1938. The basic provisions were:

(i) The allocation to each member of the agreement of an agreed portion of the total purchases of cocoa based on the performance during recent years. It is possible that quotas of some of the ten firms were bought by the remaining firms.

(ii) The payment of the ruling world market price less a schedule of overseas and Nigerian marketing expenses and transport costs to the native producers. The ruling world market price was determined as follows. One official of the U.A.C. and one from Messrs. Cadbury were authorised by the London committee of the agreement firms to cable the ruling price limit to Accra and Lagos. They were instructed to take as the basis of the cabled limits the highest price at which Accra and Lagos cocoa could be sold either in any of the actual cocoa markets or in the terminal markets (i.e. markets with a fixed periodic settlement) of New York and London. The limit cabled was usually based on the price ruling for the next shipments from the Coast; thus, during June, the price would be the buyers' (*sic*) price of June–July or July–August shipments. This practice was only altered if terminal quotations (i.e. those for future delivery) were at a premium. Normally the forward price would be below the spot price

(5) In each locality there might be African and Levantine buyers and sellers competing with European firms, about whom no information is available.

(6) Other firms might be represented in the locality by African run shops or tied African traders to whom they extended credit. No information about such African run shops controlled by firms is available.

(7) Some localities might be near one or several others where European firms are established as buyers or sellers. The price differential between such localities can never be bigger than the sum of money which would induce the African to undertake the journey and the carrying. The price differentials involved are at present very small, as time means little to Africans, and only exertion needs to be compensated. That being so it is asserted that Lagos, Badagri and Agege form a single group within which communications are so easy that no appreciable price differential could exist. (Badagri lies 37 miles west of Lagos on the coast and Agege 50 miles north-north-west of Lagos.) Badagri dealers will prefer to come to Lagos in large canoes to buy a wider assortment of stuff at the same price than they buy in Badagri. The Badagri trading ports of firms are apparently in process of liquidation. Ijebu-Ode, Ejinrin (40 miles south of Ijebu-Ode) and Shagemu (20 miles west of Ijebu-Ode) form probably another single group. So do Ife, Ilesha (18 miles north-east of Ife), Oshogbo (20 miles north of Ife) and Ede (20 miles north-north-west of Ife). The trading posts at Oshogbo are probably also disappearing.

(8) The term locality denotes chiefly small and large townships with a population of over 10,000.

by an amount known as 'normal backwardation'. These officials neither took account of any slight premium which might happen to be obtainable for a small quantity on special conditions, nor did they pay attention to any minor price movements, whether upwards or downwards. The price limit was cabled as a rule only once a day, and the cable was sent after business hours when the closing prices on the New York markets were known.

The Cocoa Commission makes the following comments: 'The proper determination of daily prices by this method requires, especially in times when the market is sensitive or moving rapidly, someone with expert knowledge, full information, a good judgement and *an absolute fairness of mind*.'¹

The firms had invited the Colonial Office to nominate an observer to the merchants' committee in London who could satisfy himself that the prices offered were fully in line with world prices. In the opinion of the Cocoa Commission the suggested official observer would have found it difficult to follow the basis of price determination, especially because of its dependence on personal judgment. An official observer, therefore, could not easily have safeguarded African interests, unless an experienced produce dealer in the cocoa markets of the world, who was opposed to fictitious speculative transactions and who had the welfare of Africans at heart, were given this official appointment.

The schedule of marketing expenses was supposed to cover all prime costs, and overhead costs both in Nigeria and overseas plus a reasonable profit to the firms², and it amounted to £7 8s. 7d. per ton at Lagos when the c.i.f. Hamburg price was £35, and 1s. 4d. per ton more or less for every £1 increase or decrease of this price.

Some of these cost items which were never disclosed were considered by the commission to be too high. The war-time schedule of marketing expenses of cocoa referred to below was lower than the agreement schedule, despite the fact that costs in war-time had risen. The allowance for loss of weight and for interest was too high. The cost saving of two-way traders, of buyers for their own use, of firms with their own fleet or nearer destination for their exports, of firms with shorter carrying periods or special selling connections were not taken into consideration.³ Thus, the total deductions from the ruling world market price were rather high.

It was also questionable whether the interests of the African producers were not harmed by taking the ruling world market price as the starting point for calculating the price payable to the producer. The commission recorded its opinion that even if they refrained from combining in the selling market, the big firms could depress the price temporarily on a dull

¹ *Cocoa Commission Report*, para. 441. (Italics not in the original.)

² *Ibid*, para. 160.

³ *Ibid*, paras. 445-9.

and hesitant market.¹ The objectivity of the ruling world market price is therefore doubly suspect. Moreover, in the absence of the agreement, some firms could and would have paid more than the world market price because they had made advantageous forward sales, or because they were more bullish or less bearish than the other firms, or because they wanted to protect themselves against a cornering of supplies, or because they wanted to increase their share in total trade in anticipation of a new buying agreement.²

The buying agreement made it easy for the firms to follow up their purchases by prompt selling instead of carrying stocks forward to the period between two crops. In so far as the agreement actually had this result, it would have depressed world prices during the crop season and consequently the price paid to the farmers. Moreover, price fluctuations would probably have been aggravated. But all the time the firm would have enjoyed the constant profit embodied in the schedule of marketing expenses.

The chances of making a monopsony profit which the agreement gave to the firms depended of course upon the inability of the outsiders to overbuy them. The only important non-member firms were the English and Scottish Joint C.W.S.³ and the Levantine and African firms. These latter were hit by a stipulation of the agreement⁴ that no member firm was allowed to become the selling agent for a non-member firm in the world market. The African non-members were always able to sell in the world market through London brokers but the quantities actually so sold were negligible.

One effect of the agreement was the spreading of collusive combination downwards. The firms maintained that the principal object of the agreement was (i) the elimination of the system of making advances to African buyers to be passed on to African sub-buyers and finally to African producers since the advances lead to well-nigh interminable indebtedness,⁵ (ii) to reduce the brokerage paid to African buyers to 7s. 6d. for graded, bagged and sealed cocoa and 5s. for naked (i.e. ungraded, unbagged) cocoa, (iii) to reduce the number of middlemen, and (iv) to prevent specu-

¹ *Ibid*, paras. 433-6.

² *Ibid*, para. 326.

³ The E. & S. Joint C.W.S. needed for its own works at Luton only 1,000 to 2,000 tons of cocoa beans in pre-war days, but it used to buy about 10,000. It sold the excess to the London market. This is a curious situation. The Joint C.W.S. is not intended to be a regular wholesaler of produce in the open market. It is difficult to guess the true motive for buying in the West African market. Fear of being cornered cannot be suspected as 1,000 tons is a small quantity. Perhaps the Joint C.W.S. hoped at one time to expand its cocoa production rapidly and built up a buying organisation in West Africa in anticipation of it.

⁴ *Cocoa Commission Report*, para. 207.

⁵ It is denied that firms make advances to native cocoa brokers in Nigeria as they do in the Gold Coast.

lative transactions by African buyers at the expense of the firms, by abolishing the declaration system by degrees. This declaration system is a consequence of the period of grace (any time up to a week) which African buyers and sub-buyers are allowed for declaring the total purchases in the bush and the village markets. On a rising market they will under-declare and on a falling one over-declare. The firms maintained that all these aims would benefit the producers. Actually only the benefits of aims (i) to (iii), but not of (iv), could be passed on to them. But it is to be doubted whether the benefits of the agreements outweigh the disadvantages enumerated above.

If the firms depress prices against their African buyers, they will force them in time to pass on the pressure to their sub-buyers. This will sooner or later lead to combination among all native buyers who would pursue monopolistic practices *vis-à-vis* the sub-buyers. Since the commission buyers are the most vocal group in native politics, they could probably get away with most of their selfish demands. Thus, the restrictionism of the firms would spread downwards in the direction of the producer.

One consequence of the buying agreement which is predictable on *a priori* grounds is the restriction of output by native producers. The short period supply curve of cocoa at any crop season probably has the following characteristics. No cocoa at all will be harvested unless the price is a certain minimum at which Africans feel tempted either to employ labour or to overcome their own preference for leisure. A slight increase in price beyond this minimum will call forth a great increase in exertion. Once the more urgent demand for cash is satisfied and diminishing returns to further exertion occur, the supply becomes rather price-inelastic. The higher the schedule of marketing expenses and the lower the retail world market price, the more likely it is that the demand price offered by the firms will cut the supply curve in the elastic portion. If in such circumstances the demand price were not subject to monopolistic depression, a substantial increase in output would result.¹

Table IX can also be used to demonstrate the prevalence of local monopolies in selling, for most of the firms to which it refers are two-way firms. A two-way firm which has no European competitor in any locality would at the same time be a local monopsonist on the buying side and a

¹ The cocoa buying agreements of 10th November, 1937, which had led to a cocoa hold-up in the Gold Coast, were abrogated both for Nigeria and the Gold Coast on 28th April, 1938, as a result of negotiations between the Secretary of State and the firms. By the terms of a truce, which was made for the Gold Coast only, the government decreed export quotas for the remainder of the crop, i.e. for the period from 28th April to 1st October, 1938. The *Cocoa Commission Report*, para. 195, says about this truce: 'It was open to the grave objection that, in effect, it not only continued with statutory sanction the sharing of purchases among the agreement firms, which was the essential feature of the buying agreements, but also precluded any development of independent competition.'

local monopolist on the selling side.¹ It may be inferred that local monopolies in selling imported goods are about as frequent as local monopsonies in buying exportable produce as both are as a rule in the same hands.

Evidence for the existence of monopolistic competition² and of national monopolies is also to be found. Practically all merchandise imported into a colony bears a pictorial trade mark, by which each commodity is differentiated from identical or similar commodities sold by competitors. The goodwill of the trade marks is naturally highly prized by importers, because once a consumer's loyalty or attachment to the product has been established, they enjoy a semi-monopolistic position, as long as they keep the price below the limit where the loyalty breaks. The advantage which the illiterate consumer obtains from the branded goods is the consistency of the quality, which the importer jealously guards so as to perpetuate the consumer's loyalty to the product and the firm. The consumer, in turn, is quick to observe the consistency of the quality of primary goods. This is especially the case when the illiterate African subjects imported merchandise to a finishing process, e.g. dyeing of imported cloth. To create a consumer's preference for branded goods a great deal of extra expenditure is necessary, which in an advanced economy is usually devoted to advertising, but advertising in Nigeria or other parts of West Africa is quite negligible. Most of the advertising in Nigeria is paid for by the manufacturers, not the trading firms.

Owing to the illiteracy of the Nigerian population, the creation of a consumers' preference for branded goods takes a more direct form. Branded goods were often foisted on consumers by means of special concessions, such as extra credits (invariably leading to losses), gifts of samples and individual price cuts or individual over-payment for produce if branded goods were taken in exchange. Thus, extra expenditure is incurred or a sacrifice of revenue made to force the branded goods. The firms are naturally anxious to recover these extra costs, which are part of the overhead costs of selling, by pushing up the volume of sales.

The various importing houses have adopted a policy of increasing their turnover in order to reach the volume of sales at which profits are a

¹ There are pure importing firms like the Indian firms of Chellaram & Sons and Chanrai & Co. and there are also pure produce exporting firms like Cocoa Manufacturers Ltd. If these firms were taken out of Table IX, the distribution of localities according to the number of firms who have established branches in them would probably not be materially affected.

² Monopolistic competition is a technical term introduced into economic literature by Professor E. Chamberlin; see *The Theory of Monopolistic Competition* (Harvard), 1939. The monopolistic competitor aims at having a separate market for his products by differentiating them more or less artificially from those of his competitors. 'His sales are (consequently) limited and defined by three new factors: (1) his price, (2) the nature of his product, and (3) his advertising outlays', p. 71.

maximum. They generally require their agents in Nigeria to reach a certain target percentage of total imports, rather than a certain absolute figure of total sales. This instruction to their agents shows that the companies are fully alive to trade cycle fluctuations for, with prices and incomes fluctuating, the agents cannot be expected to achieve a specified absolute figure of turnover. As long as the agents maintain or increase their firm's percentage of total imports, its position in the market is secure.

When all firms try to raise their target percentages of total imports, so-called 'over-importation' will result. This term, as used by the commercial firms, is supposed to indicate that imports can be sold only at a loss, incurred through cutting price below costs. Apart from marking down prices at the beginning of a slump, price cutting is generally practised by weak competitors who are over-stocked and find themselves in financial difficulties when they have to repay either their trade credits or the loans with which they bought stock for cash. Holders of excessive perishable stocks, whether financially strong or weak, are sometimes forced by African middlemen to sell out at distress prices. It is quite easy in the small African harbours to find out when particularly large quantities of perishable stocks have arrived. The middlemen combine to withhold their purchases and force the firms to sell out. The chief perishable stocks to which such distress sales apply are stockfish and inefficiently stored flour and sugar, which will not keep in the West African climate for more than a few weeks.

If all the firms were equally weak financially, or could supply only an equally small proportion of the total market, the problem of over-importation would soon disappear, because less efficient firms would be eliminated. But with financially powerful firms, the danger of over-importation has merely the effect of making them amenable to the abrogation of their commercial independence in favour of monopolistic combination in the form of a merchandise agreement. It should be noted, however, that merchandise agreements do not prevent over-importation if they are of the usual type prescribing import quotas, and perhaps prices as well. Merchandise agreements only prevent one firm from suffering more from over-importation than another. They only equalise, as it were, the financial cost of over-importation. It need hardly be pointed out that over-importation is almost always the result of over-optimism at some peak in the market. The agents on the Coast, who may not enjoy the benefits of trade cycle forecasts—owing to the lack of interest of head offices in them—generally over-indent during the months of peak trade and, when the recession comes, are always over-stocked.

There were various merchandise agreements for specified imported merchandise before the second world war. The *Cocoa Commission Report* states 'The merchant firms have submitted evidence to the effect that the articles covered by the (merchandise) agreement which would include

such staple lines as galvanised iron, sugar, flour, cabin bread and rice, constitute under 15 per cent of their total merchandise trade (in the Gold Coast). They have also submitted statistical data to show that the price rises (of imported goods) in 1936-37 barely kept pace with rising (replacement) costs. They deny that merchandise prices have been raised on account of high cocoa prices.¹

Since the outbreak of the war, a general imported merchandise agreement has been concluded between the principal importers to Nigeria, i.e. the U.A.C., John Holt & Company, etc. The main contents of this general merchandise agreement may be stated as follows:² The agreement fixed for each firm a 'share' of the total import trade, based on the percentage of the firm's imports to total imports over a pre-war datum period. Firms which exceed their share have to make payments to a pool out of which those firms whose imports fell below their share receive compensation. Any firm which intends to continue trading in the colony has an incentive to keep up its share, for at the time of the expiry of the agreement either of two things may happen. A new agreement may be negotiated, allotting shares according to past performance: the smaller the share, the smaller the profit; or open competition may start again, in which case a reduced circulation of trade marks or reduced trade contacts will be handicaps.

There is a principal committee in the United Kingdom with three chief functions. The member firms exchange information about demand in the local colonial markets and estimate the need for total imports and their relative shares. The committee also fixes selling prices of fairly standardised, i.e. staple commodities. Dr. M. Fortes reported from Ibadan that the price agreement covered in 1942 such staple lines as corrugated iron, cement and other building materials. The committee may fix margins of gross profit on non-standard commodities, such as patterned textiles, and general hardware.

Local committees exist in important trading centres, such as Lagos and Kano. They supply information about local demand conditions to the principal committee in the United Kingdom and they implement its policy in their local area. They have been given the power by the principal committee to vary selling prices to meet increased local supplies by non-member firms.

Since the agreement does not include every importer of merchandise, it has not succeeded in establishing a pure monopoly, i.e. a market with but one seller, but, since the outsiders are relatively unimportant in the principal markets, such as Lagos, and probably non-existent in outlying markets, such as Onitsha and Makurdi, the firms which are parties to the

¹ Para. 393.

² The information upon which the following description is based was very kindly supplied to Mr. Angus MacKintosh by one of the firms adhering to the agreement.

agreement have nearly succeeded in establishing themselves as the sole suppliers. It may, however, be surmised that this near monopoly is of the kind which Professor Hicks describes¹ as a 'monopoly of the sleepy sort which doesn't strain after every gnat of profit but prefers a quiet life'. It is unlikely that the import agreement was abrogated before the end of the war in 1945. Nor is it likely to be abrogated before British export goods become more plentiful. It will, therefore, have been in force for more than six years. That is a very long time for ruling out competition and thereby depriving Africans of economic opportunities.

The entry of competitors into the wholesale import trade is severely restricted by the great risks involved and the large amount of capital required in this type of enterprise. Existing competitors can be eliminated by the more powerful firms by means of aggressive selling, that is selling below cost in order to undercut and drive the competitors out of business. In the nineteenth century Sir George Goldie of the Royal Niger Company adopted a general price cut of 25 per cent in order to drive his French competitors out of the field, and the same practice has possibly been used in more recent times.

Monopolistic and monopsonistic tendencies are also noticeable in the non-trading firms operating in Nigeria, i.e. shipping, mining, manufacturing, transport and banking.

The chairman of Elder Dempster Ltd. very kindly supplied the following information:²

'In the West African trade, we had a conference comprising one British line and one Dutch line (Holland West Africa Line) and one German line (German Africa Lines, or Woermann Linie) with the object of stabilising freight and passenger rates between West Africa and the U.K., Holland and Germany. This conference had friendly working agreements with the Belgian Line to quote equitable rates between Belgium and West Africa. Our conference also had friendly agreements with the French Lines, to quote agreed rates between France and West Africa.

'The competition of British Companies (U.A.C. and John Holt & Co. Ltd.) and other interests, such as the Italians, continued as usual over the period except that U.A.C. competition did not commence until 1929. *All rates were fixed and approved in conjunction with the West African Merchants' Freight Association.*³

¹ Hicks, J. R., *Value and Capital*, 1939, p. 265.

² In a letter to the Editor, dated 26th January, 1943.

³ (Italics not in the original.) Some years ago, a long term Merchants' Freight Agreement was signed between the Conference Lines and the West African Merchants' Freight Association, which is still in force. In addition to regulating freights, it laid down a joint procedure for future alterations of rates and conditions, and provided for consultations between merchants and shipowners on any question affecting the interests of merchants. (Note supplied by Mr. Angus MacKintosh.)

It need hardly be stressed that the U.A.C. and John Holt would not run their own ships unless they were able to carry their goods and passengers more cheaply than in conference vessels despite the deferred rebate by which the Conference Lines endeavour to secure the loyalty of their customers over long periods.

Among the few manufacturing industries of Nigeria, the tobacco factory of the British-American Tobacco Company in Ibadan is alleged to be an example of monopoly activity. The chief purpose of the cigarette factory was said to be the spreading of the habit of smoking among the poorer sections of the community by selling cheap cigarettes made of locally grown tobacco. In 1939 the local 'Bicycle' cigarettes, containing a mixture of about 35 per cent local and 65 per cent imported Virginian tobacco, were sold at about one-third of the price of imported cigarettes.¹ As, thanks to the strenuous efforts of the Agricultural Department, the supply of local tobacco increased rapidly the company tried to sell brands with a higher percentage of local tobacco. The consumers were, however, not willing to buy them. It is a matter of dispute whether this was due to reasons of taste alone or also to the monopoly price which put cigarettes out of reach of the lowest income group. Whatever the explanation, the Agricultural Department was much concerned when purchases of local tobacco were subsequently reduced. If it were true that Africans try to imitate European consumption habits as soon as their incomes increase, the allegation might be credited that the cheap local cigarettes were introduced with the ulterior motive of whetting the appetite for future smoking of overseas products of the British-American Tobacco Company.

The situation in banking and the mining industry has been dealt with in other chapters of this book.

(e) PRICE POLICIES

Price stabilisation throughout a crop-year or over a trade cycle period is very much desired by the natives, but the firms have not been able to tackle this problem.² It is realised that such a policy would have a very beneficial effect on the willingness of natives to increase output, to improve the technique of production, and on their contentment in producing for export. In the absence of a complete monopsony in produce-buying, a special organisation of the firms would be necessary to bring about intra-cyclical and intra-annual price stabilisation. Under the present war-time conditions price stabilisation has been effected during each buying season separately through the government monopsony, the firms now acting merely as the agents of the West African Produce Board or the Ministries of Food or Supply. If, however, the formation of a general

¹ E.g. 50 'Bicycle' cigarettes sold for 9½d. and 50 Players for 2s. 6d. in 1939.

² Africans may be presumed to have a notion that periods of high prices and high incomes alternate with periods of low prices and low incomes.

monopsony is objected to on the grounds given above, the firms cannot be reproached for not having introduced stability of prices by this means.

Various proposals have been put forward by the firms to equalise the prices of whole areas on any one buying day by averaging out transport costs for different distances. The U.A.C. and John Holt have actually operated such a system in the Baro and Benue area. The advantages of averaging out transport costs are that it encourages natives in outlying districts to produce more (since they are no longer penalised by lower prices the more remote the buying station) and equalises land values throughout the whole country or district in which prices are uniform. Such a scheme would, however, be extremely difficult to operate on a large scale.

There are some simpler and less comprehensive price policies which might be encouraged with advantage to the colonial economy. It has, for example, always been the pride of private enterprises that they are more efficient in reducing costs and passing the economy on to the public in the form of lower selling prices and higher buying prices than public enterprises. When this actually takes place in spite of high wages, private enterprise achieves an economic justification which it is hard to dispute. In the absence of competition, however, or when competition is weak the existing extra-territorial importing companies of Nigeria have little inducement to pass on the benefits of their efficiency in this way.

It would probably help to increase the confidence of Africans in the trading firms if London market prices of Nigerian produce were regularly, prominently and, above all, punctually published throughout Nigeria by means of posters and wireless. Such action was strongly recommended by the Nigerian Cocoa Committee.¹

(f) COSTS AND EFFICIENCY OF OPERATIONS

Monopolistic and monopsonistic tendencies very often lead to the protection of high-cost sellers or buyers against elimination by competition. The incentive to continuous reduction of costs is greatly diminished. The existence of such conditions in Nigeria makes it seem worth while to investigate the costs of certain Nigerian products and certain general cost elements, such as the salaries of European staff.

The *Cocoa Commission Report* contains a list of the standard marketing expenses to Hamburg or a similarly situated harbour on the northern shores of the continent and a discussion of them.² The *Nigeria Gazette* for 1940 contains a list of the marketing expenses and remuneration (profits) of firms exporting cocoa. On the basis of this information an attempt will

¹ See especially para. 123. See also Volume I, Chapters VI and VII, pp. 239, footnote 1, and 267.

² Pp. 208 and 142-4.

now be made to state the cost items of the cocoa trade up to the point where cocoa comes into the possession of the manufacturers in the United Kingdom.¹

I. Nigerian costs, composed of items 1 to 9.

1. Price paid to farmer. This is usually the residue after deducting from the London price the 18 cost items enumerated below. The farmer in his dealings with native middlemen often receives less because of fraudulent weighing and because he has to pay a usurious rate of interest if he promises future delivery against spot payment. The interest is always more than 10 per cent, seldom less than 50 per cent and sometimes more than 100 per cent per annum.

2. Remuneration of pan- and basket-buyers. This covers wages, transport costs paid out to others (if any) and profit of the basket-buyers.

3. Remuneration of (independent or commission) scale-men. This also consists of wages, transport costs and profit of scale-men.

4. Remuneration of brokerage of (independent or commission) produce buyers. This was fixed by the cocoa buying agreement of 1937 and by the Cocoa Control in the war at 7s. 6d. for graded, bagged and sealed cocoa, and 5s. for naked (i.e. ungraded, unbagged and unsealed) cocoa. The total remuneration of all middlemen, intervening between the firms and the farmer, would include the items 2, 3 and 4 mentioned above.

5. Transport costs from up-country buying stations of exporting firms to headquarters. This includes all lorry expenses and/or railway expenses, varying with the distance.

6. Residual prime costs, overhead costs and remuneration at up-country buying stations and headquarters stations of exporting firms.

These costs per ton can be subdivided as follows:

(i) Residual prime costs.

Twill bags and twine (16 bags), 12s. 8d.

(ii) Coast overheads.

The schedule of marketing expenses under the cocoa buying agreement of November, 1937, 'included an amount of £1 2s. 6d. which item is intended to cover Coast establishment charges, i.e. the genuine buying expenses of each of the Coast buying organisations'. The Cocoa Control fixed a total sum of Coast overheads at 17s. 9d. for the main buying season of 1940-41; this was 4s. 9d. less than the amount charged under the monopsony agreement of 1937. Some of the costs were presumably much higher in 1940 than in 1937, but others were certainly much lower. The European staffs had been cut down by one-third or more. The guarantee of immutable quotas for the duration of

¹ The actual money costs quoted are all taken from those published by the Cocoa Control in the *Nigeria Gazette* on 27th September, 1940, and 21st November, 1940.

the war enabled firms to close down those buying stations which, though unprofitable, were maintained merely to keep up performance in anticipation of a future monopsony agreement or the renewal of an existing one, and to enable the firms, if they so desired to put pressure on competitors in future, e.g. by aggressive buying. The buying periods had been cut down by government order, resulting in a saving of overhead costs. Wartime conditions and the Cocoa Control have, therefore, succeeded in noticeably curtailing the overhead charges of the buying firms since 1939.

- (iii) Remuneration and profits. Under the Cocoa Control of 1940, firms are entitled to receive 10s. for services rendered in Africa. This item is profit in the sense of reward for entrepreneurship.

The total prime costs, overhead costs and remuneration of firms in Nigeria in 1940 amounts, therefore, to 27s. 9d. per ton of cocoa.

7. Interest charges on working capital during Nigerian carrying period. This has been allowed at 3½ per cent to 6 per cent per annum by the Cocoa Control. In the case of Nigerian shippers who borrow their working capital from banks or through agents in the United Kingdom the interest charge is augmented by:

- (i) A bank negotiation charge on draft.
- (ii) Cost of cables regarding the negotiation of credits received from and despatched through banks.
- (iii) Bank fee of 10s. 6d. for guarantee to customs authority (inspection fee and export duty) and surcharge of ¼ per cent in respect of shipments to foreign countries.

8. Loss in weight during the Nigerian carrying period. 2 per cent of the f.o.b. value of cocoa is allowed to cover the loss in weight during the Nigerian carrying period only.

9. Port of exit expenses in Nigeria.¹

	£	s.	d.
(i) Handling charges - - - - -		2	7
(ii) Harbour dues - - - - -		5	1
(iii) Government inspection fees - - - - -		2	6
(iv) Export duty - - - - -	1	3	4
(v) Lighterage (approximately) - - - - -		3	0
		<hr/>	

The total port of exit expenses amount therefore to £1 16 6

¹ Since October, 1942, the financial responsibility of the firms stops at the in-store-port-of-shipment point. Actually the West African Produce Control Board takes over cocoa on board ship, but all port of exit expenses in Nigeria are paid by it through the Local Control. This arrangement cuts out the rather high rates of interest and remuneration during the period of ocean transit to which the firms were previously entitled. The same spatial division of responsibility applies also to all the other products which the West African Produce Control Board buys, .e. palm-oil and kernels, ground-nuts and benniseed.

II. Overseas transport costs, composed of items 10 to 14.

10. Marine and war risks insurance costs.
11. Freight and shipping charges.
12. Interest during ocean transit period at $3\frac{1}{2}$ per cent to 6 per cent allowed.
13. Loss in weight during ocean transport period.
14. Landing charges, i.e. port charges in port of entry and handling charges.

III. Overseas costs composed of items 15 to 19.

15. Office expenses in the United Kingdom, 2s. 6d. per ton allowed.
16. Cost of remittances of money from the United Kingdom to Nigeria, 1s. 9d. per ton.¹
17. Remuneration for services rendered by the companies in the United Kingdom, 7s. 6d. per ton allowed.
18. Interest at $3\frac{1}{2}$ per cent to 6 per cent during overseas turnover period.
19. Loss of weight during overseas turnover period.

For some of the above cost items no figures are given because they are liable to vary from time to time. If all the cost items for which actual figures are stated in the schedule decreed by the Cocoa Control in 1940 are added up, interest at 6 per cent is allowed for two months, an F.P.A. marine insurance charge at $\frac{3}{4}$ per cent and compensation for loss in weight on board at $1\frac{1}{2}$ per cent is also allowed on a Lagos price of £17 19s. 5d. per ton, and freight is added at £2 per ton, a total cost of £6 14s. 3d. is obtained which excludes only landing charges and war risks insurance. The total marketing expenses (items 5 to 19 inclusive of the above list) laid down in the monopsony agreement of 1937 were £7 8s. 7d. per ton for Lagos, a figure which was based on the price of £35 per ton c.i.f. Hamburg. As was mentioned earlier, the rise or fall of £1 in this c.i.f. price involves the variation of 1s. 4d. per ton.² If the standard charges of £7 8s. 7d. are deducted from the North Continent price of £35, a corresponding Lagos price of £27 11s. 5d. is obtained. This is £9 12s. above the 1940 Lagos price of £17 19s. 5d. The standard expenses according to the 1937 agreement corresponding to such a Lagos price would

¹ If the average price of cocoa is taken to be £15, 1s. 9d. is equivalent to 6 per cent, which must be considered to be a very high rate. It may be compared, for instance, with the margin between the simultaneous quotations for buying and selling exchange by means of telegraphic transfer between the Straits Settlements and London. This margin was normally only $\frac{1}{16}$ d. for a dollar worth 2s. 4d., which is equivalent to 22 per cent. The explanation of the difference may perhaps be found in the fact that in Nigeria there are only two banks which act together in some ways, while in Malaya, on the other hand, there were at least a dozen exchange banks, owned by members of various nations. The rate of interest charged to credit-worthy companies in Nigeria by the banks, i.e. 5 per cent (which is a fine rate, and less reliable firms had to pay much more), must also be considered to be high in consequence of the absence of competition.

² *Cocoa Commission Report*, para. 445.

have been £7 8s. 7d. minus 9.6 times 1s. 4d., i.e. £6 15s. 10d. The comparable cocoa control charges in 1940 were £6 14s. 3d. plus the landing charges, which may be put at 7s. 6d., making a total of £7 1s. 9d. This is 6s. 11d. in excess of the standard expenses under the 1937 agreement. This excess is approximately the difference between the pre-war freight of £1 14s. 1d. and the assumed 1940 freight of £2.

It appears, therefore, that the total profit aimed at in the monopsony agreement of 1937 was the remuneration for services rendered in Nigeria and overseas of 17s. 6d. per ton (sum of items 6, iii, and 17 of the 1940 schedule). Adding to 17s. 6d. the additional profit of 5s. 1d. which, according to the testimony of the cocoa commission,¹ the agreement firms strove to make at Lagos, a total profit (excluding interest) of 22s. 7d. is obtained, which is 6.3 per cent of the Lagos price of £17 19s. 5d. per ton. This is an excessive profit on turnover, if it is to be achieved not only in peak years of booms but in all years of a trade cycle. It can be stated on good authority that most traders are extremely glad if they make only 2½ per cent profit on turnover over a whole trade cycle period; they are even not dissatisfied if they make only 1 per cent; they think 2 per cent on turnover a decidedly good margin. This will be readily appreciated, if profits on turnover are translated into profits on capital. The U.A.C. may be presumed to have exported on an average about £8,400,000 of Nigerian produce during each of the three pre-war years 1936-38. Let it be supposed that half the £4.4 million fixed and floating assets used by the U.A.C. in the export or import trade on 30th September, 1938, were on an average over the three pre-war years used in the export trade. On this assumption, which should not be too far off the mark, it follows that a profit of 6.3 per cent on £8.4 million, i.e. £530,000, is 24.1 per cent on capital used in the export trade. If this were a rate of profit realised only in peak years of booms and offset by losses in depression years, it might not be considered excessive. But the 22s. 7d. per ton was aimed at every year during the existence of the agreement.

It is interesting to consider some figures which show production costs of palm-kernels at a European palm-oil plantation for two periods, from which it was possible to calculate the total profit per ton of palm-kernels in August, 1942.

	£	s.	d.
Cost at mill ²	-	-	-
Cost of delivery from mill f.o.b. at port	-	1	17
Total cost f.o.b. at port	£5	4	9
Price at port paid by West African Produce Control Board	£6	2	6
Profit per ton	-	17	9

This profit is equal to 14.5 per cent of the price at port.

¹ *Ibid.*, para. 451.

² This includes a depreciation of initial capital expenditure plus interest accruing during the years before the trees come into bearing.

These figures yield an interesting conclusion. Supposing the 800 Africans employed on this estate were able to acquire the use of oil-palm land equal to the area planted with oil-palms on this estate; possessed all the managerial and technical ability which the white officers of the estate possess; could provide the necessary capital to finance the plantation and to buy palm-fruit from the surrounding area; and were willing to submit to working discipline under their African managers, as they are under white managers; they could then have earned between them the African wages, the European salaries, and the profits on both palm-oil and kernels which were earned on this oil-palm area.

The calculation for 1942 would be as follows:

In the production of 3,356 tons of palm-oil the following incomes would be earned:

£8,335	-	African wages ¹
£2,377	-	European salaries ¹
£2,517	-	Net Profits ²
<hr/>		
£13,229		

In the production of 1,111 tons of palm-kernels the following incomes would be earned:

£1,379	-	African wages ¹
£393	-	European salaries ¹
£986	-	Net Profits ²
<hr/>		
£2,758		

For both palm-oil and palm-kernel production the total earnings would amount to £15,987; divided by 800, this would give £19.98, or nearly £20. This is a very high annual income for occupied Nigerians. It is £6 more than the £14 average income per annum of African workers and clerks employed by the extra-territorial firms and it is much more than the 50s. to 60s. which the occupied Nigerians earn on an average per head per annum, assuming roughly 16 million occupied out of 22 million population and a total national income of £40 to £50 million per annum.³ No clearer demonstration of the advantages of managing oil-palm plantations on scientific lines can be given than is contained in these figures. The sooner Nigerians acquire the capital, the ability and the will to run such plantations, the better for them.

The cost of white staff is an important item in the overhead costs of

¹ The money value of the quarters and any other perquisites of African and European employees should be added to these wages and salaries.

² Assuming that the net profit was 15s. per ton, which is the remuneration allowed for per ton in the buying cost schedule for palm-oil for the period 21st January, 1944, to 28th December, 1944. (See *Memorandum to Shippers*, P.O. No. 4, issued by West African Produce Control Board)

³ This is the result of a very rough estimate by the author.

extra-territorial companies. The average salary of a white employee lies between £500 and £600 per annum and the employee might reach £600 to £700 after ten years, but thereafter the total emolument would rise fairly rapidly on account of high bonuses and commissions.¹ The high cost of white staff would not matter very much if the annual turnover per white employee were very large. Actually this is not so in Nigeria or, for that matter, anywhere else in West Africa. A turnover of about £10,000 per month per European employee of a two-way trading company would be fairly high. £5,000 per month, or £60,000 per annum, would probably be much nearer the average for the country as a whole.

The relation between total overhead costs and turnover has been the concern of a progressive merchant who, possessing considerable experience both of Nigerian and Malayan trade, compared the cost conditions in both these countries.² In Malaya the trading companies were confined to ports, leaving the retail and wholesale buying inland to Chinese. The costs of the trading companies were thus the costs of wholesale exporters only, and they amounted to only about 1½ per cent of the local price of produce. This authority put the average Coast establishment charges per ton in Nigeria at about 15s. including up-country charges, and about 10s. excluding up-country charges. Taking the Lagos prices of the chief export products of 1938 as given in the *Blue Book*, the Coast establishment charges of 15s. per ton amount to the following percentages of the Lagos prices:

Palm-kernels	-	-	-	13·6	per cent
Semi-soft palm-oil	-	-	-	19·6	„
Soft palm-oil	-	-	-	11·8	„
Grade I cocoa	-	-	-	5·2	„
Grade II cocoa	-	-	-	5·3	„
Ground-nuts	-	-	-	10·6	„

These are very high percentages but it must be remembered that the

Mr. Angus MacKintosh in the unpublished material he compiled for Nuffield College gives the following description of the policy pursued by one of the principal firms in employing white staff: 'Considerable care is taken in the choice of men for employment in West Africa, preference being given to men between twenty-three and twenty-seven years of age with a good secondary education and some business experience, either in the wholesale trade in this country or in some relevant occupation such as banking, insurance or transport. The service is pensionable and the firm does not, therefore, keep a man after the third year unless he seems likely to prove a useful permanent employee. During their first 'tour' of eighteen months, new employees are very carefully 'nursed' by senior officials, and for as long as seven or eight years they move about a good deal acquiring a general knowledge of the trade. After that, they thoroughly specialise upon one commodity or one market. The managers are thus specialists in all the trading questions of their own limited areas, and their word is accepted as fact upon matters relating to those areas.'

² Further material on this subject will be found in Hancock, p. 204, footnote 1.

1938 prices were rather on the low side, though from 10 to 40 per cent higher than the 1934 trough prices.

The conclusion to which these figures point is the one which this merchant readily accepts, i.e. that the West African companies should in the course of time liquidate their up-country establishments and retire to the ports where they should confine themselves to wholesale exporting and importing. This policy would not only be economically sound, but has much to recommend it on political grounds.¹

(g) LABOUR POLICY AND AFRICANISATION

The general absence of competition between firms, which has been discussed above, very often means that individual firms are the sole buyers of labour in the areas where they operate, but even if there are several firms represented in one locality, they often have a tacit or explicit agreement as to the wages they offer to African labour. Consequently there is a monopsonistic element in the demand for labour by extra-territorial firms in Nigeria. The firms can please themselves as to how much they will pay to the worker between the upper limit set by the discounted marginal net product of a worker and a lower limit set by the price at which the natives are willing to supply their labour. This willingness is determined chiefly by alternative opportunities for earning a living, which are notoriously poor in Nigeria, and by the high value which they set on leisure. Major Orde Browne provides information from which it can be inferred that the wages paid lay considerably above the lower limit, for he states² that there was no shortage of labour at the prevailing wage rates at the time of his visit to Nigeria in the winter of 1939-40. Considering further that the productivity of labour is low in Africa, it may be opined that the wage rates

¹ See pp. 119-22 below on the attitude of Africans to extra-territorial enterprises. At least one important firm has already adopted a positive policy in this respect. Mr. Angus MacKintosh reports on this firm as follows: 'Since 1930 one of the firms has gradually been giving effect to a deliberate policy of withdrawal towards the Coast, not only giving up such retail business as it had, but also withdrawing the spearheads of its wholesale organisation. It is the aim of this firm to concentrate on merchant-banking, retiring to the coast, and selling only by wholesale on a large scale. Ultimately, all the firm's imports will be distributed by the Africans to whom it proposes more and more to leave this part of the business. The policy adopted amounted to capitalising African distributors. The men originally chosen were tried and reliable clerks who had been for some time in the service of the firm. They have been financed by the firm, and at first, have been obliged to sell only the firm's goods. When a man has proved himself, however (and so far the record has been good), he has been released from this limitation and permitted to obtain his goods freely from other firms as well, thus becoming an independent retailer instead of an agent of the firm. If the other firms should follow this lead, they would in time operate only from the Coast, and through African retailers.' This policy was unfortunately abandoned about 1942.

² Orde Browne, Part I para. 11.

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are probably not much below the upper limit set by the discounted marginal net product.

The productivity of African labour is low because of the lack of skill, malnutrition and consequent lack of stamina, the very weak will to exertion and the strong preference for leisure. The African according to his present predispositions and traditions is capable of a strict working discipline only in case of work of which his community approves. For all other work he needs what Americans contemptuously call a 'speed boss'. The so-called daily 'turn-out', i.e. the ratio between workers turning out for work and the total number on the pay-roll, is also notoriously low. All this tends to increase the wages cost per unit of output very much.¹

Table X gives a list of the actual wage rates paid in the chief Nigerian industries by extra-territorial companies. These wage rates were taken partly from the *Blue Book, 1938*, and partly from Major Orde Browne's report.²

The tabulation below shows that in many industries workers receive free housing as part of their total emoluments, as under the 'tied cottage' system in England. As long as it is easy for Africans, who for one reason or another quit their jobs, to find alternative accommodation, this system need not give rise to abuses, but if such a system were to obtain in Nigerian towns to-day, abuses would be quite possible.

The companies are only gradually and reluctantly adopting a policy of Africanising higher paid jobs. Their chief objection to putting Africans into 'European' posts is the financial unreliability³ of Africans rather than

¹ It may perhaps be worth while to try out a method of paying wages designed to combat the preference for leisure. If the worker were given a bonus at the end of every month if he worked the maximum number of working days and were given a further bonus at the end of a year if he worked the maximum number of working weeks; this would presumably promote regularity of work where other arrangements would fail.

The Nigerian government has already made a commendable step in this direction. The regulations concerning the employment of government labour define a permanent labourer as one who does at least 20 days of work per month. He is entitled to full pay during illness and to one week's leave with full pay per year, neither of which the casual labourer can claim. This has to some extent forced the hands of the companies, as under wartime conditions the government and the Armed Forces were probably employing more labour than the firms. It is too soon to say what effect that will have.

² Part II, Appendices IV-VII.

³ This unreliability has many causes which it is the task of anthropologists to explain. But perhaps the following explanations may be hazarded. In a primitive community most goods become private property only through appropriation, and the respect for private property is accordingly exceedingly weak. The moral objection to stealing is largely confined to stealing from members of the extended family, village or tribe. The moral obligation to support the extended family is held to condone theft from others. Africans have still little compunction about embezzling white men's money, partly because they are resentful on account of

TABLE X
WAGES OF AFRICAN WORKERS AND CLERKS EMPLOYED BY EXTRA-TERRITORIAL COMPANIES IN 1938

Industry	Area or Company where employed	Grade	Number employed	Range of daily wage rates (a)	Probable average daily wage (pence)	Probable average annual wage (310 working days p.a.)	Wages in kind
1. Metalliferous mining	-	-	45,962	4½d. to 8½d.	d.	£ 8.40	Free first aid. Free housing in camps.
2. Logging	-	-	1,429	9d. to 1s. 4½d. (c)	6.5 (b)	13.82	
3. Timber	-	-	500 (c)	9d. to 2s. (c)	12.4	16.0	No free housing.
	U.A.C. Sapele Saw Mill		4,401	7½d. to 1s. (c)	8.1	10.45	Free housing in camps of village type.
	All other saw mills	Unskilled	320	2s. 8d.	12.7	16.4	
4. Cocoa, palm-oil plantations	-	-	1,902	4½d. to 7s. 8d.	24.4	31.52	Free rations of flour and salt, and free housing. (g)
		Skilled	25,131	4d. to 2s.	8.6	11.11	
5. Rubber plantations	-	-	1,500 (c)	6d. to 1s. (c)	7.4	9.55	Free housing in ranges. Free medical attention.
6. Cigarettes	-	-	160	9d. to 3s. 6d.	16.5	21.31	
7. Soap	-	-	27	3s. 2d. to 4s. 6d. (c)	49.0	63.31	
8. Building	-	-	107	1s. 2d. to 2s. 5d.	17.4	22.48	
	Southern Provinces	Skilled	95	1s. 3d.	15.0	19.38	
		Unskilled	125	8d. to 10d. (d)	9.3	12.01	
	Colony	Skilled	415	1s. to 4s.	20.2	26.10	
		Unskilled	552				
9. Canning and distribution of petroleum	-	-	60	1s. 5d. to 3s. 4d.	22.0	28.42	
		Unskilled	405	1s. 1d.	13.0	16.80	
10. Commercial	-	-	6,330	4d. to 1s. 4d.	6.7	8.65	
	Southern Provinces	Unskilled	4,308	9d. to 10s. 4.8d.	35.5	45.86	
		Clerks	4,400	1s. 7.7d. (e)	19.7	25.45	
	Colony	Labourers	3,000	6.9d. to 9s. 2.5d.	25.5	32.94	
11. Clerks in industrial enterprises (f) and plantations	-	-	4,000	1s. 7.7d. (e)	19.7	25.45	
	TOTAL (approximately) -		105,000				

Total annual wage bill of all extra-territorial enterprises = £1,551,504.
Average yearly wage = £14 15s. 2d. Average daily wage = 11.4d.

Source: *Blue Book, 1938*, except where otherwise stated.

(a) Formula for average value = lower limit + (220 × range between lower and upper limit). (b) Average figure calculated from the *Report of the Mines Department, 1938*. (c) Figures taken from Orde Browne, pp. 63-65. (d) Formula for average value = lower limit + (.661 × range between lower and upper limit). (e) Figures taken from pp. 89, 111 and 112 of the *Report of the Cost of Living Committee, Lagos, 1942*. (f) 5 per cent of all manual workers on plantations and in industrial enterprises. (g) The Custodian of Enemy Property gave the following rations to labourers on plantations in the Cameroons: 500 grammes of gari (= cassava flour) a day; 500 grammes of stock-fish or one litre of palm-oil a week; 6 oz. of salt a week.

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their inefficiency. It has been remarked upon above that the U.A.C. is now employing six Africans in managerial posts, but this spurt of Africanisation is due more to the present shortage of Europeans than to a deliberate policy.

5. LEVANTINE AND INDIAN ENTERPRISES

The discussion so far has been almost exclusively concerned with European businesses of the fully western type. There exists between the primitive native enterprise and the fully-fledged western enterprise, a type of business which may be called semi-western. Such a type is distinguished from the full western enterprise principally by an entirely different cost structure, created by different business methods, and by a different trade outlook. These businesses are run chiefly by Levantines¹ in Nigeria, but it must not be forgotten that some Levantines own businesses which conform to the western type, such as C. Zard & Company, Ferris George & Company, Saul Raccah, etc. Some of the semi-western enterprises are run by Indians and Africans, though, again, some of the Indians and Africans may be said to be in control of completely western enterprises, e.g. Chellaram & Sons, Chanrai & Company, and other Indian firms; Odutola Brothers, Union Development Trading Company, and other African firms. A large number of Levantine fully western businesses were started as such by ex-employees of European firms. The Greek Zarpas, who owns a huge bus company, and the Syrian trader Levantis in Ibadan have created businesses of this kind. The Anglo-Greek firms, Patterson, Zochonis & Company and A. J. Tangalakis & Company, brought a large Levantine staff into Nigeria, many of whom ventured out into fully western businesses on their own. Recently the U.A.C. also started employing Greeks. Some Levantine western firms were started by the strong Syrian commercial community in Manchester. Nevertheless, since the line of

the wrongs which they may imagine they have suffered at their hands. Their extreme poverty makes practically all Africans pre-disposed to admire all methods, fair or foul, of getting rich quick. This poverty would also inevitably weaken what moral objection they entertain against embezzlement. Local police forces are still so ineffective that any culprit can easily escape into the bush. Moreover, imprisonment is no stigma. Nor must it be forgotten that as far as the financial unreliability of African employees of companies is concerned this was often a case of 'like master like man' in days gone by. African employees were apt pupils of financially unscrupulous superiors. Even to-day their example may not always be too impeccable. See, e.g., the reproach of the *Cocoa Commission Report* that company officials made false declarations about cocoa purchases to their head offices (para. 329).

¹ The term 'Levantine' is here used to cover any native of the Levant, i.e. those countries which are 'washed by the Eastern part of the Mediterranean and its contiguous waters' (*Webster's Dictionary*). Thus the term will here be used in rather a wide sense to describe any one of the following nationalities: (1) Greek, (2) Cypriot, (3) Turkish, (4) Syrian, (5) Lebanese, (6) Palestinian, (7) Iraqi, (8) Arab from Arabia, (9) Armenian, (10) Egyptian, (11) Sudanese.

distinction between Levantine semi-western and fully western firms is blurred, it seems proper to discuss the firms in both categories together.

By 1938 the Levantine group in Nigeria had already attained considerable importance. No less than 12 per cent of the total number of non-African foreigners in Nigeria, i.e. 1,034 out of a total of 8,223, at the end of 1938 were Levantines. But much more important than this percentage itself is its rate of growth between 1931 and 1938. In the census month of April, 1931, the Levantines were only 9.5 per cent of the total non-African aliens resident in Nigeria, i.e. 520 out of 5,442, as compared with 12.6 per cent at the end of 1938. The annual migration of Levantines is quite substantial, as the following figures for Syrians and Lebanese reveal.

1936		1937		1938	
Arrival	Departure	Arrival	Departure	Arrival	Departure
143	62	426	174	236	240

Figures for the geographical distribution of adult Levantines and Indians given in the 1931 *Census* show that the Levantines are nearly equally divided between Lagos, the southern provinces outside Lagos and all the northern provinces, while the Indians are chiefly situated in the southern provinces outside Lagos and in Lagos itself; there are very few of them in the northern provinces.

There is an impression abroad that the Levantines are permanently settled in Nigeria and that this is a chief distinction between them and the Europeans. This opinion is inaccurate. The figures given above show that there is a great deal of annual immigration and emigration of Levantines, proving beyond doubt that Levantines stay only for a period in Nigeria, not indefinitely. It is true, however, that they do not take leaves as European business men do. The position can perhaps best be summed up by saying that Levantines spend their working life in Nigeria without taking leaves, or at the most with only occasional trips for special purposes to the Levant. The extra-territorial nature of their businesses is clearly shown by the fact that they make large remittances to the Levant for the maintenance of relatives,¹ and that they accumulate money or investments in the Levant, these investments being usually made on visits for this purpose.

The Indian business men in Nigeria are no more deeply rooted in the country than the Syrians. Their capital comes from India and remains controlled from there. Profits are either ploughed back into the business or go back to India.

Nothing is known about how deeply the Arab business men in Nigeria

¹ According to information supplied to Dr. Fortes by a reliable source, between September, 1939, and November, 1940, nearly 80 wealthy Syrians applied for permission to send remittances to relatives in Syria at the rate of between £200 and £300 per head per annum.

are rooted in the country except that the 40 Arab traders who were established in Kano in 1939 had disappeared by 1942.

The Syrians and Lebanese are chiefly engaged in the trade in imported textiles, the export produce trade (especially cocoa and ground-nuts) and road transport. They are also engaged in money-lending and petty pawn-broking. No less than 99 per cent of all Syrian business men are in the retail textile trade. Some import direct from Manchester through the intermediary of Syrians established there; others buy textile goods from wholesale Syrian importers in Lagos, and others again from European firms in Nigeria. Some may employ all these methods. The European extra-territorial companies leave much of the retail textile trade in Ibadan, and perhaps elsewhere, to the Syrians as they can operate it on a much smaller gross profit margin. Consumers benefit from the control of the retail trade by Syrians, not only because of their low profit margin but also because of the wider range of choice they offer, frequently stocking the textile lines imported by several firms, instead of those of one firm only.

An enterprising Syrian (Mr. Zard) with about £3,000 capital has opened dairies in Lagos and Ibadan to supply fresh milk, the cows being kept indoors to protect them against tsetse fly. The Agricultural Department were the initiators of this scheme.¹

The Levantine community in Kano is particularly strong, numbering about 230 in 1939. Most of its wealthier members are engaged in the ground-nut trade in competition with the European firms.

Very little information is available on the Greek, Arab and Indian firms. There were two major Greek firms and three major Arab firms in Kano in 1939. The Indian firms in Nigeria specialised in imported Madras cloth, silk and made-up garments and cheap haberdashery, most of which they import from India with capital supplied chiefly from India, but partly also by Nigerian banks. The two chief Indian firms, J. T. Chanrai & Company and K. Chellaram & Sons, have branches in many parts of Nigeria and the Gold Coast. There are apparently no Indian firms engaged in the export trade. The Indian business men in Nigeria are much less implicated economically in the country than even the Syrians. Indians in Nigeria are mere clerks and managers for Indian concerns. They have come from India and always go back there eventually. Their capital comes exclusively from India, where there is a large surplus trying to find investment abroad. This is likely to grow after the second world war, as the old fields of investment for Indian capital in China, Malaya and Japan are likely to be curtailed in comparison with pre-war years. The profits which Indian businesses make in Nigeria are either ploughed back into the business or are transferred to India.

One of the chief characteristics by which these Levantine and Indian

¹ When Mr. Zard lost interest in his two dairies, the Agricultural Department took over the one in Lagos and his nephew the one in Ibadan.

firms differ from the European concerns is the comparative lowness of their costs, for which there are various reasons. Most Levantine businesses are family concerns. All capable members of the families work in the shops or stores, receiving only maintenance in return. They work long hours and very strenuously without long leave periods; this results in considerable savings.

None of the Levantine businesses is over capitalised. The Levantines have practically no fixed equipment or so little of it that they can utilise it fully even in times of depression. Their scanty capital equipment is of course not big enough to cope with the needs at the peak of the boom. They are then consequently forced, for instance, to hire additional storage capacity from others. Thus, the cost of maintaining capacity in idleness except at peak seasons is shifted to the other members of the business community. Most Levantine businesses are situated in the cheaper quarters of towns. Their distaste for living in the bush makes it easy for them to economise by not running out-stations. They keep their transport costs down by driving their own lorries and, in the case of exporters, by using the cheapest ocean transport possible, namely the Italian lines which are not among the Conference Lines.¹ Their closely integrated family and community life is another asset in business. Thus, a young Syrian immigrant has no difficulty in finding a relative, or even a mere Syrian acquaintance, who will give him enough credit to make a start. Such connections also make it easier for them to make wholesale purchases and credit arrangements in Europe.

Levantine business men are granted liberal credit facilities by the local branches of the two Nigerian banks, i.e. the British Bank of West Africa and Barclays Bank (D.C. & O.). The managers of the banks make a point of visiting the stores of their debtors regularly in order to ascertain whether their stocks are being maintained. African business men are very jealous of these credit facilities because they themselves do not enjoy them, but the banks point out that the Levantines cannot and do not disappear into the bush, like some African debtors, and they have proved to be more reliable than Africans. In the northern provinces the local branches of the two banks advance money for ground-nut purchases to Levantines but they do this also to African middlemen. They require as security either ground-nuts or merchandise in store and demand a margin of safety of 25 per cent, i.e. the value of the security should exceed advances by 25 per cent. The local branches of Barclays at Kano often advance money to Levantines on mere personal security, i.e. on the promise that they will deliver all ground-nuts they buy to the stores of the bank, which then ships them itself. This is reported to be a profitable business for the bank.

Extra-territorial importers are very liberal with their trade credits to Levantine firms. They are in fact anxious to use the Levantine businesses

¹ See above, pp. 86-7

as their chief channel for selling textiles to the Africans, as the Levantines have lower costs and are content with lower retail margins than the firms and consequently sell a larger volume than the firms could. Since Levantines increase their annual turnover of textiles, the firms are willing to sell them the goods at a somewhat cheaper rate than they allow the African traders. A Syrian might buy a piece of cloth at 3s. 6d. where an African would have to pay 3s. 9d. Firms offer readily acceptable hire-purchase terms for lorries to Levantines, and equally to Africans. They reckon to make their profits on petrol, oil and tyres as much as on the cars.

While the Levantines were mere purchasers of textile goods from the firms, the latter adopted a very benevolent attitude towards them, but when they started to import directly from overseas and, worse still, to export directly overseas, the firms saw in them rivals depriving them of business opportunities. Levantines maintain that the firms are bent upon eliminating them, not merely by permissible competitive pressure but by aggressive selling, discriminatory price policies, and other measures. One avenue of escape from this attack is the development of new lines of business (e.g. dairying in tsetse areas, cinemas, etc.), which the established firms have so far not taken up.

There has, however, been something of a truce in this struggle during the second world war. Independent Levantine exporters may now be temporary members of the Association of West African Merchants. They are now assigned a buying quota by the Director of Supplies (Ground-nut Controller) of Nigeria, and they must pay the official price like the other firms. Thus, the Levantine exporters can no longer hope to increase their share of the total export trade by over-bidding. Levantine business men are also attacked by the Africans in general and African traders in particular who grudge them their liberal bank and trade credits from the firms and their more advantageous buying prices. Real political tension is growing and Africans feel that they are more immediately deprived of economic opportunities by the Levantines than by European firms. Sooner or later some stricter control of Levantine immigration may have to be imposed to forestall political difficulties.

6. WAR-TIME OPERATIONS

(a) GOVERNMENT CONTROL OF EXPORTS

The description and analysis of the structure and operations of extra-territorial enterprises in Nigeria given so far has been concerned almost exclusively with the situation existing before the second world war. These enterprises and business operations have undergone very radical changes during the war. Some of these changes will prove to be only temporary; some will in all likelihood survive only during the immediate post-war years, while others again may prove to be permanent. Even if all the war-

time regulations of business operations were to disappear completely, the very fact of their existence will have exercised such a profound effect upon the Africans and the Nigerian government officials that the relations between businesses on the one hand and Africans and government on the other can never be the same again. Nor will extra-territorial enterprises emerge from the war without changing their mutual relations and business policies. It might, for instance, be surmised that government-imposed co-operation between the firms might lead to the formation of permanent buying syndicates after the war, as was the experience in the sugar industry of Mauritius at the end of the first world war. In one industry at least, namely the cocoa industry, the war-time control scheme will continue, with some modifications, into peace-time.¹ It is not clear as yet whether firms will be eliminated altogether from the cocoa trade.

On 29th November, 1939, the British government decided to buy the whole West African cocoa crop, using the established 'trade channels', i.e. using the established firms (of non-enemy nationality) as buying agents. Soon afterwards, on 7th December, 1939, the government of Nigeria passed the Customs (Prohibition of Export) (No. 4) Order in Council, 1939. This order prohibited the exportation of scheduled goods except either by a general or a specific licence to be issued by the Controller of Customs at his entire discretion. For the exportation of non-scheduled goods, no export licence was necessary. The scheduled goods could be exported to countries other than the United Kingdom only under specific licence, which the Controller of Customs issued for each specific consignment. The only exception to this rule was the export of palm-oil to the Union of South Africa and British East Africa.

There has been a subsequent Order in Council which has governed export control since June, 1941.² The distinction between scheduled and non-scheduled goods was abolished, and no goods whatever could be exported unless they were covered by an open general licence or a specific export licence had been issued for them. Three open general licences were issued under this Order which were in force during the second world war and for some time thereafter. The O.G.L. (Export) No. 1 issued on 21st June, 1941, authorised the exportation of articles forming part of the bona-fide luggage of a passenger to any destination within the sterling area or African territory under British or Free French rule. The O.G.L. (Export) No. 3 of 1941 authorised the exportation overland to neighbouring French territories of all goods, provided that a permit was obtained from the resident of the province from which the goods were finally exported. The most important open general licence is the O.G.L. (Export) No. 4, which came into force in October, 1943, superseding O.G.L. No. 2

¹ See *Report on Cocoa Control in West Africa, 1939-43*.

² The Customs (Prohibition of Exports) (No. 2) Order in Council, 1941, made on 10th June, 1941.

104 COMMERCIAL ORGANISATION AND TRADE POLICY of 1941. It authorises the exportation from any port in Nigeria of all goods destined for the United Kingdom excepting the following:

(i) Domestic export goods to which the Customs (Prohibition of Export) (No. 2) Order in Council does not apply, i.e. cocoa, palm-kernels, ground-nuts, ginger, benniseed, ground-nut oil, cassava starch and palm-oil.

(ii) Imported goods of all kinds.

(iii) Locally produced foodstuffs, except as part of a passenger's baggage for his personal use during his journey to a West African port.

(iv) Articles of art, hides and skins, enumerated in O.G.L. (Export) No. 1.

(v) The following domestic export goods—hides, rubber and soap.

The export of domestic goods, enumerated under (i) and (v), is separately controlled by the West African Produce Control Board and the Ministries of Food and Supply.

These Orders in Council have the general effect of giving power to the Controller of Customs to decide which firms may export which goods to which countries. Since a great deal of trust in the loyalty of firms is involved, he will naturally only permit established firms of very good reputation to export, thus not only eliminating established unreliable firms from the export trade, but preventing the establishment of new firms. The corollary of licensing exports of Nigerian produce is the imposition of buying quotas in Nigeria. For if a firm is not allowed to export more than a certain quantity, it is in effect prevented from buying more than that certain quantity in Nigeria. Such buying quotas have been in use in Nigeria for cocoa, palm-kernels and ground-nuts since November, 1939. Needless to say, whenever such buying quotas were imposed, the established firms alone were given these quotas, thus preventing the entry of new firms into the export business.

It must not be supposed that the exports of those goods which the Nigerian government did not include under the scheduled goods before June, 1941, or did not submit to further regulation after initial inclusion, have not undergone great changes since December, 1939, when the Customs (Prohibition of Export) (No. 4) Order in Council was issued. Great changes have actually taken place, owing to the action of the British government. There are two British ministries which are principally concerned with the importation of colonial raw materials, the Ministry of Food and the Ministry of Supply with their various satellite boards. These two ministries have imposed control upon the import of raw materials into the United Kingdom by various stages. Some of the colonial raw materials imported into the United Kingdom, e.g. cotton, have gone through all these stages of control; others have passed only a few of them. It will therefore be instructive to give a summary of all the stages with special reference to cotton: The first stage is the fixing of raw material

prices in the United Kingdom. Next, in order to conserve stocks already in the country, licences are required before imported raw materials may be used. Imports from overseas are then made subject to licensing, which is soon superseded by prohibition of all importation save by the British government. Finally, government control of all raw materials is completed by requisitioning all stocks in the United Kingdom not already in the hands of consumers (i.e. manufacturers).

The Nigerian export licences and buying quotas, supplemented in most cases by the raw material control in the United Kingdom, were soon superseded for some major types of export produce by the West African Produce Control Board with its subordinate controls which were set up in each of the four colonies.

The West African Cocoa Control Board had been operating since September, 1941, and bought West African cocoa on behalf of the British government. There was a subsidiary cocoa control in each of the two cocoa producing colonies, i.e. Nigeria and the Gold Coast. On 2nd July, 1942, the Colonial Office announced that the British government had undertaken to control the marketing and export of the whole of certain agricultural crops of British West Africa. For that purpose, the West African Cocoa Control Board was reconstituted as the West African Produce Control Board. This Board sat under the chairmanship of the Parliamentary Under-Secretary of State for the Colonies and worked throughout in close co-operation with the Ministries of Food, the four British West African governments and the Free French Colonial Commissariat. The Board has been functioning as an executive body since the end of April or May, 1942. The Board soon added to the control of cocoa that of palm-oil and kernels, ground-nuts and benniseed. The British Ministry of Supply took powers to purchase hides and skins, rubber and cotton in the colonies. It made its dispositions in conjunction with Inter-Allied Supply Boards and acted independently of the West African Produce Control Board.

The colonial governments, the West African Produce Control Board, the British Ministry of Food and Ministry of Supply and the Inter-Allied Supply Boards have all consistently pursued the policy of using only established trade channels as buying agents of West African export produce. Mr. Angus MacKintosh describes the relation between the firms and the British ministries as follows:¹ 'The Ministry of Food and the Ministry of Supply use the Association of West African Merchants as the trade channel through which to deal with exporters from West Africa. In this connection the Association has set up an *ad hoc* produce committee representing all the pre-war exporters except those of enemy nationality. Every exporter who was in business in the pre-war datum period laid down by the ministries is entitled to a share in their contracts in proportion to his performance during the datum period. The produce committee

¹ In his unpublished material collected for this book.

negotiated with the ministries on behalf of the trade. Thus, in effect, merchants are now buying on commission for the ministry. They pay prices determined by the ministries, they incur charges agreed by the ministries, the expenses of their organization are paid by the ministries on the basis of an agreed price per ton of each kind of produce purchased, their costs are examined and approved by the ministries and their profit is paid by the ministries, usually in the form of a commission per ton of produce or per cent of expenditure.

'Merchants cannot, therefore, export more than the percentage of the total export trade of the colony which they exported during the datum period, because they will not be given contracts for more than that quantity. They are thus guaranteed the prime costs and the gross surplus on their shares in total exports, which is precisely what is achieved by any buying agreement, so that the effect of the war-time procedure of the Ministry of Food is exactly the same as the effect of a buying agreement, except that, under the former, firms are protected from the challenge of non-signatories.'

The permitted gross surplus per ton mentioned above is made up of such overhead costs as office expenses in the United Kingdom, coast establishment charges, remuneration for services rendered in West Africa, etc. The bigger the annual crop, the bigger the aggregate permitted gross surplus, and vice versa. Since the actual overhead charges do not vary in proportion to the volume of purchases, more profit is made in years of big, and less profit in years of small, crops. The ministries take the ascertained costs in one year as the basis for the rates of compensation in the next. Consequently, if a good crop year were followed by a bad, the firms would complain of insufficient compensation.

Each of the four West African governments created in its own territory a supply board which took its instructions from the West African Produce Control Board, the Ministry of Supply, etc. The Nigerian Supply Board was created in April, 1942; its object was stated to be the co-ordination of the production of raw materials and local foodstuffs, overseas transport and overseas supplies for the colonies, i.e. the import of food and other commodities. It was also concerned with internal price control.

The policy of fixing prices for African producers pursued by the West African Produce Control Board was dictated by many considerations. Those behind the cocoa prices are set forth in the *Report on Cocoa Control in West Africa*.¹ Fear of accelerating the inflation in West Africa, of being unable to remove the produce to overseas countries, of overseas import restrictions and of low world market prices dictated caution. However, over the four crop years (October, 1939, to September, 1944) an aggregate profit of £3,676,253 was made on cocoa from Nigeria, the Gold Coast and the French Cameroons in spite of the fact that the Ministry of Food

¹ *op. cit.*, especially paras. 6-19.

did not pay the full world market price for cocoa consumed in the United Kingdom. Nigeria's share in the profit amounts to £1,169,906. It is proposed to use it partly for the development of a producers' marketing organisation and partly for paying Nigeria's contribution to the cocoa research station for West Africa established in the Gold Coast. The difference between the Nigerian prices for oilseeds, oils, and nuts, and the overseas prices less costs incurred between overseas markets and Nigeria are even larger than those on cocoa. So far there has been no expression of willingness on the part of the British government to hand some or all of this profit back to West Africa. If this were not done eventually, Nigeria would have been called upon to contribute to the war expenditure in Britain in a thoroughly unsatisfactory manner. As it is, the Gold Coast, where the income per occupied person is probably five times as large as in Nigeria, will receive money equivalent to £7 per cocoa farmer but Nigeria will receive no retrospective bonus in respect of the palm-oil and kernels, ground-nuts and benniseed exported by the Board. What defence is there for favouring the richer colony? Obviously a scheme should be worked out according to which each colony should make a contribution to the total war expenditure in accordance with some rational taxation principle, and the sources to be tapped should be the profits made in the United Kingdom from produce trade and the excess profits earned which, as far as Nigeria is concerned, are at present taxed only at the rate of 5s. in the £. Such an equitable principle would result in Nigeria receiving back from the West African Produce Control Board much more than the Gold Coast.

(b) GOVERNMENT CONTROL OF IMPORTS

Imports were regulated from early in the second world war. The chief regulations were made on 29th December, 1939, and were entitled Defence (Control of Import) Regulations. An Order was made under these regulations on 1st January, 1940, and simultaneously a government notice concerning imports was published.

Imports from sterling areas within the British Empire and contiguous African territories were permitted without licence. Indirect licensing, however, was, in fact, effected through the allocation of shipping space and the licensing of exports from the United Kingdom and other parts of the sterling area within the British Empire.

Imports from non-sterling areas within the Empire and from friendly foreign countries (except contiguous territories) were permitted only under licence. No licence to import was issued to any person unless he applied to be registered as an importer before 31st January, 1940, to the Controller of Imports, who, at his entire discretion, registered him as a regular importer of the class of goods for which the licence was desired. As most licences to import were dependent upon imports for the year 1939, it is

obvious that registration depended upon pre-war performance, i.e. only well-established firms were registered as importers. The multitude of Africans who imported by parcel post and new firms were excluded from such registration.

By the Defence (Control of Imports) (No. 2) Order of 1941, the importation of all goods was prohibited except under the authority of an open general or specific licence. The chief motive for this radical change was the desire to prevent the importation of enemy goods and to reduce the demand for shipping space, for exports from the United Kingdom, and for non-sterling currency and to give preference to import goods needed by African producers as an incentive.

The new import control was fully developed by 1944, and may be described briefly. The most important open general licence was No. 12, according to which the free importation by any firm (intra- or extra-territorial, new or old) of articles of cotton (except ready-wearing apparel) from any sterling area within the empire was permitted. The goods came chiefly from the United Kingdom and India, but as Indian goods were very expensive and British goods were allocated to British exporters, African and Levantine firms and newcomers had not much chance of obtaining supplies unless British exporters believed them to offer profitable post-war business prospects.

After the establishment of the Nigeria Supply Board in February, 1942, the importing of certain commodities, such as products of the engineering, pharmaceutical and canning industries, was permitted only through this board, i.e. orders had to be placed with the board which imported the commodities on account of the importers. This made it possible to order in bulk commodities which were in scarce supply in the United Kingdom or elsewhere and facilitated the transport of such commodities to Nigeria, especially in the allocation of shipping space. It will be realised that the status of the firms was reduced very much by this bulk indenting procedure, as they were really no longer direct importers of the commodities in question.

For another range of goods, special types of specific licences known as programme licences and O.L.L.A. (Office of Lend Lease Administration) licences were issued. The goods concerned were mass consumption goods, produced by light industries (such as hollow ware, leather footwear, builders' hardware, lighting equipment, etc.). These specific licences were either granted to individual firms or collectively to either the European firms belonging to the Association of West African Merchants (referred to below as the A.W.A.M. firms) or to firms not belonging to the Association (referred to below as the non-A.W.A.M. firms). These non-A.W.A.M. firms are largely African but include also some non-African firms, such as Indian, Levantine and Arab. The procedure for the issue of programme and O.L.L.A. licences was as follows: The Director of Supplies called upon

individual firms or upon the Nigerian secretary of A.W.A.M. firms or upon the non-A.W.A.M. firms and government departments to furnish estimates for the requirements for the next twelve months. Copies of the combined lists were then forwarded to the Crown Agents (Supply Department of the Colonial Office) and to the British Colonies Supply Mission in Washington. These authorities decided what proportion of the estimated requirements should be met by supplies either from the United Kingdom or the United States. If an allocation of American supplies was made, an O.L.L.A. licence was required for them. Programme licences applied only to allocation of supplies from the United Kingdom. The government, the non-A.W.A.M. firms and the A.W.A.M. firms received separate shares, those of the firms being based on performance in 1939. The A.W.A.M. firms usually decided the share-out among themselves in London.

O.L.L.A. licences differed from programme licences in that they were collective licences in the joint names of three firms only which had a buying organisation in the United States of America capable of making the purchases, i.e. the Union Trading Company, John Holt & Company and the U.A.C. They financed the purchases up to the Free on Quay point in Nigeria. All the A.W.A.M. and non-A.W.A.M. firms obtained American goods at identical prices.

Quota licences were introduced in December, 1943, for a variety of goods which were removed from inclusion in the open general licences Nos. 12 and 13. The goods concerned were chiefly articles of mass consumption for Africans such as leather footwear, bicycles and parts, artificial silk and woollen goods, sickles, hoes and cement, etc. Quota licences granted a definite share in total imports. Their purpose was to ensure that each established importer could maintain his pre-war share of the total import trade. It was curious that these quota licences should have made their appearance at so late a time during the war. The reason was possibly the extremely gradual growth of the divergence between the pre-war shares and the actual shares in the course of years on account of all the complicated import arrangements which rendered the monopolistic import agreements of the firms ineffective.

Programme, O.L.L.A. and quota licences were issued only to applicants who could show what quantities of the goods concerned they purchased in the United Kingdom or elsewhere abroad for importation in 1939. This stipulation would seem to rule out effectively all newcomers and small merchants who never imported directly from abroad; these are chiefly Africans. But the Director of Supplies deliberately allocated a part of total imports to the non-A.W.A.M. firms which included Africans, Levantines and Indians. He was at liberty to allocate the shares of extinct European firms (such as enemy firms and liquidated non-enemy firms) as they stood in 1939 to non-A.W.A.M. firms, but he was not very anxious to do so as he could not rely upon non-A.W.A.M. firms to import the quantities for

which they had received licences. Most non-A.W.A.M. firms, for instance, hesitated to import textile goods from India, partly because they were short of funds and partly because they could not compete with A.W.A.M. firms which enjoyed economies of bulk-buying and transporting. As the Director of Supplies desired imports for the sake of providing stimulus to exertion by African producers he preferred to grant licences to A.W.A.M. firms, thus giving them collectively a larger share than they had in 1938.

The small firms were, however, favoured after January, 1944, by receiving a special type of licence known as small merchant licence. £55,000 worth of goods could be imported into Nigeria by small merchants for which normally specific licences would be necessary. A small merchant could receive a small merchant's licence up to the maximum value of £500 for the year 1944. He would thereupon order as many pounds worth of goods as his small merchant licence entitled him to import. He would enumerate, in order of preference, the kind and quantities of goods he wanted the overseas supplier to send, giving him as wide a choice as possible in view of the shortage or non-availability of most goods. The overseas supplier was thus enabled to send the small merchant some goods with which to carry on his business. But the practical importance of this measure was not very great as not many more than 100 licences were issued in 1944.

It is evident from the above outline of the war-time arrangements that the most important departure from pre-war routine was the official fostering of a powerful import cartel organisation. For unquestionably the granting to A.W.A.M. of collective shares in O.L.L.A. licences and in programme licences and the very institution of quota licences and all the other practices connected therewith provided a real training ground for extra-territorial firms in cartel methods, discipline and co-operation. True, non-A.W.A.M. firms received also some schooling in cartel methods, but they are relatively unimportant. The effects of all these developments will be far-reaching.

It appears from a government notice of 25th February, 1943, that the Nigerian government had gone one step further in the control of imports by controlling the disposal of imported agricultural machinery. The Nigerian Supply Board announced that it had imported (as the compulsory agents of firms) a certain number of hand-operated agricultural machines, such as corn grinding mills, rice-hullers, palm-nut cracking machines, palm-oil presses, and rubber-mangling machines and invited farmers, who could prove a genuine need for them and could satisfy the Director of Agriculture that they would use them to the best advantage, to apply for purchase.

Two chief methods of price control of imported merchandise have been used, the 'flexible price' and 'inflexible price' methods. The flexible price method stipulated that the wholesale price should be 'the duty paid landed

cost' plus x per cent wholesale margin plus the transport cost between the port of entry and the place of wholesale selling. The retail price was similarly fixed as 'the duty paid landed cost' plus y per cent retail margin plus freight differential. Early in the second world war, when incomes had not yet risen and the stocks of import goods were still plentiful, firms were often content to sell below these controlled prices. But as incomes rose and great shortage of import goods developed, the controlled prices tended to become the only prices.

Examples of such price fixing in the years 1942-43 for imported goods can be seen in the appended table. The trade margins were all fixed in consultation with the traders. In comparing them with similar margins in this country it should be remembered that they were calculated after metropolitan buying, and often storage costs plus port of departure expenses, ocean freights, port of arrival expenses and import duties (10 per cent on all goods for which no special duties are fixed or which are specifically exempted from duty) had been added to manufacturers' costs in the metropolitan country. It must further be remembered that most of the distribution costs in Nigeria are much lower than those in the metropolitan country as wages and salaries of African labourers and clerks, rents of buildings and land, etc., are very much lower and more than counter-balance the few higher costs such as white managers' salaries. Taking all this into consideration, the margins should be lower than similar margins in this country. They are, however, partly higher and only partly lower.¹

The inflexible price-fixing method was used for all price-controlled locally-made goods² and for all those imported goods which are objects of

¹ The author has compared the margins in the table with those of a comprehensive enquiry of a co-operative society in Oxfordshire on 19th August, 1939, with the margins fixed in innumerable (Maximum Prices) Orders under the Goods and Services (Price Control) Act, 1941, in the United Kingdom and with margins quoted in H. Levy's *Retail Trade Associations*, 1942, Chapter X. All the wholesaling margins in the table are rather high compared with the 10-25 per cent which are the most frequent margins in this country. Retail margins in the table are mostly equal to those in Britain except those for bicycles and tyres, which are 30 per cent instead of 50 per cent. Most retail margins in this country vary between 33½ per cent. and 50 per cent. (Note: 'trade margins' are percentage additions to purchase price: 'trade discounts' are subtractions from selling price.)

² The locally-made goods in question and the areas for which prices were fixed are:

Foodstuffs: Cereals, vegetables, fruits, fats and oils, protein foods such as meat, eggs and cheese.

Drinks: Distilled water, soda water, sweet drinks (Lagos, Kano, Port Harcourt).

Tobacco: Cigarettes (Nigeria).

Building Materials: Bricks (Colony). Sand (Lagos). Fencing, gravel, sand, thatching (Port Harcourt). Pit-sawn timber (Lagos, Gusau, Sokoto, Argungu, Birnin Kebbi, Yelwa, Ilorin, Zaria, Plateau). Mill-sawn timber (Aponmu).

Native Bags: (Kabba).

mass consumption by Africans. Inflexible prices were also used for the following imported goods bought both by Africans and Europeans: cement, tyres and tubes, oils, sewing machines, balata belting. Inflexible prices were mostly fixed for retail trade only, but often also for wholesale and sometimes even petty trade as well.

TABLE XI
WHOLESALE AND RETAIL MARGINS OF IMPORTED
GOODS

Goods	Date of Nigeria Gazette containing price order	Wholesale price is equal to duty paid landed cost plus the un-dermentioned percentages plus freight differential	Retail price is equal to duty paid landed cost plus the un-dermentioned percentages plus freight differential	Retail price is equal to wholesale price plus the un-dermentioned margins plus freight differential	Petty trade price is equal to retail price plus the un-dermentioned petty trade margins
1. Foodstuffs	12/10/39	+20%	+30%	+8½%	
2. Drinks					
Congo beer, bottled	29/4/43			+10%	
Congo beer on draft	"			+20%	
Stout	"			+10%	
3. Building Materials					
Cement	17/9/42			8%—8½%	
4. Chemicals, Gunpowder					
Formic acid	5/11/42		+50%		
Paints	1/7/43		+50%		
Gunpowder	28/5/42				
	<i>et seq.</i> (Calabar, Ogoja and Onitsha only)				16.6%
5. Hardware, Iron and Steel Manufactures					
Corrugated iron sheets	18/6/42		+33½%		
Electric cable flex	14/1/43		+50%		
Fish hooks	6/5/43	+25%			
Lawn mowers	19/11/42		+50%		
Nails	3/9/42		+30%		
Sewing machines	24/12/42		+30%		
Screws	18/6/42		+33½%		
6. Bicycles, spare parts					
New bicycles	25/6/42		+30%		
Spare parts	25/6/42		+50%		
Rimlocks	12/11/42	+33½%	+50%	-12.5%	
7. Rubber Goods					
Bicycle tyres and tubes	25/6/42		+30%		
Motor tyres and tubes	16/4/42		+30%		

This rapid survey of the government regulation of imports has shown that the firms have been deprived of many of their functions in the import trade. In most cases they can no longer decide how much they will import or from where the imports should come. They sometimes do not even finance the imports in the overseas country supplying them, but buy from the Supply Board in Nigeria. The considerable reduction of imports has affected the firms in another direction. They had to withdraw from retail merchandising to a very considerable extent, partly because they were short of supervisory staff but chiefly because they have had insufficient goods for their African-run stores, of which each firm had an appreciable number in every district under the supervision of a district agent. These stores were situated in outlying parts of towns and in remote villages and might have a turnover of £300 or more per month. The African storekeeper would work on a salary plus commission; the salary averaging about £8 per month. Some of these storekeepers, though barely literate, showed very keen enterprise and business ability. They acted both as salesmen of imported merchandise and as produce buyers. Many of them have now established themselves as independent storekeepers and are trying to get hold of imported goods from more than one wholesale importer. They sell their goods either through their own stores or retail them through petty women traders to whom they supply goods on credit. When normal peace-time conditions are restored, the firms will have to decide once more whether to recapture the retail trade or to leave it permanently in African hands.

7. NET ECONOMIC RESULTS

The question has often been posed whether Nigeria (or any other colony) has on balance gained or lost in the economic sphere through extra-territorial businesses. This question resolves itself into another: has the resident-owned national income and national capital grown faster in consequence of the activities of extra-territorial business in Nigeria than it would have grown in their absence? But this question is not of great value because much of the increase of the resident-owned national income and national capital is due to the work of the British administration. The question must, therefore, be reformulated: if the British administration had engaged in no more economic activity than it actually did in the past, what would the resident-owned national income and national capital have been in the absence of extra-territorial enterprises?

To formulate the question thus is to demonstrate that it is so speculative as to be practically useless. If, however, it were attempted to give a tentative answer, it could be couched only in very general terms and might possibly be: there would have been at the present time:

- (i) less international investment in Nigeria and therefore less capital in use.

(ii) less industrial training of Africans in European techniques and business methods and consequently less output.

(iii) less indirect production for home use, i.e. production of exports to obtain imports. Fewer exports would have resulted in a smaller volume of imported consumers' and producers' goods.

(iv) more direct production for home use in place of the production of additional export goods which extra-territorial companies have engendered but probably not sufficient in volume or value to compensate for that production of export goods.

(v) less direct production for home use in so far as this owed its existence to the stimulus provided by extra-territorial companies. This stimulus was partly direct (e.g. buildings erected by companies out of local materials with local labour, or production of extra home-consumption goods purchased by the African employees of the firms) and partly indirect. The chief indirect stimulus is provided by the earlier and more rapid development of the monetary exchange sector through the companies. This increases internal specialisation and consequently output and makes money taxes possible. These in turn enable the government to produce a bigger output of commodities and services, to substitute socially more beneficial collective consumption and investment for private consumption and investment and to increase the utility of social income through re-distribution.

(vi) trade fluctuations less marked as more production would have been for home consumption, which is more stable than production for export.

(vii) a more equal distribution of national income and capital, though both would have been smaller in amount.

More to the point than speculation about the economic net effect of extra-territorial enterprise, however, is enquiry into the specific faults of the pre-1939 system, faults which constitute exploitation (in a strict and technical sense) of the Nigerian economy by the extra-territorial companies.

In a broad sense, a distinction might be made between distributional and restrictionist exploitation. Distributional exploitation may be defined as the withholding from permanent residents in the colony of part of their full share in the actual national product, that is the product resulting from actual utilisation of resources. Restrictionist exploitation through external agencies might be defined as the withholding from permanent residents of the colony of their full share in the difference between the actual national product, which has been restricted as a result of deliberate policy by extra-territorial companies, and the realisable national product which could be attained if no deliberate action or inaction prevented the full profitable use of available resources. Deliberate under-utilisation of resources may be due to monopsonistic or monopolistic restriction or to deliberate under-investment to protect metropolitan industries, which would suffer from the competition of similar industries in the colony.

Distributional exploitation through extra-territorial enterprises deserves to be examined in some detail and in strict economic categories. The following methods of exploiting colonies by extra-territorial enterprises may be distinguished:

(i) Paying to the Nigerian owners of the factors of production a reward smaller than the market value of their marginal net products.

This result occurs whenever there is monopsonistic or oligopsonistic buying of a factor, the supply of which is rather price-inelastic, or through the commandeering of factors at fixed low rewards (a comparatively rare occurrence in Nigeria). It also occurs in so far as there is monopolistic or oligopolistic selling in the world markets of the products of the labour concerned. This statement, that the reward of the factors of production is smaller than the market value of their marginal net product, is compatible with the frequent practice of monopolistic businesses to pay their workers a wage somewhat in excess of the supply price of labour. In most of such cases the market value of the marginal net product of labour would exceed this wage.

(ii) Failure to substitute cheaper Nigerian for more costly European staffs.

This occurs because capital is not invested in the training of natives, although such investment would be profitable in view of the subsequent saving in labour or managerial costs.

(iii) Keeping external costs of companies high.

This causes the marginal revenue derived from the use of Nigerian factors to be low. It may occur because of the charging of exorbitant shipping freights and head office costs, overseas processing costs, etc. and the calculation of the value in Nigeria of any export produce as the difference between the world market price and these high costs incurred outside the country.

(iv) Keeping supply prices of Nigerian factors low through general non-utilisation of resources.

Disguised unemployment exists in practically all parts of Nigeria, with the result that the productivity of labour in agriculture is very low.¹ Thus, the extra-territorial companies have to compete for their Nigerian labour

¹ The annual productivity of agricultural labour is generally lower than that of industrial labour in any country where the former work only for part of the year and the latter all the year round. The annual productivity of Nigerian labour in the oil-palm belt and in banana-growing regions need not be low for this reason as their crops grow all the year round. But the annual productivity of all Nigerian agricultural labour is low, quite apart from the intermittent character of some of it, because in the southern provinces there is only $\frac{1}{4}$ and in the north $1\frac{1}{4}$ of an acre of cultivable land per occupied person in agriculture, and because the quality of most of the soil is poor and the rainfall in the north is low, and cultivation methods are very primitive. This is elaborated in an unpublished treatise by the author entitled 'Future Economic Progress of Nigeria'.

only against alternatives of an economically most unattractive kind. If there were full utilisation of resources (to which the development of secondary industry would contribute), the disguised unemployment would disappear, the marginal net product of labour in Nigerian farming would rise and with it the alternative attractions which extra-territorial enterprises have to counter in order to secure labour. The lack of interest in the establishment of secondary industries by most extra-territorial enterprises is thus a cause of the low supply price of Nigerian labour. In the gold mines of the Gold Coast wages are higher than in the tin mines of Nigeria, partly because the alternative incomes to be earned in the cocoa industry in the Gold Coast are much higher. The average weekly wage of a gold miner in the Gold Coast was 10s. and the average weekly wage of a Nigerian tin miner varied between 2s. 6d. and 3s. 6d. during the period 1931 to 1937.

(v) Monopsonistic demand prices for export products.

As has been demonstrated above,¹ the demand price for some export produce is kept low chiefly by monopsonistic restriction of purchases, at least in local areas, and by a temporary artificial depression of world market prices.

(vi) Charging monopolistic supply price for imported goods.

The various selling agreements between importers and the existence of local selling monopolies were discussed earlier.²

(vii) Disproportionate division of taxation between the colony and overseas countries.

There are still some colonies where profits of companies and the incomes of their European employees are not subject to income tax. In other colonies, such as Nigeria, the colony taxes both company profits and the incomes of European employees but the division of the tax revenue between the colony and the metropolitan country still leaves much to be desired. This, of course, is not the fault of the companies; but it is an unfortunate and unnecessary consequence of their extra-territoriality.

(viii) Nigeria's loss through external capital gains.

This occurs chiefly in the case of mining companies and those extra-territorial companies to which native land was in rare cases alienated or which, as happened more frequently, were allowed to take native land on very long leases. In the case of those extra-territorial companies, the original promoters of a new company or the shareholders of an established company may sell out their shares to another company, and a considerable capital profit may be made outside Nigeria in the course of this transaction. The capital profit is equivalent to the unearned increment of value of the Nigerian property. If the properties in question were owned by Nigerian residents, such capital profits would not be lost to the country. But as the properties are owned by extra-territorial companies, the capital profit accrues outside the colony. If Nigeria itself could make

¹ Pp. 76-82

² Pp. 82-7

these external capital profits, it would naturally be richer in consequence. This end could, for instance, be achieved by ascertaining at stated intervals the unearned increment, capitalising it, and distributing to the Nigerian government the equivalent in value of the unearned increment, which the government might realise outside the colony and thus reap the external capital gains.

The above list of methods of distributional exploitation of Nigeria by extra-territorial companies is not exhaustive but probably covers the main methods. It should be emphasised, however, as Lord Hailey rightly did in his address to the Royal Society of Arts, that Nigerian labour and the Nigerian primary producer 'may well suffer at the hands of domestic capital an oppression which foreign capital would in present conditions be powerless to practise'.¹

The size of profits is often regarded as a crude measure of distributional exploitation. It would be a satisfactory measure only if it were proved that all the hired factors of production were deliberately paid less than their correctly calculated discounted marginal net product. If the hired factors of production had received the full value of their discounted marginal net product, even high profits would be no indication of exploitation in the economic sense of the term. With these preliminary remarks, the profits made in some non-mining businesses in Nigeria may be examined.

The profits in one export business, i.e. cocoa, have been illuminated by the enquiries of the commission on the marketing of West African cocoa. The commission stated in its report. 'Here we shall only state our opinion, based on the evidence of disinterested competent witnesses, besides that of the firms themselves, that the West African cocoa business considered over a period of recent years has not been a profitable one. The United Africa Company has informed us in evidence that during the period 1930-7 inclusive, the trading results of their cocoa operations showed a net loss of £1,338,000. Even granted that a large part of this loss occurred in the abnormal year 1936-7, and that in one or two years a fair profit is admitted, the results cannot be considered as satisfactory'.²

From information obtained about the general trading profits of the U.A.C. in the years 1937-38 and 1938-39, it may be calculated that the pure trading profits in these years stated as a percentage of pure trading capital amounted to 2.43 per cent and 9.43 per cent respectively. It may

¹ 'Capital and the Colonies', *Journal of the Royal Society of Arts*, v. 91. 474-85, 1943. An indication of what this exploitation may be like is given by the exorbitant rates of interest of moneylenders ranging from 10 per cent. to 100 per cent and more per annum; the excessive retail margins of independent African storekeepers and hawkers, the rack rents of African property owners in towns, especially Lagos; the low wages paid by African miners, farmers and contractors to their workers; and the cheating of farmers by produce buyers; see *Cocoa Commission Report*, paras. 258, 260 and 264; and *Report of the Cost of Living Committee, Lagos*, 1942, para. 18.

² Para. 818.

quite rightly be claimed that these figures show how very uncertain are the results for any firm trading in West Africa since in one year alone of the decade 1929-39 over £1,000,000 was lost. These figures for the trading operations of the U.A.C. in Nigeria require, however, some interpretation. On the one hand, if the value of capital invested were expressed in current replacement values rather than in original values, the rate of return would be much lower. On the other hand, it should be remembered that profits from capital appreciation were made outside the colonies; some items of expense, such as parts of high director's fees and high salaries are really profits. Furthermore, it would be possible for the U.A.C. and John Holt to conceal some of their trading profits by showing them as shipping profits.

Whatever the degree of active exploitation of Nigeria through external enterprise may have been in the past, it is certain that it will be much limited in the future. The reasons for this prophecy are based on various changes in taxation, government regulation of wages and working conditions, control of prices and supply of factors of production, which have been introduced during the second world war and are likely to be permanent measures. In addition, it seems probable that the establishment and operation of intra-territorial enterprises will be stimulated by the government in future to an even greater extent than in the past.

Restrictionist exploitation was defined above as 'the economic damage to Nigerians in consequence of the reduction of the total national product to a level below that which could be attained by using the available resources at an optimum rate'. This may be the result so far as external agencies are concerned of deliberate restriction of output in consequence of monopolistic and monopsonistic practices. It may also be due to lack of interest in, or even opposition to, the development of internal trade and industrialisation.

The companies would probably maintain not only that they do not prevent the industrialisation of the country, but that they have gone as far in internal development as is profitable. Actually there has been no systematic examination comparing the profitability of production for export with the future profitability of potential production for the internal market. Those who maintain that the Nigerian economy is unbalanced because exports are over-developed would have to prove that, if the resources absorbed by production for export were transferred to domestic production, they would produce an output of higher value. Those who maintain that production for export should be further expanded relatively to production for the domestic market would have to prove that, if resources were transferred from the production of domestic goods to the production of export goods, they would produce an output of a higher value.

In so far as restrictionist exploitation is due to deliberate restriction of output, this exploitation can be limited by adopting measures to expand

the output to the competitive level. One such policy would be to impose a maximum product price equal to both long-term average cost and revenue at the long-term equilibrium output, and minimum factor prices equal to long-term average cost of factors at the equilibrium output—always assuming the magnitudes concerned to be known. The entrepreneur would find that he could in these circumstances earn only the normal profit per unit of output and that he could maximise his total normal profit only by producing exactly the competitive volume of output. In so far as restrictionist exploitation is due to lack of interest or opposition to the development of internal trade and industrialisation it can be prevented only by an economic development plan.¹

8. ATTITUDE OF AFRICANS

The penetration of European traders into the interior of Nigeria may be described as a penetration of wholesale or retail buyers and sellers, or both. Originally, only wholesale buyers and sellers penetrated into the interior and there was little opposition from the Africans as long as all the retailing in towns and especially in the bush was left to them. In the last quarter of the nineteenth century, however, the companies started to enter the retail trade in up-country markets. Some firms, notably Cocoa Manufacturers Ltd., have established depots in village markets and bought extensively from scale-men in order to secure direct control over such a large supply of Grade I cocoa that any attempt to corner the market against them is thereby made impossible. Direct contact with the scale-men and with producers in the bush enables Cocoa Manufacturers Ltd. to increase the supply of Grade I cocoa by providing incentives to the producers to improve quality.

Another motive for firms pushing their buying and selling activities further into the bush is their desire to spread their heavy overhead charges over as big a turnover as possible. This motive has often been reinforced by the expectation that sooner or later a new buying agreement would be based upon their so-called 'past performance'.

The result of the penetration of European firms into retail buying and selling in the bush is the squeezing out of existence of the old generation of African traders. Before the first world war there were many big African traders. They are now reduced to the status of independent middlemen or

¹ In an unpublished treatise on the 'Future Economic Progress of Nigeria' it has been suggested that the government might make such a development plan and invite private companies to engage in the work planned in all those industries which are not specially reserved for intra-territorial enterprises. It has also been suggested that the government should supply the necessary residual investment, in case the extra-territorial enterprises were unwilling to supply all the capital or management, or both.

commission brokers to the firms. Broad-minded European traders admit that great ill will is being engendered among Africans by their displacement from the internal trade of the country. The Africans complain that they were ousted from the internal trade because of the greater financial power of the extra-territorial firms. It must not be supposed, however, that most African traders were driven out of existence by the financially superior extra-territorial companies. Most of the African traders disappeared because they were unprepared for the post-war slump of 1921 and 1922 when exports dropped to one-half of their 1920 value. They eliminated themselves by their business methods. They held large stocks of import goods and exhausted their credit. When the slump came and the prices of their goods fell heavily, they could hardly manage to pay their debts, and most of them, in fact, remain debtors to the Europeans who consequently took over their businesses.¹ Having been squeezed out of trade, Africans are now losing the managerial training and commercial experience which would be necessary to improve their efficiency. As long as the firms do not pursue a deliberate policy of Africanisation towards managerial posts, and as long as the Africans are unable to obtain easy credit from the banks, they will be prevented from competing on equal terms with extra-territorial traders in the interior.²

The urge among African traders towards direct exporting and importing is very strong. They are still making a steady bid to ship independently of the companies, but they always fear that by aggressive buying and selling the extra-territorial companies will eventually eliminate them. It is very common among both rich and poor Africans to order goods directly from overseas against a cash deposit either with a bank in Nigeria or with exporting firms overseas. There are also independent African shippers³, both in the cocoa and the ground-nut trades, but their number could be much greater than it is if the African were as keen to be independent of firms in the export business as he is in the import business. There are a few successful African internal traders who have made peace with the firms. The most notable example of them is Alhaji Alhassan Dan Tata, who deals on principle with European merchants and does not import or export direct. All the ground-nuts which he buys he sells direct to the merchants. He has an agreement with the U.A.C. according to

¹ A well-known African trader in Lagos still owed between £20,000-£30,000 to the British brokers only a few years ago. This affords at once a measure of how important such Africans were as traders in the past, and how large was the catastrophe which overtook them in the post-war depression. The big firms, particularly the U.A.C., were forced to write off many thousands of pounds of such debts.

² Evidence of the mistrustful attitude of Nigerians towards extra-territorial companies is to be found in the *Cocoa Committee Report*, para. 63, and *Cocoa Commission Report*, para. 389.

³ See Table VIII.

which they pay him 10s. above their daily purchasing price on every ton he brings to their buying posts. He buys salt, cotton goods and other imported goods from the companies and distributes them through his organisation.

The highest survival rate among African traders is to be found among the African retailers and petty traders, the petty African women traders being particularly successful in maintaining their position.

One industry has, however, been deliberately left to Africans and Levantines, i.e. the motor transport industry. European firms found that they would lose money if they tried to run the bulk of their own transport in the small lorries which the state of the roads permit. Africans buy lorries from companies on the hire purchase system and cut their costs by not setting aside depreciation reserves, so that when the lorries are worn out or sold second hand the owners find themselves sometimes with less capital than they had when they entered the transport industry. It is said, however, that the initial payment is equal to the price of a second-hand lorry and the instalment payments are concentrated in so short a space of time that, by the time the last is made, the owner could still get a price for his second-hand lorry, if he drove carefully, equal to his initial payment. He can then buy a new one. Thus in effect depreciation payments are made.

In conclusion, it may be said that it has been the common experience in all countries in the world where extreme nationalism was absent that the economic activities of foreigners were resented only when, for one reason or another, economic life stagnated or economic opportunities were limited. An economic development plan involving a much-needed agricultural revolution and industrialisation, preferably coupled with a 'back to the ports' movement of the big trading companies, would produce so many economic opportunities for Africans that they would very probably forget their previous antagonism to extra-territorial companies.

The next best policy for alleviating their antagonism would be the pursuance merely of a 'back to the ports' policy by the big trading companies. But a word of warning must be uttered. If the trading companies were to withdraw to the ports too abruptly, Levantines and Indians would establish themselves so firmly that the Africans would have little chance of getting rid of them. The movement back to the ports would have to be carried out in the manner which one of the firms did adopt for a limited period. The trading firms would have to finance and train Africans to enable them to continue their up-country trading posts and they should withdraw only after reliable African substitutes had been found. The company referred to¹ proceeded in two stages. First of all it obliged Africans to buy imported goods only from the parent firm and later on, when an African had shown his sense of responsibility, honest dealing and entrepreneurial

¹ See p. 95 above.

ability, they released him from that restriction. The government would have to co-operate with the firms in establishing independent African traders; for the most serious obstacle at the present day to any such plan is the absorption of educated Africans into government clerkships and the professions. The government would have to work out a training scheme with the companies so that the supply of educated Africans should be sufficient for entrepreneurial and government service at a rate of remuneration which is similar in all these occupations. The government would furthermore have to apply the Immigration Restriction Ordinance, 1939, (enacted on 20th April, 1939) more strictly so as to decrease the number of Levantines in the country.

The only radical cure for the antagonism of the natives to the companies is an economic development plan. The 'back to the ports' policy, standing by itself, would probably only postpone the issue for a decade or two, but would not remove the antagonism. If neither of these two policies were pursued, the position would at best remain static. An attempt might be made to provide Africans with capital and to give them managerial opportunities and technological training: aggressive competition might be stopped and overseas trading connections might be opened up for them. All these measures would, however, only mitigate the tension.

9. EXTRA-TERRITORIAL ENTERPRISES AND PUBLIC AUTHORITIES

The attitude of public authorities, i.e. the Nigerian government and native authorities, to extra-territorial enterprise is as important as that of the Africans in their capacity of traders in advancing or hampering the activities of extra-territorial companies and vice versa. At present the relationship between extra-territorial companies and public authorities is not as satisfactory as it might be.

The system of economic relationships and of economic behaviour of companies is generally incomprehensible to local political officers who, as a rule, have never received any economic training. It has been a well-known fact on the Coast for many years that a large proportion of these officers are highly suspicious of the operations of 'Big Business' among the peoples under their charge, though they do not always find it easy to rationalise this suspicion. The technical officers, i.e. mining, agricultural, forestry, veterinary, transport and railway, Public Works Department, etc., officials, who generally have some commercial, financial and sometimes even general economic knowledge, have hitherto not had the same influence and power as the political officers. The Governor, the officials at the Central Secretariat, the Provincial Commissioners and the Residents are called upon to approve or disapprove proposals made by the technical officers whose economic knowledge has therefore not much chance of

making itself sufficiently felt.¹ Nor were there among officials in the colonies any professional economists to whom political and technical officers could turn for authoritative advice. The companies, on their side, have long expressed impatience because they were kept waiting for the government to declare its policy concerning the future development of export and import trade and industrialisation.

In these circumstances, therefore, it cannot be surprising that before the second world war there was a disastrous lack of any long-term economic policy in Nigeria.

It was the recognition of this situation, which was reproduced in other colonies, coupled with the urgent need for economic control imposed by the war, which led to the establishment of new posts in West Africa. A professional economist, Professor N. F. Hall, was appointed to the staff of the Resident Minister in West Africa. The Gold Coast appointed Professor J. H. Richardson as Economic Adviser, while in Nigeria the post of Development Officer has been created, though the first appointment here has not been that of a professional economist.

There is the further question of the three-sided relationship between the Nigerian government, the companies and the Colonial Office. Officially, of course, the colonial governor and his service are under the direction of the Secretary of State and in theory no divergence should be possible or, at any rate, be publicly apparent. In practice, however, it is no secret that divergences do occur from time to time and are, indeed, inevitable in this as in other branches of colonial administration. Striking evidence of such divergence was given in the *Cocoa Commission Report* with regard to the firms having managed to enlist the support of the Secretary of State in a manner which elicited the disapproval of the commission.² It is clearly to the interest of the major companies that the main discussions and decisions with regard to economic policy should be carried out in Whitehall, as their own directors conduct their policy from London for the several colonies in which they carry on business and do not, as we have seen, delegate to their local managers the powers that would be necessary if important questions were to be decided locally between them and the governments. Situations have, therefore, inevitably arisen in which officials at colonial headquarters, and still more the administrative officers in the provinces, have felt the effect of policies which, in view of their having been worked out in London and also of their own lack of training in economic questions, they could not fully understand or explain, or even,

¹ An example of some of the short-sighted policies which Nigeria was induced to follow may be given. Production of tea was stimulated in the Cameroons to help to overcome the tea shortage. When East African tea became available again, the Nigerian Supply Board stopped production. Africans must naturally resent such a policy. It may be doubted whether it is in the long run in the interests of the Cameroons.

² Paras. 167-9.

in some cases, approve. One example may be given of the kind of difficulty which may arise. Government officials have been pressing the U.A.C. and John Holt for years to pay a ground-nut price in the Baro area in accordance with freight differentials so as to improve the economic position of the area, but they had to wait until the second world war came for a chance to impose this policy on the companies. The company officials could not enlighten them much: firstly, because many of them, too, had not had adequate economic training: secondly, because they were not always informed of policies and plans of their head offices and: thirdly, because it is probable that they were frequently not allowed to give information even to government officers.

The Colonial Office itself was not, until recently, adequately staffed for the framing of economic policies, and therefore found it difficult to meet the companies on a basis of equal knowledge and experience or to give adequate guidance to the colonial governments. It is only since 1940, and mainly under the pressure of war, that the long-needed re-organisation has taken place, which has already been described in the Introduction.¹

This question of machinery for dealing with economic questions as between the Colonial Office, the colonial governments and the companies is extremely important, not only because of the long neglect and sudden urgency of these questions, but also because some of them are highly controversial. The companies are, indeed, in a very strong position, both from within the colonies and from without. From within, because by their monopsonistic and monopolistic combinations or their overwhelming size, they dominate the economic life of the colony so much that not very much can be done without their active co-operation, and from without because of the influence they are able to exert upon policy at the metropolitan end. The story of the cocoa boycott as given in the report of the commission throws a very clear light upon how the companies were able to influence the Colonial Office to support their purposes.

If the interests of the companies and of the colonies were in all matters identical, then there would be no danger in this situation. But the economic aims of the colonial government and the companies are in some fundamental matters at variance. Colonial government officials want to promote the internal development and economic independence of Nigeria, while the companies tend to think of Nigeria as a mere annexe to the world economy. The explicit and implicit government aims include:

(i) The increase of domestic capital at a more rapid rate than that of external capital and optimum domestication of extra-territorial capital at a later stage.

(ii) The increase of intra-territorial firms at a more rapid rate than that of extra-territorial firms and optimum domestication of extra-territorial firms at a later stage.

¹ See Volume I, Editor's Introduction, p. 15.

(iii) The substitution of native technicians and managers for foreign technicians and managers.

(iv) The development of the production of domestic goods up to the point where marginal productivity of the factors of production in the domestic goods and in the export goods industries are equal.

Most, if not all, of these aims are matters of indifference or opposition to the more narrowly conceived interests of the companies. Government officials have before them the definite aim of British colonial policy: the ideal of self-government. They would say with Lord Hailey 'Economic advance must be directed to . . . the ultimate creation of economic independence without which self-government is an unreality.'¹

10. RE-ORIENTATION OF BUSINESS POLICY

The analysis of the behaviour and problems of extra-territorial enterprise in Nigeria contained in the preceding chapters has provided an opportunity for throwing out suggestions as to possible ways in which extra-territorial companies could make a larger contribution to the economic progress of the country and still lose none of the essential characteristics of private enterprise. The various suggestions made are of two kinds: they call either for a different policy on the part of the companies themselves or for a positive policy on the part of the government. Private enterprise dislikes government 'interference' in business, and colonial extra-territorial businesses dislike government regulations even more. It appears to be felt, rightly or wrongly, that white traders believe themselves to be part of the governing *élite* of the country and therefore expect government to aid them when they call upon it but deprecate government action against themselves in the furtherance of the interests of the large mass of the governed. This opposition to government interference imposes an obligation upon them; they should adopt whatever measures they think necessary in enlightened self-interest in order to meet the many problems outlined above and thus forestall government action.

This implies a rather thorough economic re-orientation of extra-territorial enterprise. The more vigorously and broadmindedly it applies itself to the task of re-orientation, the smaller will be the danger of the 'government interference' which it dislikes. It will be the task of this section to explore this field.

Extra-territorial companies in the colonies have, as has been frequently pointed out, a special rôle to play in the economic development of the Empire and have correspondingly a special standard of their own. They cannot carry out their function unless they adopt the most up-to-date social conception of private business enterprise. This concept assigns to private business the duty of benefiting the national economy in the first

¹ In his address to the Royal Society of Arts on 'Capital and the Colonies'.

instance, and only in the second, that of benefiting the shareholders through high profits, the workers through high wages, the customers through low prices and the suppliers through high prices. It implies that each business enterprise should pursue some part of the policies enumerated below.

The national economy of Nigeria would be greatly benefited by extra-territorial companies if they made it one of their principal aims to maximise economic opportunities for Africans. Many of the ways in which this could be done have been indicated in previous parts of this chapter. The reader may be reminded of the desirability of giving Africans the opportunity for entrepreneurial training, of a 'back to the ports' movement on the part of the companies and of providing capital goods on the hire purchase system. The companies could also promote the sorely needed habit of economic co-operation among Africans by buying from co-operative societies on preferential terms.

The companies have not yet started to think about the problem of domestication of capital and firms. They should endeavour to reduce the ratio between capital in Nigeria under their direct control and the capital under the control of intra-territorial businesses, the government and individual natives. This does not mean that they should withdraw capital from Nigeria. On the contrary, they should increase the supply of capital to that country, but it should be chiefly capital put at the disposal of intra-territorial businesses or of mixed intra-territorial and extra-territorial businesses. The latter could be associated with the Nigerian government or native authorities or with African business men, who could hold some share of the capital.

An increase in the proportion of intra-territorial to total capital would inevitably result in the emergence of a great number of small intra-territorial businesses. The companies should adopt the deliberate policy of stimulating the formation of such businesses, until that number exceeded their own. This by itself would not destroy the hegemony of the companies as, for many years to come, their combined capital power would be much greater. The complete withdrawal from up-country retail buying and selling and, later on, from up-country wholesale buying and selling would provide innumerable opportunities for setting up intra-territorial businesses. Meanwhile the firms could benefit Nigerian economic life if they made it possible for their branch establishments inside Nigeria to accommodate their behaviour more and more to that displayed by intra-territorial enterprises. This would be best achieved by appointing one local director or a local board of directors for Nigeria and giving to these men on the spot a much larger share in the direction of the policy than area managers possess at the present time. If a divergence of opinion arises, the opinion of the local directors should carry as much weight as the opinions of the board of absentee directors.

Hitherto extra-territorial companies have been content to import into

Nigeria some capital and some white labour, and to give a very limited amount of commercial and industrial training to native workers. They have in this way admittedly increased the supply of factors of production in Nigeria, but they have not made it their deliberate aim to do so. They have not advanced industrial skill, technical knowledge and entrepreneurial training as much as they might have done. Nor have they provided as much capital and willingness to bear risks as was commensurate with the returns on capital obtainable in some lines of economic activity in the colonies. They have not promoted industrialisation and internal trade by the provision of capital on an instalment basis to Africans or by the direct establishment of manufacturing plants. They are still unwilling to shoulder the socially desirable amount of risk, as they look for too high a degree of capital security and will not wait for returns over more than the shortest periods. The government for its part could promote private risk-bearing by being ready to co-operate with companies in any experimental enterprise for the benefit of the Africans.

Most of the increase in capital in Nigeria could be brought about merely by reinvesting depreciation funds, reserve capital and surplus cash. Companies could also try to persuade metropolitan industrial firms to form independent or joint subsidiary companies in the country. They should feel that their desire for capital security is satisfied by forming mixed corporations with the colonial government, native authorities, townships or individual Africans.

Having helped to improve the supply of factors of production, the companies could next work out a deliberate policy for the optimum utilisation of capital resources. An optimum diversification of Nigerian production, both for home use and for export, without protection or subsidisation, should be aimed at. This would make Nigeria much more self-sufficient than it is to-day without, however, establishing anything like autarky. But there is one exception to the principle of non-subsidisation: industrial experiments and promising infant industries should be helped.

There should be a deliberate drive to maximise trade and output. This would mean that all restrictionist, i.e. monopsonist and monopolist, practices in producing, selling and buying should be dropped and that the vested interests of importers and overseas producers should not be protected. The best method of counteracting monopolistic and monopsonistic tendencies would be the policy of 'back to the ports'. It would at once destroy all local monopolies and monopsonies of firms and create highly competitive conditions in the ports, while drastically reducing the firms' costs. At the same time all monopolistic and monopsonistic agreements could be abrogated, and aggressive buying and selling should be stopped.

The extra-territorial companies have so far not shown much enterprise in opening up new overseas markets for Nigerian export produce. There is still little inter-colonial trade and in general little trade inside the

tropical belt. Little has been done by the companies to develop alternative uses for Nigerian products. The big companies, like the U.A.C. and John Holt, should have special research departments to discover such possibilities. The only outstanding example of the development of new use for Nigerian products in recent years has been that of clarified butter fat by the U.A.C.

Price stabilisation can only be achieved through government action and not by the firms themselves. Quite apart from the pursuit of a price stabilisation policy by the government, the companies could promote African welfare by behaving as private enterprise would behave under steady pressure of non-aggressive competition. If they chose this course, they should fix buying and selling prices strictly in accordance with freight differentials. They should fix different prices for different grades of produce, but not for identical grades. They should reduce selling prices and increase buying prices whenever they succeed in cutting costs.

The solution of many colonial economic problems would be facilitated if companies could be induced to publish more statistical information about their activities. Figures for stocks, crop forecasts and actual Nigerian costs might be made available. Firms could also engage in co-operative research for their own benefit as well as that of Nigeria.

Most of the measures described above, which the companies could adopt, would incidentally help a great deal to break down the distrust existing between Africans and the government on the one hand, and the companies on the other. But further efforts would be required to win real confidence. Such efforts would include consultation with interested parties before the inauguration of major new business policies or operations, and the appointment of local representatives of the best type with suitable qualifications for the job. It would be advantageous if all European company employees were to attend the same university course of training as cadets for the colonial service. The companies could also be recommended to show a greater interest in the social and economic progress of the colony. At present the few pronouncements which companies make on economic problems reveal a shortage of professional economic advice. A change of attitude and behaviour in this respect would help greatly in erasing the idea that the companies are not primarily interested in developing but in exploiting the colony.

11. POSSIBLE GOVERNMENT POLICIES

(a) WORLD DEMAND FOR GOODS EXPORTED BY NIGERIA

The most important problem, encountered when considering ways to bring about the full utilisation of Nigerian resources, is concerned with the export industry. For fully one third of the total Nigerian output is for export; the export industry is the core of the money exchange economy

of Nigeria, so that Africans are highly sensitive to conditions in the export industry. The firms, however, can bring about improvements only within the limits set by conditions of world supply and of world demand for the type of goods exported by Nigeria or competing with them. Worse still, the Nigerian government also cannot really improve conditions because at the most it could only redistribute the revenue from exports as between depression and boom years by means of taxation and various other devices. The problem of improving the export trade is an international problem. It is a problem of preventing temporary and harmful fluctuations of world demand and world supply which only many nations acting in concert could undertake to solve. If it is desired to achieve more than a re-distribution of revenue as between African producers, African middlemen, and European exporters, and a confinement of European exporters to the ports or great economic centres, it is useless to suggest any policies to be pursued by the government of Nigeria inside Nigeria unless, first, the wider framework of a regulation of world demand and world supply has been determined within the limits of which such policies could operate. Without such a framework any regulation of the monopsonistic practices of extra-territorial companies in Nigeria will achieve little, as it could not prevent but only mitigate violent cyclical fluctuations. A purely internal regulation, since it cannot achieve this fundamental object, must sooner or later lead to frustration and is, therefore, bound to aggravate the strained relations between companies, Africans and the government.

The characteristics of world supply and, in particular, Nigerian supply of and world demand for the classes of international goods exported also by Nigeria have been examined in a separate treatise.¹ The nineteen major Nigerian export products were there sub-divided into five groups, according to the income- and price-elasticity of demand and price-elasticity of supply. The discussion of the need for, advisability and feasibility of international control of demand and supply of these classes of international commodities exported also by Nigeria, in that treatise led to the following recommendations:

(i) In general there should be no international commodity control of group (a) and group (b) products, for which income- and price-elasticity of demand is above unity.² The two groups of commodities differ from one another in that the supply of group (a) products is price-inelastic³ inside a year, while that of group (b) is price-elastic inside a year. Group (a) products include three vegetable oils or oilseeds, i.e. palm-oil, palm-kernels

¹ An unpublished treatise on 'Demand for and Supply of Nigerian Exports', by the author of this chapter.

² This means that a 1 per cent change (rise or fall) of incomes or price will induce a more than 1 per cent change of quantities demanded.

³ i.e. a 1 per cent change (rise or fall) of the price will induce a less than 1 per cent change of quantities supplied.

and cotton seed, which might have to be controlled if the other vegetable oilseeds, also produced by Nigeria (i.e. the following group (c) products, shea-nuts, ground-nuts, benniseed), are subjected to international control because of the pronounced income-elasticity of the demand for them. Thus groups (a) and (b) products might be divided into those for which

- (1) No international commodity control is proposed, i.e. group (a) products: bananas, rubber, goatskins; group (b) products: coal, cotton piece goods, manufactured wood and timber.
- (2) International quota schemes are proposed, designed ultimately to transfer high-cost producers of the interchangeable oil products to other industries, i.e. group (a) products: palm-kernel, palm-oil, cotton seed.

(ii) Group (c) products should be subject to an international quota scheme of the type just described, because the demand for them is income-inelastic.¹ The commodities in question are sheepskins and the three vegetable oils mentioned above, i.e. shea-nuts, ground-nuts and benniseed.

(iii) Group (d) products, the demand for which is income-elastic though price-inelastic, are exactly of the type for which an international buffer stock scheme is specially suitable. The commodities in question are cocoa, rubber, and cotton lint.

(iv) The two Nigerian minerals, gold and tin, forming group (e) products, exhibit income-elasticity and price-inelasticity of demand, like group (d) products. They are probably suited for a combined quota and buffer stock scheme which is not designed to eliminate the present high-cost producers, but which benefits present consumers by averaging high and low cost prices and future consumers by preserving low-cost mines for their use.

Of these three types of international commodity control proposed, the international buffer stock schemes do not require to be implemented by some arrangement inside Nigeria. But the two types of quota schemes, the one designed to transfer high-cost producers to other industries and the other designed to preserve existing high-cost producers and to compensate the consumer by 'price-mixing' would commit the government of Nigeria to certain internal measures. Both types of quota schemes would require the distribution of quotas inside Nigeria and a prevention of unauthorised production. The first type would in addition require the planned transference of the resources of high-cost producers to attractive alternative industries and the second type a contribution to the working capital of the control board to enable it to buy the annual world output for the purpose of averaging the cost prices to the consumer.²

¹ A 1 per cent change of income induces a less than 1 per cent change of quantities demanded.

² This second type of quota scheme, applying to minerals only, is described in Chapter I.

It is proposed to refer below to the internal arrangements for implementing an international quota scheme primarily of the first type, i.e. for vegetable and animal products only.

While international buffer stock schemes do not commit the government of Nigeria to internal measures, the government might, nevertheless, adopt measures in respect of the commodities concerned for exactly the same reasons and purposes for which it might adopt measures for regulating supply or demand inside Nigeria in respect of commodities for which no international control exists. The chief motive for such measures is the prevention or regulation of monopsonistic or monopolistic practices. It should be realised that the same sort of measures may be adopted inside Nigeria to fulfil obligations under international quota schemes, or to supplement the international buffer stock scheme, or to regulate demand and supply inside Nigeria in the absence of an international scheme. Various feasible measures of government control will be discussed below without distinguishing whether they are specially suited to implement or supplement international schemes or to stand by themselves.

(b) CONTROL OF MONOPSONISTIC TENDENCIES AND PRICE POLICY

For all these possible arrangements, definite pros and cons exist in the eyes of the chief interested parties, i.e. the African farmers, the African buyers, the exporting firms, the Nigerian government and the overseas consumers. A mere scientific account cannot be expected to determine which of the many possible alternatives is desirable, since the decision would have to depend upon many assumptions of a political, social, cultural and technical nature which lie outside the realm of scientific economics.

A Policy of Social Regulation

It might be decided that the monopsonistic tendencies could lead to greater efficiency provided that a certain amount of regulation forced the companies to abandon the restrictionism and the lowering of prices that generally go with these tendencies. This policy of securing the advantages with none of the disadvantages of monopsonistic developments might take several forms.

(i) *State-regulated monopsony.* There are several alternatives under this heading:

(a) A continuation of the war-time government purchases in peace time. This would be a publicly operated monopsony.

(b) A statutory monopsony. This was suggested by the principal of an agreement firm to the commission on the marketing of West African cocoa.¹ The statutory monopsony would market the entire crop giving a payment on account to the African producers at the time of delivery. The

¹ Paras. 500-503.

monopsony would receive a fixed rate of commission, and the surplus profit would be distributed to the African and to the monopsony and losses would be carried forward to a subsequent season.

(c) Toleration of a new monopsonistic agreement, subject to full publicity of agreements, business statistics and accounts, plus a government-regulated schedule of marketing charges, and, if possible, international regulation of world prices.

(ii) *State-regulated monopoly of produce selling.* Marketing boards could be established for the various Nigerian products, which could be similar in organisation to the New Zealand or English type. It should, however, be emphasised that colonial marketing boards would differ very much in their economic significance from a marketing board of the familiar English type. For the aim of the latter is to keep out imports and thus make the raising of prices possible, but a marketing board in Nigeria would not keep out imports. Foreign consumers may well have to pay a somewhat higher price for all those commodities in which Nigerian supplies form a large part of total world supplies; otherwise, the only sufferers would be the extra-territorial companies, who would be deprived of monopsony profits.

(iii) *State-regulated oligopsony.*

(a) *Status quo* oligopsony with unrestricted up-country trading. The firms would be allowed to continue their operations as before, keeping their up-country trading posts, but would be subject to the following regulations:

Prohibition of a buying agreement

Prohibition of aggressive buying

Observation of a fair trade practices code

Official dissemination of world marketing prices

Official crop forecasting

Publicity re purchases and stocks already in Nigeria

(b) *Status quo* oligopsony with restricted up-country trading. Up-country buying could be restricted in various ways; e.g. it could be decreed that only wholesale buying by extra-territorial firms in up-country districts would be permitted and a minimum size of parcels to be bought could be determined.

(c) *Status quo* oligopsony strictly confined to the ports. The third possibility for state regulation could be more extreme. It has been pointed out in several passages above that the tendency towards oligopsony and eventual monopsony is absolutely inevitable in the produce businesses of Nigeria if up-country stations of exporting firms remain open. If all such up-country stations were compulsorily closed down, the tendency towards monopsony would be much weakened if not eradicated.

(iv) *State policy of counteracting monopsonistic tendencies.* Under this heading various proposals can be mentioned, e.g.

(a) Reviving the old common law doctrine forbidding combinations in

restraint of trade by prohibiting such practices as the fixing of minimum product prices for sellers and maximum factor and product prices for buyers; the fixing of maximum quotas of output or of purchases; the restriction of entry for any owner of a factor of production to any particular trade or industry.

- (b) Subsidising African entrants into trade.
- (c) Export quotas for new entrants at the expense of the bigger firms.
- (d) Calling a halt to further amalgamations.
- (e) Declaring the big firms with a capital of over £1,000,000 to be public corporations in conformity with the recommendations of the Liberal Industrial Enquiry of 1928.¹

(v) *Policy of abolishing monopsonies and oligopsonies.* The government of Nigeria with the help of the Imperial Government could try to restore atomistic competition in the purchase of Nigerian products by typical trust-busting methods. The most thorough-going policy for such a purpose has been advocated by Professor H. W. Hutt.²

(vi) *Price stabilisation over a trade cycle period.* Apart from the question of controlling monopsonistic tendencies the government could attempt to minimise price fluctuations of export goods over the trade cycle. This could be done by various devices resulting in keeping back some revenue from the sale of produce during boom years and distributing this fund during depression years. To this end high export duties or high railway freights could be charged in boom years and subsidised prices could be paid or subsidised freights could be charged to producers in slump years.

(c) INTERNAL CONTROL OF MONOPOLISTIC TENDENCIES

The possible different arrangements for internal control of monopolistic tendencies on the selling side of extra-territorial companies is mainly symmetrical to that of monopsonistic tendencies.

A policy of 'back to the ports' could also be applied to the importing businesses of companies. But, whatever the interpretation of the policy 'back to the ports', companies should in no circumstances be restricted—they should be encouraged—in selling capital goods to Africans on the instalment system anywhere they like in Nigeria. This is one of the major contributions they could make towards the industrialisation of the country.

The declaratory ordinance formally reviving the old common law doctrine prohibiting combinations in restraint of trade, which was mentioned in the preceding section, would naturally also affect monopolistic tendencies, for it would prohibit the fixing of minimum prices for sellers, the fixing of maximum quotas of sales, etc.

A strict open-door policy would afford special protection against monopolistic tendencies. As long as the nationals of any country are

¹ *Britain's Industrial Future*, 1928, pp. 59-100.

² *Plan for Reconstruction*, 1943, *passim*, especially Part I.

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allowed to trade in Nigeria, the chances of a water-tight combination in restraint of trade are considerably decreased.

(d) INDUSTRIALISATION AND DOMESTICATION OF CAPITAL

In promoting industrialisation the government of Nigeria will inevitably have to make a decision about the extent to which it will welcome the co-operation of extra-territorial businesses or augment their efforts.

The most effective method of domesticating capital and firms is the reservation of industries for intra-territorial enterprise. This does not exclude extra-territorial enterprises from these industries, because they can participate in mixed corporations, i.e. in a mixture of intra- and extra-territorial partners, where the intra-territorial partners can be the government, native authorities or individual Africans.

Another effective method of domestication is the establishment of state enterprises competing freely with non-government enterprises.

In this connection it may be pointed out that the usual panacea advocated by many critics for the prevention of exogenous exploitation, i.e. nationalisation of already existing extra-territorial businesses, does not necessarily work. Its success would have to be assured by large increases in taxation of company incomes prior to nationalisation, so that the shareholders would not be entitled to receive a compensation which includes the capitalised expected untaxed profit.

Another chief method of domestication consists in the compulsory transference of big concerns into public corporations, as advocated by the Liberal Industrial Enquiry.¹

Yet another method is the state nursing of native enterprises. The government could have a staff of white managers, who could be seconded to native enterprises receiving government loans and who would manage such enterprises jointly with Africans until they were capable of taking over full responsibility. The white managers could then be transferred to another native enterprise which required nursing.

A further method is the establishment of marketing boards. They have the effect of driving both the export and import traders to the ports, thus leaving the whole field of internal commerce in the hands of residents. This has been the experience of Southern Rhodesia ever since it created marketing boards in 1928.

If Nigeria were fit for permanent white settlers a heretical method could be suggested which, to be sure, would shock every genuine friend of Africans. It is evident, at least from the experience of Southern Rhodesia, that the presence of a substantial permanent settler class (5·4 per cent of total population in Southern Rhodesia) has two beneficial effects. It causes the maximum amount of domestication of capital as well as the

¹ *Britain's Industrial Future.*

maximum investment per head. No African territory in the colonial belt has carried out such extensive industrialisation as Southern Rhodesia.

(e) CO-ORDINATION OF BRITISH WEST AFRICAN ECONOMIC POLICY

Since only a few West African extra-territorial companies confine their operations to Nigeria, the control of extra-territorial companies in each colony separately would not be in the best interests of each colony, for there would be a great danger that differential regulations would hamper inter-colonial trade and development, which holds out much promise for the future. It would, moreover, be in the interests of all British West African colonies jointly to plan their economic development, in which the extra-territorial companies are to take their part, with a view to specialisation within their whole territories, from which they would derive great advantages.

Similarly it would be desirable that the banking businesses of West Africa should be supervised jointly by all the West African colonies together.

(f) CONCLUSION

It seems that extra-territorial companies will take a very long time before they become fully conscious of the simple truth that the more fully developed the resources, the more diversified and balanced the national output of colonies, the more dynamic the whole colonial economy becomes, the better the business prospects of the extra-territorial companies, though the type of business transactions would not necessarily be the traditional ones.

The colonial governments will increasingly be forced to give up their pre-war policy of *laissez-faire, laissez-passer* towards the extra-territorial direction of economic change and growth, lest the economic emancipation—and with it political emancipation—should fail to become a reality. This is no plea for an abrogation of economic individualism, but merely for the conscious increase of internal, relative to external, dynamic entrepreneurship and capital, until the bulk of the dynamic direction of the economy comes from within; for the freeing of the inherent laws of economic growth of colonial economies from external restraints and distortions; in short, for the gradual decolonisation of colonial economics.

The colonial government must, however, be assisted in its task by the metropolitan government. There are many ways in which the metropolitan country can help to mould the future of the companies, such as the reform of tax division within the empire, the drawing up of a time schedule for colonial investment, the division of industries between metropolitan and colonial countries, the control of monopolistic and monopsonistic industries at the metropolitan end, the reduction of external costs of colonial exports and imports (e.g., shipping and head office expenses), the setting

up of international commodity controls, the grouping of colonies for economic development purposes, and the working out of a long-term integrated development plan for all colonies together. In addition, the metropolitan government would be principally concerned with reaching a general settlement with the U.A.C. as to its new position in the economy of West Africa. This firm, because of its huge capital resources and its control by manufacturing as opposed to mere merchant interests, is capable of contributing decisively to future economic development, but individual colonial governments are quite powerless to deal with it. Probably the best form such a settlement with the U.A.C. could take would be the transformation of the company into a public corporation along the lines suggested by the Liberal Industrial Enquiry.

One principal conclusion may be drawn from this chapter. Before much economic progress can be made in the colonies those who formulate their economic policies must grasp the following paradox: while it is true that, apart from the governments, extra-territorial companies are the only truly dynamic elements in the colonial economies of to-day, yet as long as they maintain their position of unchallenged predominance and as long as they monopolise all private dynamic elements, the rest of the colonial economy will continue for the most part to stagnate, and the colonial economy as a whole will be unable to obey the laws of its own economic development.

Chapter III

THE POLICY GOVERNING EXTERNAL TRADE¹

BY CHARLOTTE LEUBUSCHER

The policy which governs the external trade of a colonial territory is hardly ever determined by the interests of that particular colony alone. The decisive factors are the general principles which a colonial power applies to the whole of its colonial dependencies or at least to a group of them. This uniformity of general principles does not exclude, however, a differentiation according to the special interests of each colonial territory: indeed, it would be a bad colonial policy which took no account of local requirements. Certain interests of the mother country may also help to shape the policy applied to the external trade of the colonies.

In the case of the four British West African colonies a fairly large degree of uniformity might be expected. Actually, however, the customs régime and other measures applied to the trade of these countries—the Gambia, Sierra Leone, the Gold Coast, and Nigeria²—show considerable divergences, and only in recent years has a tendency manifested itself towards a greater degree of uniformity, especially in customs tariffs and customs administration. The divergences in the measures governing the West African import trade are mainly the result of international commitments, most of which apply to one or two of the four territories, but hardly ever to all four.

So far as the export trade is concerned, differences in the natural equipment, the economic development of the territories, and the marketing conditions of their principal products, account for variations in policy and administration.

Before going on to discuss the trade policy, it may be useful to set out briefly the salient facts about the structure of Nigeria's external trade,

¹ The purpose of this chapter, written in 1942 and based mainly upon pre-1939 documents is to give a picture of trade policy up to the outbreak of war.

² The two territories under British mandate—Togoland and the Cameroons—form administrative units of the Gold Coast and Nigeria respectively, and up to 1934, the same trade policy applied to them as to the two colonies. Since the introduction of textile quotas and of surtaxes on certain goods from Japan in the Gold Coast and Nigeria, however, the stipulation of the mandates requiring the maintenance of the open door, made it necessary to differentiate the customs régime of the two mandated territories from that of the two colonies.

138 COMMERCIAL ORGANISATION AND TRADE POLICY which are exhibited in detail in the Tables (particularly XII, XV, XX). On the export side, Nigerian trade was made up in 1929, according to value, by, roughly, one-fifth of palm-oil, nearly one-quarter of palm-kernels and one-seventh or an one-eighth, respectively, of ground-nuts, cocoa and tin—five commodities which together were responsible for 85 per cent of all exports. The principal countries of destination were: United Kingdom (44 per cent), Germany (19 per cent), United States (14·5 per cent), France and Holland (8 per cent each).

In 1938—which was not a peak year like 1929—the total value of Nigerian exports was only 52·8 per cent of what it had been in 1929. The share of palm-oil in this total had been reduced to one-tenth, while palm-kernels had maintained their position and the proportional shares of cocoa and tin had been somewhat increased; moreover, a number of new exports, though still of minor importance, helped towards greater diversification of the trade. As regards markets for these exports, however, the relative importance of the United Kingdom had been increased to just half the total trade, but part of this increase was due to gold and tin, for which the market was not competitive in the same way as for the other products; there is, moreover, some reason to assume that under the bilateral trade agreements concluded in the 'thirties, a larger proportion than in 1929 of the goods recorded as exports to the United Kingdom was re-exported from there.

Imports were, naturally, more varied in composition than exports, but the biggest item both in 1929 and 1938 (more than a quarter and approximately a fifth respectively) were cotton piece-goods. Iron and steel goods, railway material and machinery accounted for a further seventh of the total in the former year and for roughly a sixth in the latter. Dependence on a single trading partner had been much more marked than was the case with the export trade, over 70 per cent of all imports coming from Britain in 1929; as in the export trade, Germany held the second place, but supplied not more than 10 per cent of total imports. By 1938, the sources of the country's imports had become more diversified; only 55 per cent of the total came from the United Kingdom, while the German share had dropped to 8·8 per cent. On the other hand certain countries—Empire as well as foreign—whose share had been insignificant a decade earlier, provided between them 21·6 per cent of Nigeria's imports. How far these changes were due to deliberate policy, and in what manner policy was framed to meet the problems arising from the structure of Nigeria's economy on the one hand, and from the situation of overseas markets on the other, will be shown in the following pages,

1. POLICY APPLIED TO THE EXPORT TRADE

A study of the policy applied to the export trade of Nigeria is of particular interest, not merely on account of the size of the country and its population, but also because Nigerian exports are more highly diversified than those of other African countries which, like Nigeria, rely almost exclusively on agricultural exports produced by African farmers.

The policy applied to the export trade of a colonial territory has to be considered in relation to:

- (a) Measures which determine the position of the country's products in overseas markets, in both the mother country and foreign countries;
- (b) Measures introduced by the administration of the colony with a view to promoting the export trade;
- (c) Measures which tend to restrict exports or to direct them into particular channels.

(a) NIGERIAN PRODUCTS IN OVERSEAS MARKETS

The principal object of any commercial policy in relation to exports is to secure an assured and expanding market to the products of a country. In the case of a colony this issue has to be examined from two angles: the position of the colony's products in relation to the import requirements of the mother country, and the conditions under which the colony's exports are being admitted to foreign markets.

As stated previously, the United Kingdom is by far the most important market for Nigerian products, absorbing 50 per cent of the total domestic exports in 1938. Together with other Empire producers Nigeria receives preferential treatment for its products in the United Kingdom. Nigeria is mainly interested in the United Kingdom's importation, free of duty, of oil-palm products and ground-nuts from the Empire and in the preferential rate of cocoa under the Revenue Duties Act. The position of Empire oil produce is, moreover, protected by duties which are levied in the United Kingdom on competitive products of non-British origin—soya-beans and soya-bean oil, linseed and linseed oil. Imperial preference has, however, only a limited value for Nigeria since the Empire has an export surplus in some of her most important commodities—oil produce, cocoa and timber in particular. Also, as far as the United Kingdom is concerned, Nigerian produce encounters the competition of similar or interchangeable products from other parts of the British Empire. This applies particularly in the case of palm-oil and palm-kernels which have to compete not only with the palm-oil and palm-kernels from the plantations of Malaya, but also with other oil seeds and oils from various parts of the Empire and with whale oil supplied by the British whaling

fleet.¹ This problem of the interchangeability of oil products has, however, been explained more fully in a previous chapter.²

There can, therefore, be no doubt of Nigeria's dependence on foreign overseas markets for the sale of a large proportion of her products, especially palm-kernels, cocoa, ground-nuts, and hides and skins.³ The principal foreign markets for Nigerian exports up to the outbreak of the second world war are shown in Table XII. A question of major importance is whether the commercial policy adopted has been such as to maintain Nigeria's place in these markets and to open up new markets for her products.

Most of the commercial treaties concluded by Great Britain were made applicable to Nigeria. The latter participates, therefore, in the most favoured nation treatment for her products which is guaranteed to Great Britain in nearly all her commercial treaties. This secured a fairly satisfactory position for Nigerian products so long as the most favoured nation clause determined trade relations. The situation became more difficult, however, particularly for the export of oil-palm produce, when from 1930 onwards bilateral agreements based on reciprocal concessions increasingly replaced multilateral trade and when the most favoured nation clause was largely deprived of its practical value by various restrictive devices.

How far has the colonial power succeeded in safeguarding the position of Nigerian exports in face of the menace of import quotas, bilateral bargains, exchange regulations and various measures of domestic policy, all designed to restrict imports? Some of the bilateral trade agreements concluded by Great Britain in those years were of direct relevance to Nigeria.

Before the first world war, and again from 1924, Germany was, after the United Kingdom, the principal market for Nigerian produce.⁴ Her importance to Nigeria as a customer was based mainly on the large proportion of palm-kernels bought by her; next to Holland and the United States, Germany was also an important buyer of Nigerian cocoa. Germany used to import West African palm-kernels, not only on account of their oil content, but also because her livestock industry largely depended on oil-cake as a feeding stuff. It was, therefore, a serious menace to the Nigerian oil-palm industry when, in 1933, the German government initiated a deliberate policy in relation to both vegetable and animal fats 'to reduce

¹ Whale oil from foreign sources can, moreover, be imported free of duty in the United Kingdom under the terms of the commercial agreement with Norway in 1933. It is, however, admitted that the chief competitor of Nigerian palm-oil is not Norwegian whale oil, but whale oil brought in by British ships.

² See Volume I, Chapter VI.

³ This becomes particularly clear when the exports of tin ore and gold, which are sent entirely to the United Kingdom, are deducted. See Table XII.

⁴ See Table XII.

the dependence on the world market with its incalculable effects on the formation of national prices and on the meeting of the demand'.¹

To this end a 'Fat Scheme' was introduced. Among its measures the following were of particular significance for Nigeria: the compulsory limitation of the production of margarine to 60 per cent of the output of the last quarter of 1932; the imposition of a special compensation tax on imported margarine, vegetable fats and oils, the proceeds of which were to be used for subsidizing domestic fat production; and the introduction of a system of compulsory permits for the import of vegetable oils and fats as well as oilseeds; in addition, a monopoly charge was levied on oil-cake. The result of these measures was a drop in the total import of oilseeds which, amounting to 2,586,000 tons in 1929, fell to 1,670,000 tons in 1937. The quantity of oil-cake obtained from imported oilseed fell from 1,680,000 tons in 1929 to 1,057,000 tons in 1937.²

In spite of these measures, Germany remained an important market for Nigerian produce, taking 40 per cent of all palm-kernels exported in 1937, but it was a market which, owing to its very importance, had to be watched with anxiety. The imperial government in the payment agreements concluded with Germany in 1934 and 1938 succeeded in obtaining the undertaking that the German government 'in allocating foreign exchange for the purchase of raw materials and foodstuffs which Germany has been accustomed to purchase either through the United Kingdom or as re-exports from the United Kingdom or direct from the British Colonies, will take no measures to reduce the customary proportion supplied to Germany by the United Kingdom and the British Colonies'.³ Thus, the agreements guaranteed to British colonial producers their proportional share of the German market, but did not protect them against a reduction in the actual quantity of produce bought by Germany. Even such a limited protection had some value, since it shielded West African producers against the competition of foreign oil-palm products, particularly the produce of the Dutch East Indies.⁴ German imports of Nigerian products during the period 1934 to 1938 were, however, in most years lower in both actual volume and percentages of total Nigerian exports than in the preceding five years.

Holland was another important buyer of Nigerian palm-kernels and also of cocoa. Although retaining to a larger degree than most countries the traditional liberal principles of her trade policy, she too found it necessary to impose on Dutch margarine manufacturers, by a decree of

¹ *Oils and Fats*, Vol. II, pp. 217 f.

² *Ibid.*, p. 224, Table 65.

³ Treaty Series No. 26, Cmd. 4963 (1935).

⁴ In 1934, Germany concluded an agreement with Holland by which a higher import quota was granted to produce from the Dutch East Indies in exchange for concessions to German manufacturers on the Dutch market.

1st January, 1935, the obligation to use at least 60 per cent raw materials from the Dutch East Indies. The main reason which impelled the Dutch government to adopt this measure was the drop in the production of margarine in Holland, much of which is for export. This declined from 162,000 tons in 1930 to 65,000 tons in 1936 as a result of the protectionist policy of several countries restricting or penalizing the consumption of margarine in the interest of their domestic butter production.¹

France, who was the principal buyer of Nigerian ground-nuts and also an important market for hides and skins, by an act of 6th August, 1933, applied effective measures for the protection of oilseeds and oil-nuts from her colonies. This was done by imposing an additional duty on foreign produce and by using the proceeds from this tax for subsidizing French colonial production in various ways. A decree of 22nd January, 1934, introduced import quotas for various oil products, among them ground-nuts and palm-kernels. The quantity of foreign produce allowed to importers represented a fixed percentage of the volume of the same product imported from the French colonies.² For ground-nuts, the share which had to be taken from the French colonies was fixed at between 87.5 per cent and 90 per cent, for palm-kernels at 99 per cent. A certain relaxation was allowed for oilseeds and oils required by French exporting industries; this accounts doubtless for the large proportion of ground-nuts from Nigeria which were still taken by France in 1938 (Table XII). Nigeria came under none of the various trade agreements which were concluded during that period between France and Great Britain.

The United States, in most years the largest importer, after the United Kingdom, of Nigerian cocoa and, more recently, of Nigerian hides and skins, was also an important market for Nigerian oil-palm produce. This fact is revealed only partially by the percentages of direct Nigerian exports to the United States. Most of the American imports of Nigerian oil-palm produce were effected indirectly, in the form of oil obtained from palm-kernels crushed in another country—viz. the United Kingdom, Germany, or Holland.

A policy of fostering a domestic oil industry was adopted by the U.S.A. in 1930,³ when high import duties on oil and fat materials were introduced; these duties were reinforced in 1934 by a processing tax on coconut oil, palm-oil and palm-kernel oil.⁴ The policy represented, therefore, a serious menace to Nigerian exports.

¹ *Oils and Fats*, Vol. II, p. 60.

² A detailed account of the rather complex French legislation is to be found in *Oils and Fats*, Vol. II, pp. 270 f.

³ Under the Tariff Act of 1930.

⁴ Under the Revenue Act of 1934. Under the act 'First domestic processing means the first use in the United States of the oil or oils in the manufacture or production of an article intended for sale', according to a ruling of the Bureau of Internal Revenue. Palm-oil used in the production of tinplate is, however, free of duty and processing tax. *Oils and Fats*, Vol. II, pp. 173 f.

This menace was somewhat mitigated by the British-American trade agreement of 1938.¹ By this agreement the United States conceded certain reductions of duties as well as the stabilisation of certain duties or of exemption from duty. Several export products from Nigeria profited either directly or indirectly by this agreement, which applies to the United Kingdom, Newfoundland, and the British colonies. Nigeria was interested mainly in the reduction of the import duty on palm-kernel oil (in so far as it is not unfit for food and is, therefore, allowed to enter the United States free of duty) from 1 cent to $\frac{1}{2}$ cent per lb., the limitation of the federal processing tax on palm-kernel oil to its present rate of 3 cents per lb.² and the guarantee of continued exemption from duty of the following commodities: cocoa, palm-nuts and palm-nut kernels, palm-kernel oil rendered unfit for food, palm-oil, columbium, and mahogany in the log.

In reviewing Nigeria's position in those foreign markets which were of the greatest importance to her before the 1939-45 war, it cannot be maintained that conditions were satisfactory. Only in the agreement with the United States were valuable guarantees and concessions obtained for Nigerian (and other colonial) exports. In the other countries little could be attained by negotiation owing to the nature of the forces against which Nigerian products, oil-palm produce in particular, had to contend. These forces were the determination of the respective governments to favour domestic production at whatever cost in order to achieve a large degree of self-sufficiency, as in the case of Germany, or to secure decisive advantages in the metropolitan market for the colonial dependencies of the respective powers, as in the cases of France and Holland.

It seems unlikely, in view of these tendencies, that a different method of negotiation, i.e. the conclusion of commercial agreements directly between Nigeria and the respective foreign countries, would have secured better conditions for Nigerian exports in foreign markets. Nigeria's position in such negotiations would have been particularly weak, since in the trade with her most important European customers, apart from the United Kingdom, her exports to these countries exceeded her imports from them by a considerable margin, the export balance amounting, in 1938, to £892,000 in the case of Germany, £851,000 in the case of Holland, and £588,000 in the case of France. For none of these countries was she an important market.³

¹ *Board of Trade Journal*, 1938, Vol. II., pp. 689 f.

² This undertaking was of particular value to Nigeria, since the same pledge had been given by the United States to Holland in 1936 in respect of palm-kernel oil produced either in Holland or in any of her overseas territories.

³ Her imports from Germany, for instance, accounted for not more than 0.2 per cent of Germany's total exports in 1937, while she supplied directly 0.9 per cent of Germany's imports; *Statistisches Jahrbuch für das deutsche Reich*, 1938. The only European country with whom Nigeria had a strongly passive trade balance—£363,000 in 1938—was Norway, from whom she imported mainly dried, salted, etc., fish.

A point which requires further investigation, however, is the extent to which special consideration has been given to the exporting interests of the colonies in the various agreements concluded by the colonial powers on the basis of reciprocity in the decade previous to the outbreak of the second world war. Whether this question will be of any interest in the future depends on the principles on which world trade is re-established. If, as is to be hoped, multilateral trading is restored, it will be of mainly historical significance. If, however, bilateral agreements retain some of their importance, the means of ensuring sufficient consideration for colonial interests will deserve more attention than they have so far received.

(b) GOVERNMENT MEASURES FURTHERING EXPORT TRADE

Apart from favourable trade agreements with foreign countries, the principal method of maintaining and improving the position of the products of a colony in foreign markets is to ensure a high and uniform standard in the quality of the produce. Besides the training and direction of native producers, the chief means of attaining this object are produce inspection and grading. This was recognised in Nigeria earlier than in any other African territory.¹

The first ordinance which prohibited the adulteration of produce and the trade in any adulterated produce was enacted in the Colony in 1889. Inspection of palm-oil and palm-kernels, the principal products of the southern provinces, was introduced early in this century. The standards applied, however, were low, evasion was easy, and the results were therefore unsatisfactory.² Mainly at the request of the interested exporting firms, the administration was overhauled and, in 1922, a new system of produce inspection was evolved which is still in force and which in its present form is mainly based on the Produce Regulations of 1926 and 1928. Under these, inspection by government officials before sale is compulsory for oil-palm produce, ground-nuts and cocoa.

The conditions which have prompted the establishment of produce inspection and of compulsory grading for cocoa are best described in the words of the committee which, in 1931, was charged with an investigation into the working of the system. 'In Nigeria the trade is not sufficiently organised and all experience has shown that competition is so keen that some firm will always be found to buy any produce that is offered regardless of its standard. If there are no penalties imposed for badly prepared produce, or if there are penalties but no official organisation to implement them, the producer becomes careless and the general average quality of produce brought for sale declines. A tendency to pay a lower flat rate

¹ A survey of 'Marketing Schemes for Native-grown Produce in African Territories' has been given by the present author in *Africa*, v. 12: 163-187, 1939.

² *Report of a Committee upon the System of Produce Inspection in Nigeria*, Sessional Paper No. 1 of 1932.

approximating to the price of the worst quality follows, because the expense of cleaning the produce falls upon the exporting firm; their overhead charges rise, and the price paid to the producer is reduced. The ultimate outcome will be that the producer will do less work and receive still less price relatively for his labour.¹

In the committee's view, which was confirmed by Sir Frank Stockdale, the agricultural adviser to the Colonial Office, in 1936,² the system has proved equally beneficial to the producer, the country as a whole, and the exporter. The purity of palm-oil, which used to be adulterated by potash and other ingredients, has been considerably improved, while the waste matter, which was formerly shipped with the kernels, has been greatly reduced. The introduction of a grading system for cocoa, in addition to inspection, has secured a premium for the better grades as against the flat rate formerly paid for all Nigerian cocoa.

A more stringent control than that for palm produce and for cocoa has been introduced for cotton in northern Nigeria. Besides the compulsory inspection and grading which have been in force since 1926, the Cotton Regulations of 1935 have restricted the right of buying cotton to licensed dealers; the buying must be carried out in defined markets. Ginneries must also be licensed. The main reason for these restrictions was the excessive number of middlemen who gave advances to the growers on the security of their crop, which they collected at a later date and offered for sale irrespective of its quality. It seems, however, that the regulations have not yet resulted, as was hoped, in a reduction of the number of middlemen.

The system of controlled markets, combined with compulsory inspection, has also been applied, apparently with great success, to the marketing of hides and skins. The scheme was introduced by the Veterinary Department in 1929 in Kano province and extended in subsequent years to a great many places in the northern provinces and also to some of the bigger markets in the southern provinces. Its object is to educate African butchers in applying proper flaying and drying methods.³ The scheme has undoubtedly improved the quality and reputation of Nigerian hides and skins, but its success depends largely on constant supervision by European officers. Ten years' operation on a voluntary basis has, moreover, convinced the administration that compulsion cannot be dispensed with altogether.

Experience gained in applying inspection, grading and controlled marketing to the staple products of Nigeria has proved of particular value to the attempts to establish new lines of production for export. The Admini-

¹ *Ibid.*, p. 8; see also Volume I, Chapters VI and VII.

² Stockdale, F. A., *Report on a Visit to Nigeria, Gold Coast and Sierra Leone, Oct. 1935-Feb. 1936*. C.A.C. 270. Colonial Office, 1936.

³ See for further information, Volume I, Chapter VIII, pp. 283-286.

stration of Nigeria has shown much enterprise in this respect, the departments mainly concerned being the Agricultural, the Forestry and the Veterinary. If their efforts have added only relatively small quantities to the volume of the export trade, some of these new industries are of great local significance for the producing areas and in several cases production has been fostered, not only with a view to exports, but also with an eye to the domestic market.¹

It is not possible to describe all the experiments undertaken by the various departments, but it is worth while to mention a few which illustrate some characteristic features of the policy applied. As will be shown later in the chapter, the main interest of these illustrations derives from the manner in which co-operation has been achieved between government departments and private enterprise in setting up and in running these new industries.

An industry mainly due to the initiative of the Department of Agriculture is the production and preparation for export of peeled and sun-bleached ginger which is carried on in some of the districts inhabited by pagan tribes in the north. As the only cash crop of these tribes, it is of great local significance. Starting with an export of 15 tons in 1930-31, the exported output rose steadily until 1935-36, when it reached a record of 378 tons. In subsequent years the quantity dropped since, owing to faulty preparation by producers, Nigerian ginger had developed analytical deficiencies which made its sale in England illegal. Intensive propaganda among producers has succeeded in overcoming this obstacle. Simultaneously with the export trade in dried ginger, an internal market in green ginger had grown up and absorbed about 400 tons annually. The whole experiment shows the necessity of constant supervision over both producers and middlemen. Ginger was first exported through the agency of an officer of the department, assisted by an exporting firm—according to the director of the department 'a highly improper arrangement which was only justified by necessity and success'.² From 1932 one firm, later joined by two others, purchased the ginger in centralised markets after it had been graded and the defective produce had been rejected by an officer of the department.

Another experiment to which the Agricultural Department has devoted much painstaking work is the development of an export trade in pineapples and citrus fruit. From the outset a conspicuous feature in this scheme has been the close co-operation of the department on the one hand

¹ The order of importance was revised under the stress of war. In most experiments, except food production, up to 1939, the establishment of a new line of export was the foremost concern, and the development of an internal market was regarded as of secondary importance. Then increased production for domestic needs became the immediate, and the possibility of future export, the more distant objective.

² *Report on the Agricultural Department, 1932*, p. 5.

and of shipping and trading firms in both Nigeria and this country on the other.¹ Assistance in disposing of the first trial shipments was also given by the Empire Marketing Board. The export of pineapples was carried out in the first year by the Agricultural Department; in subsequent years a private firm shipped the fruit to Great Britain and also to the Continent. The export of oranges was assisted by the Public Works Department, which provided packing cases at the lowest price at which imported cases were offered, and by the Elder Dempster Line, which reduced the freight rate for oranges. The building up of an export trade in fruit juice was helped by Messrs. John Holt and Company, who provided the necessary wax-lined containers. The first shipments of oranges were made by a syndicate of commercial firms under the direction of the Director of Agriculture.

The problem of producing fruit conforming to the standards of the highly competitive overseas market had not been satisfactorily solved either in the case of pineapples or of oranges up to the outbreak of the second world war. The building up of a fruit juice industry, partly for export and partly for domestic consumption, was attended by greater success. The juicy quality and poor appearance of Nigerian oranges in particular make their utilization in this manner more profitable than their export as fruit.² In the case of pineapples, an attempt was made to develop the export of pineapple pulp, as it had proved impracticable to produce fruit of the weight and uniform quality required for export. The evidence of several years' experiments thus points rather to the development of the domestic market for both pineapples and citrus fruit than to reliance on the growth of an export trade which would have to satisfy the conditions of a very exacting market.

Other lines of production, the development of which was attempted by the department, were the planting of Japanese chillies, the manufacture of tapioca and cassava starch, and the planting of tobacco. None of these industries, however, had progressed beyond the initial stages by 1939.

The Forestry Department was primarily concerned with establishing overseas markets for the less well-known Nigerian timbers and with developing, in co-operation with the United Africa Company, a saw-mill industry supplying the local market. At a press conference in 1944 Lord Swinton drew attention to the 'enormous quantities of timber sent to Britain and America during the war and to the beginnings of a furniture-

¹ *Ibid.*, 1933, p. 28.

² After some years of experimental shippings, the Agricultural Department has come to the conclusion that, so far as oranges are concerned, the only object which could be aimed at is 'to sell an inferior article cheaply' at the time of the year when supplies from other countries, particularly Palestine and Spain, are not reaching the English market. *Report on the Agricultural Department, 1935*, p. 23. The export of grapefruit is considered somewhat more hopeful, but has hardly been developed so far.

making industry with a view to export'.¹ But the Forestry Department has also been anxious to find outlets for a great many minor forest products. It has thus succeeded in establishing an export trade in gum Arabic. Other forest produce of which the suitability for export was explored with varying success was raffia and piassava fibres, anophe wild silk, shea-nuts, vegetable ivory, mangrove bark extract and beeswax. Trial shipments were made by the department of some of these products not only to England, but also to continental markets, particularly Germany.

The Veterinary Department further explored the possibility of developing a trade in dried and salted meat and sent samples to the Gold Coast where the Principal Veterinary Officer undertook to market it. Attempts were also made to improve the quality of the trade cattle exported to the Gold Coast. The trade in clarified butter fat (ghee), developed by the department and described in a previous chapter,² may also be mentioned in this connection.

These examples should suffice to show that in most attempts to establish new industries for export there has been some measure of co-operation between the government department responsible for the experiment and the commercial firms. Although it is not possible to be dogmatic as to lines on which this co-operation should proceed, the fairly diversified experience of Nigeria allows certain conclusions to be drawn as to the division of functions between the various agents.

There is no doubt that the actual pioneering work must be done in most cases by the government. This applies not only to methods of production and the organisation of the trade in the colony, but also to the exploration of possible markets for the produce overseas. It seems that none of the experiments described above would have been undertaken by private enterprise on its own initiative. Colonial conditions, in this respect, offer a particular illustration of the fact that, in modern times, 'the business man has shown himself more and more reluctant to carry out his peculiar functions of taking risks and trying out new markets and new methods of production'.³ In the cases under discussion, it was perhaps not so much reluctance on the part of private enterprise to take the risk of untried lines of production, as unwillingness to undertake the laborious and painstaking task of directing and supervising the work of African producers at every stage.

Government departments have, however, found it advisable to invite the co-operation of private enterprise at an early stage, and this co-opera-

¹ *The Times*, 5th August, 1944.

² See further, Volume I, Chapter VIII, pp. 288 f.

³ Fisher, Professor A. G. B., *The Clash of Progress and Security*, 1935, p. 229. This does not mean, however, that no new lines of export are ever initiated in these days by private enterprise. In 1937, for instance, the U.A.C. took up the export of guinea fowl eggs from Nigeria.

tion of commercial firms has proved essential in providing shipping, cold storage and proper containers, quite apart from the contribution of their special knowledge of marketing conditions and in some cases also of methods of production.

In all cases where a new trade has been successfully initiated, it has been found expedient to hand it over after a trial period to the established trading firms, though the responsible department has always retained some measure of control over the marketing of the produce.¹ It appears that in nearly every instance, co-operation by the exporting firms, including their acquiescence in restrictions on buying, was given willingly. Where difficulties arose, they were due to the interference of African middlemen who tended to lower the quality of the produce and thus to endanger the market for a new commodity before it had become properly established.

Another important question is whether new industries should be introduced only with a view to export, or whether the possibilities of the domestic market of the colony should also be considered. There is a certain tendency to treat both markets as watertight compartments, but several of the experiments undertaken in recent years have made it clear that they are interdependent and that, from the point of view of the export trade, the domestic market has a specific function in the building up of new export industries.

The fact that an industry does not have to rely exclusively on export provides it with a broader economic basis; the domestic market absorbs, moreover, that part of the output which is not of sufficiently high standard or is otherwise unsuitable for export. The simultaneous development of an internal market may thus reduce the costs and the waste of an industry and allow a better utilization of the country's natural resources. The establishment of saw-mills in Nigeria supplying the domestic market has made it possible to use inferior logs, which were formerly left to rot in the forest, and has provided an opening for the economic exploitation of secondary timbers for which there is no market overseas. A somewhat

¹ The course generally followed was described in the *Annual Report on the Veterinary Department, 1935*. 'It is not intended that the Department should do more than carry out the preliminary investigations into the possibilities of establishing a trade in such products. Once it has been established that such a possibility exists, then it will be left to the various firms operating in Nigeria to develop the trade along commercial lines, as was done in the case of clarified butter fat.'—That the commercial activities of the various departments are not large, is shown by the following figures of the revenue derived in 1938-9 from the sale of produce of the three departments mainly concerned:

	£
Agricultural Produce -	919
Forest Produce - -	1,051
Veterinary Department -	633

(From *Report on Accounts and Finances, 1938-39*.)

similar case is that of oranges, pineapples and ginger; it was found expedient to offer the inferior fruit for sale in the internal market and also to start the manufacture of fruit juice mainly for domestic consumption.

It must be regarded as a sign of healthy development that several of the new industries in Nigeria are able to sell their products in both the domestic and the overseas market, and it may well be asked whether in many cases, quite apart from war conditions, the internal market should not receive first consideration.¹ This applies particularly to the development of processing industries, a policy frequently advocated with a view to securing a higher value to the colonial territories from their external trade. Certain indispensable preparatory processes are even now applied to almost every product before export, such as the extraction of palm-oil, the flaying and drying of skins, the drying and fermenting of cocoa, the ginning of cotton, etc., and the improvement of the methods of preparation has been a major concern of government departments for many years. The advocates of the establishment of processing industries have, however, a different object in mind—viz. to transfer to the colonies industrial activities not necessarily domiciled in the country producing the raw material, and to substitute a semi-finished product for the raw material which is at present exported. Much as such a course appears to recommend itself at first sight, each case will require close examination if the advantages promised to colonial producers are to materialise. Although the objective framework of conditions, which determines a rational division of labour, is continually changing, the international trading relations which emerge still have a solid foundation in economic facts; these, while not beyond the scope of deliberate influence, can nevertheless not be altered merely at will.

The chief consideration is that, under present conditions, the raw material may be assured of a better market overseas than the more advanced product. This is the case, for instance, if the demand for the raw material is partly based on the by-product resulting from processing. Nigerian palm-kernels commanded a considerable market on the European continent not only for their oil content, but also for the oil-cake remaining after the extraction of the oil.

Most industrial processes demand, moreover, a high degree of skill not

¹ This is clearly recognised with regard to the trade in lower grade and sawn timbers. Mr. F. M. Oliphant in a *Report on the Commercial Possibilities and Development of the Forests of Nigeria*, Sessional Paper No. 7 of 1934, and *A Further Report on the Commercial Possibilities and Development of the Forests of Nigeria*, Sessional Paper No. 6 of 1935, laid great emphasis on the fact that 'a good domestic market is the foundation of a stable export trade'. His advice seems to have been adopted, for, according to the *Report on the Forest Administration of Nigeria, 1939*, 'the production of cheap utility timber for the domestic market is the main objective (viz. of the plans to develop a local saw-milling industry), a certain amount of export material being turned out as a by-product', p. 15.

easily to be acquired. Furthermore, industries working up raw material from many sources and concentrated in the more advanced countries are not only able to apply the most up-to-date processes and large-scale organisation, but are also in a better position to estimate the varied demands of a highly specialised market supplying numerous finishing industries. Many of these advantages would be lost were such manufacturing industries to be scattered over a number of countries producing the raw material. These factors appear to be mainly responsible for the disappointing results of the attempts to establish a tanning industry in Nigeria. It was found that untanned Nigerian skins fetched a better price than skins tanned in Nigeria, and in 1937, after many years of effort spent in building up a tanning industry, Nigerian hides and skins were still exported in the following proportion:

Untanned	-	441,997
Tanned	-	16,696

A similar position is found with regard to the export of logs and sawn timber respectively. In both these cases, and presumably in several others, the wisest course would probably be to develop the further industrial stage with a view to supplying the less exacting local market in the first place, but to continue for the time being to export the raw material until the more finished product is in a position to compete in the world market with that of more advanced countries.

A further consideration which may be relevant to colonial trade is whether the raw material does not receive better treatment in overseas countries, in respect of import duties or quotas, than the more advanced product. Countries, for instance, with oil crushing plants usually impose stricter conditions on palm-kernel oil than on palm-kernels, on ground-nut oil than on ground-nuts. In such cases, the export of the raw material may prove more profitable than that of the more finished product.

This does not necessarily mean that processing industries should be developed exclusively with a view to the domestic market of Nigeria or only with a very uncertain prospect of entering into the export trade in the future. There is a great deal to be said for treating the British West African territories at least as an economic unit from the point of view of developing new industries, a policy which was actually adopted during the second world war by the West African Produce Control Board.¹ In peace time, this would allow the choice of the economically most advantageous location for each industry and these industries would be provided from the outset with a larger market than would be available within the confines of a single territory. It is probable that governments would have to play a more active role in this inter-colonial trade for a longer period than they do in the export trade overseas. The despatch of dried and

¹ 380 *H.C. Deb.*, cols 1963 and 2004-7 (24.6.1942).

salted meat by the Nigerian Veterinary Department to the corresponding department in the Gold Coast may well indicate the lines on which trade in other products might be organised.

It is yet too early to say how far the experience of the recent war, when Nigeria was forced into a high degree of self-sufficiency, may provide the starting point for novel lines of policy in industrial development.

(c) RESTRICTION AND DIRECTION OF EXPORTS

(i) *International Control Schemes*

Colonial production of several raw materials which are important commodities in world trade has been considerably influenced in the inter-war period by international control schemes regulating the output and export of these products. The avowed object of these schemes is to co-ordinate supply and demand and thus to prevent violent fluctuations of world prices. Two such schemes are of concern to Nigeria, the International Tin Restriction Scheme, which applies directly to Nigeria, and the International Rubber Control Scheme, which has exercised an indirect influence on Nigerian production.

By the International Tin Restriction Scheme, adopted in 1931 and twice revised, the four principal tin producing countries—Malaya, the Dutch East Indies, Bolivia and Nigeria¹—pledged themselves to keep their exports of tin ore within the export quotas fixed quarterly by an International Committee on which the governments of the participating countries were represented. The quotas were calculated as percentages of a standard tonnage, viz. the average production of 1929, and were increased or decreased with a fall or rise in the London tin price. The object was to keep the world tin price steady at a level which was considered profitable even for the producers with the least favourable conditions.²

Under the scheme, the Nigerian export of tin ore has fluctuated considerably from year to year,³ the decisions of the Tin Committee fre-

¹ Nigeria's share was about 5 per cent of world production before 1939. Later three further producers—Siam, Indochina and the Belgian Congo—joined the scheme under conditions very favourable for them.

² See further, Chapter I, pp. 21-4. The average price aimed at by the International Committee during most of the period was £200 to £230 per ton: that is to say, a price which, according to *The Economist*, is above the average cost of production of efficient concerns. See 'Tin under Control', *The Economist*, 4th March, 1939, pp. 451 f. A tin buffer pool which was under the control of the International Committee was established as a further device for influencing prices.

³ See Table II, row 2. The tonnage exported is not necessarily identical with output, since in some years part of the permissible export was kept back. The standard tonnage of Nigeria was 10,734 in 1931 and was later raised, first to 10,890, and then on the formal renewal of the Tin Agreement in October, 1942, to 15,367.

quently involving very heavy reductions in the export quotas.¹ Nor has the object of price stabilisation been attained. Nigeria, moreover, suffered a loss in revenue—in some years a considerable loss—from the export duty on tin ore, as a result of restriction.² As a high-cost producer, however, Nigeria is interested in a high tin price and in view of the short duration attributed to her ore resources—according to some estimates only ten to fifteen years—it is also desirable to slow down the rate of exploitation of the mineral. On the short term view, therefore, Nigeria is likely to have profited from international restriction, since it has protected her from the competition of low-cost producers, chiefly Malaya and the Dutch East Indies.³

The situation in relation to rubber is different. The promotion of rubber planting was one of the principal objects of the Agricultural Department before and immediately after the first world war, but was abandoned when prices dropped sharply in 1921. It was not resumed after the introduction of international regulation, although Nigeria, not being a partner either to the Stevenson Scheme of 1921 or to the second international agreement of 1934, was under no obligation to apply any restriction to the production or export of rubber.⁴ No encouragement to plant rubber was given to Africans up to the year 1936 when the policy was to a certain extent reversed. Nevertheless, a certain amount of rubber planting by natives took place during the period, particularly in Benin, and the quantity of exported rubber—almost all plantation rubber—rose from 1,894,000 lbs. in 1932 to 7,023,000 lbs. in 1938.

The lack of interest in this crop displayed by the Department of Agriculture resulted, however, in a product of very poor quality and in slower progress than might have been achieved under a more active policy.

¹ The export quota which amounted to 110 per cent of standard tonnage in the last quarter of 1937 was, for instance, reduced to 45 per cent in the second half of 1938 and the first quarter of 1939. *The Economist*, *loc. cit.* Increases were, on the whole, more gradual.

² Proceeds of export duty on tin ore amounted to

1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
£4,345	—	—	£810	£869	£1,254	£1,492	£2,435	£3,558	£826

³ It is more doubtful whether the scheme was advantageous from a long view even to high-cost producers like Bolivia and Nigeria. Its policy of high prices has stimulated production by outsiders—their production rose from 13,967 tons in 1931 to 28,000 tons in 1938—and has also encouraged the use of substitutes. But this leads to the wider aspects of international control which are beyond the scope of the present study.

⁴ The Stevenson Scheme regulated compulsorily the exports from Malaya and Ceylon and voluntarily those from the British estates in the Dutch East Indies; the later agreement was signed by all the important producing countries in the East. See Rae, George, 'Statistics of the Rubber Industry', *Journal of the Royal Statistical Society*, v. 101: 317-365, 1938; also Imperial Economic Committee, *Plantation Crops*, 1937, p. 94.

Rubber proved to be a suitable alternative crop in the oil-palm districts where it yielded in 1938 a gross revenue per acre of £6 as against £3 to £3 10s. from oil-palms.¹ Rubber trees form, moreover, a protective cover against soil erosion. It is admitted that the existence of international regulation, although not applying to Nigeria, was the main reason for the department's attitude. It is a question of larger imperial policy and, therefore, outside the scope of this study, whether a wider dispersion of rubber planting would not have been more desirable than the concentration of 90 per cent of world production in one geographical region. But any future inquiry into the operation of international control schemes should be extended to their indirect and less obvious effect of hindering production of the controlled products in countries where such development would have been in the interest of a country's economy.

(ii) *Export Duties*

Export duties are in the first instance a means less of commercial policy than of raising revenue; they may be dealt with, therefore, very briefly. They tend, moreover, to decline in importance as other sources of revenue become available. So far as Nigeria is concerned, the decreasing financial importance—actual and proportional—of export duties is clearly shown by Table XIV.

The rates of export duties have to be adapted frequently to changes in the economic situation. The proceeds are, therefore, subject to fluctuation. During the depression of 1930 to 1934 the rates were considerably reduced,² and in the case of ground-nuts the duty was abolished altogether. To the extent that new lines of export prove successful, their products are made liable to this form of taxation. Thus, new duties have been introduced in Nigeria in recent years on fresh and dried bananas³ and on rubber.

The proceeds of export duties in 1938 were derived from the following products:⁴

	£
Cocoa - -	113,205
Palm-kernels -	163,823
Palm-oil -	62,726
Tin ore - -	826
Bananas -	17,715
	<hr/>
Total -	£358,295

¹ The value per lb. of rubber remained far below that obtained in the 'twenties. See Table XIII.

² The duty on palm-oil had to be reduced in 1934 from 24s. per ton to 11s. 6d. per ton, that on palm-kernels from 18s. to 10s. 6d. per ton.

³ Most of the bananas exported come from the plantations in the Cameroons under British mandate joined administratively to Nigeria.

⁴ The figure of total proceeds from export duties differs from that of Table XIV because the latter, from the *Report on Accounts and Finances*, is based on the fiscal year ending 1st April, 1939, while the figures quoted in the text, taken from the *Trade Report*, refer to the calendar year.

The export duty on palm-kernel oil of £2 per ton is financially insignificant.¹ In 1939 the export duty on ground-nuts was re-imposed at a rate of 5s. per ton, and a duty on the export of rubber at a rate varying with rubber prices quoted in London was introduced for the first time.²

In 1939, the first and so far the only excise duty on locally manufactured produce, as an equivalent to the duty levied on the imported product, was imposed on locally manufactured cigarettes, 'the industry having now attained a position in which it was considered that such duties could well be borne.'³

Export duties assume a somewhat different aspect when they are differentiated according to the destination of the produce. In this case they become a measure of imperial economic policy, their object being to direct the output of a raw material to a particular country, usually the mother country. Of the two differential duties introduced with this object in Nigeria in 1919 on palm-kernels and on tin ore, only the latter was retained after 1922. The avowed purpose of this duty, until it was finally abandoned as a result of the Anglo-American trade agreement of 17th November, 1938, was to check the tendency in the United States to establish a tin-smelting industry. It has certainly fulfilled its object of directing Nigerian tin ore to the smelting plants in the United Kingdom, but no doubt it has also, in conjunction with the International Control Scheme, encouraged other countries to apply a similar policy.⁴

A review of the policy applied to protect, improve, and direct the export trade of Nigeria discloses as its outstanding feature the close interdependence of a variety of factors and objectives—of private enterprise and government action, of the development of industries for export on the one hand, and for the domestic market on the other, of the furtherance of progress in the colony as well as the pursuit of certain aims of imperial policy. The more active the policy adopted by a government in respect of economic development and economic direction, the clearer will this interdependence become. In view of the comparative novelty of many of the measures designed to improve production for export and to establish new industries, more space has been accorded to these experiments than may

¹ Cf. Chapter V, pp. 234–5, for weight and incidence of export duties.

² The duty is 1d. per lb. when the London rubber price is 7d. and rises and falls with the price. No duty is levied when the price is at or below 6d. per lb.

³ *Report on Accounts and Finances, 1939–40*, p. 4.

⁴ The proportion of world tin output smelted in British countries—Great Britain, Straits Settlements and Australia—declined from 85 per cent in 1931 to 66 per cent in 1937, several countries, particularly Belgium and Holland, having developed important smelting industries to which they directed the tin ore from their respective colonies. Japanese capital in Siam and American capital in Bolivia were planning to erect smelting plants. This development which took place under international restriction is another feature worth investigating. See *The Economist*, 4th March, 1939. The differential export duty in Nigeria was equivalent to 50 per cent of the royalty payable in respect of tin ore.

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appear warranted by their relative importance as shown by figures of output and export.

The main problems of the commercial policy of a country relying for its progress and prosperity to a large extent on exports are, however, presented by its relations to the outside world. These cannot be exclusively determined by commercial treaties and agreements concluded on behalf of the colony by the metropolitan power with a view to ensuring markets to colonial exports; they are also deeply influenced by the policy governing the import trade of that colony.

2. POLICY APPLIED TO IMPORT TRADE

For several decades, the most important fact for the import trade of Nigeria (and of the Gold Coast) was that it was governed by a régime of the open door, in accordance with the Anglo-French Niger Convention of 14th June, 1898, and various other treaties with foreign powers. Furthermore, the customs tariff was fairly simple, relatively few duties being levied at rather a low level for revenue purposes only.¹ This uncomplicated character of the trade and customs régime has undergone important changes, particularly in the later part of the inter-war period.

It seems convenient to describe, first, the modifications which the customs tariff has undergone, and, further, to discuss those measures which have profoundly modified Nigeria's position as an importing country in relation to foreign countries.

(a) CUSTOMS TARIFF

The outstanding feature of the Nigerian customs tariff, which it has retained through the whole inter-war period, notwithstanding several important modifications, is that it is essentially a revenue tariff. In very few cases only can additional protective objects be discerned, as for instance in the case of kola nuts which are liable to an import duty of 12s. 6d. per 100 lb., while other produce from West African territories is admitted, in general, free of duty.

When the Customs Tariff Ordinance of 1924, which is still in force (though it has been frequently amended), was passed, the main object in view was to make up for the loss of revenue from the importation of trade spirits which, in accordance with international obligations undertaken by the colonial power, had been prohibited from 1920.² To this end the

¹ 'Customs tariff', 'customs duties', etc., signifies in this section exclusively import duties, if not otherwise stated.

² The official definition of 'trade spirits' in Nigeria is 'spirits imported for sale to natives and not generally consumed by Europeans'. In parts of Nigeria, the import of such spirits had been banned as early as 1890 in accordance with the Convention of Brussels. The financial effect of the total prohibition of their import was, therefore, not as considerable in Nigeria as in some other West African territories.

specific rates of import duties on some goods, especially those on alcoholic drinks, consumed almost entirely by non-Africans, tobacco and cigarettes, were substantially increased and new items were added to the list of dutiable articles. The rate of *ad valorem* duties was raised from 10 per cent to 12 per cent and, in 1922, to 15 per cent. A great many modifications were introduced in subsequent years, most of them during and after the depression of 1930 to 1933. They consisted, briefly, in the substitution of specific for *ad valorem* duties, in changes of the *ad valorem* rate, and in curtailments of the free list.

In 1933 the main object of substituting specific for *ad valorem* rates was to protect the revenue against a drop in the proceeds of import duties, which seemed imminent owing to the increasing import of dutiable articles, particularly cotton piece-goods and apparel, at prices much cheaper than had been presumed when the *ad valorem* rate was fixed. In subsequent years the substitution of specific for *ad valorem* rates was carried further, and in 1938 the percentage of the total customs revenue due to *ad valorem* duties had dropped to 6.7, whereas before the substitution they contributed about a third of the total revenue from import duties. In the case of articles of apparel, such as singlets, shirts, rubber and/or canvas shoes, pullovers, socks and stockings, umbrellas and parasols, and clocks and watches, the specific duty was made alternative to a 15 per cent *ad valorem* duty 'whichever is the higher'. The basic *ad valorem* rate was reduced in 1937 from 15 per cent to 6½ per cent and, in the case of some articles, to 10 per cent. This was done in order to compensate for the change-over from a f.o.b. basis of assessment to a c.i.f. basis. In March, 1939, however, the basic *ad valorem* rate was again generally raised to 15 per cent as a measure of fiscal policy.

Another important alteration was the transfer of articles, hitherto free of duty, to the list of goods liable either to a specific or an *ad valorem* duty. This was done partly by a general re-arrangement of the tariff which was carried out in 1937, and partly by the removal of specified goods from the free list to the list of dutiable articles, that is to say, from Schedule 2 to Schedule 1 of the customs tariff. Up to 1937 'all goods not specified as dutiable' were exempt from duty. This was replaced by a new arrangement according to which all goods not enumerated in the list of dutiable articles or not specifically exempted became liable to an *ad valorem* duty of 10 per cent.¹

In addition to this general extension of liability to import duty, certain articles were removed at various times from the free list. Thus, by an order of March, 1939, corrugated iron sheets, motor cars and motor cycles, as well as several other goods, became liable to duty.

The imposition of a duty on corrugated iron sheets evoked protests from

¹ By this reform the Nigerian tariff was brought into line with the customs tariffs of the other British West African territories.

some of the African members of the Legislative Council who maintained that such a duty would hamper progress in housing. The Financial Secretary tried to justify the measure by declaring that it is 'part of our financial structure that our tariff should be a revenue tariff and that everything should make its reasonable contribution to the revenue of the State'—rather a novel definition of the revenue tariff!¹

In December, 1939, further articles were made liable to duty as a war measure—coal and coke, a number of foodstuffs, appliances, implements and tools for surveying and mining, accessory parts of motor vehicles, explosives, and mining machinery. All specific rates were, moreover, increased by 25 per cent.²

There has thus been a tendency, particularly in more recent years, to spread the liability to duty to an increasing range of articles and also to raise the average rate of taxation by import duties.³ From 22.3 per cent in 1929, the incidence of import duties on total domestic imports rose to 29.8 per cent in 1933, but it dropped again to 28.7 per cent in 1938.⁴ Some of these modifications were introduced to compensate for reduced revenue from export duties, others to safeguard the revenue from loss resulting from the introduction of import quotas.

The essential character of the Nigerian customs tariff as a revenue tariff was, however, retained, that is to say, a tariff framed primarily with a view to raising revenue,⁵ not to keeping foreign goods out or to raising their price to such a level as to enable domestic produce to compete with them. Although the taxation of goods which are necessities or at least essential for raising the African's standard of living will always represent an important issue of economic policy, the Nigerian customs tariff in its present form is still predominantly an instrument of fiscal, and not of commercial, policy. Of far greater importance for the latter are the changes which have taken place in recent years in Nigeria's international position as a market for manufactured goods from abroad.

(b) INTERNATIONAL POSITION

As pointed out above, up to October, 1936, commercial relations in the Niger Basin were governed by the Anglo-French Convention of 14th

¹ *Legislative Council Debates*, 6th March, 1939, p. 61. Representations by members succeeded in getting stationery used for educational purposes put on the free list.

² On the free list remained aircraft, packing material for export produce, drugs and medicines, certain implements, instruments and machinery, fishing nets, plants and seeds, manures and certain foodstuffs.

³ See Chapter V, pp. 235-7.

⁴ The incidence was 28.8 per cent in Sierra Leone and 25.9 per cent in the Gold Coast (1938).

⁵ The contribution of customs duties to total revenue has been fairly well maintained (Table XIV).

June, 1898, in which the partners granted each other equal rights of trade, navigation, taxes, etc., for thirty years and thereafter, until denounced with one year's notice. By a wide system of commercial treaties containing the most favoured nation clause, a régime of practical non-discrimination was established in the area which covered, on the British side, Nigeria and the Gold Coast.¹

The first breach in the system of non-discrimination in the British territories was made in 1934 by the Importation of Textiles (Quotas) Ordinance which provided for the limitation to a fixed quota of the import of cotton and artificial silk piece-goods from any specified country. Actually, the provision was applied in 1934 to textiles from Japan only, and the basis chosen for the calculation of the quotas—the average import during 1927 to 1931—was such as to ensure a very severe reduction of imports from that country. Whilst in 1933 the average monthly import of cotton and artificial silk piece-goods from Japan had been 1,289,100 square yards, the quota fixed in 1934 allowed only for an average monthly import of 348,666 square yards.

By a second ordinance, passed at the same time, additional duties were introduced which were payable upon certain articles manufactured in Japan,² viz.:

<i>Dutiable articles</i>	<i>Rate of Additional Duty</i>		
	£	s.	d.
Galvanised iron sheets	4	0	0 per ton
Cement - - -		3	0 per 400 lb.
Paint - - -		16	0 per 100 lb.
Varnish - - -		4	0 per gallon
Shirts - - -		1	3 each
Singlets - - -		0	2 each
Socks and stockings - -		0	7 per pair
Pullovers - - -		1	0 each

Previously, Article 11 of the Anglo-Japanese Commercial Treaty of 1911 had been denounced in its application to the four British West African territories and thus the way cleared legally for the introduction of discriminatory measures against Japan.

Tables XV and XIX show clearly that imports of Japanese cotton piece-goods were never very large in Nigeria. In 1933, they amounted only to 8.9 per cent of the value and 12.3 per cent of the volume of total imports of cotton piece-goods, whilst the United Kingdom retained even in that year by far the largest share of the trade (77 per cent). Japanese

¹ By a declaration of 21st March, 1899, the agreement was extended to the Sudan. On the French side, it applied to Dahomey and the Ivory Coast and to the Chad area of French Equatorial Africa.

² Actually, according to this Ordinance (No. 8 of 1934), additional duties may be imposed on goods from any specified country, but no use has been made so far of this authorisation against the goods of any country but Japan.

goods had conquered a bigger proportion of the market in artificial silk piece-goods (Table XVI) and in some articles of apparel, but so far as the latter are concerned, only in 'shoes other than leather' did she supply more than the United Kingdom in 1933 (Tables XVII and XVIII). In all the articles which were made liable to an additional duty in 1934, imports from Japan remained in 1933 far below those from the United Kingdom (Table XVII), and in some of these articles, viz. iron sheets, cement, paints and varnishes, imports from Japan were virtually non-existent¹ (Table XIX).

Only 5 per cent of the total Nigerian imports came in 1933 from Japan. The menace to British manufacturers from Japanese competition was, therefore, more potential than real, and it is difficult to escape the impression that quotas and additional duties were introduced in the West African territories in order to safeguard this market in the future as a compensation for the loss of those colonial markets—particularly in East Africa—where international commitments made discriminatory action impossible. Neither the speech by the President of the Board of Trade, Mr. Runciman, in introducing the quota bill nor the subsequent debate in the House of Commons left any doubt that the measures were not warranted by any requirements of the colonies concerned, but were conceived exclusively as a protection for British goods in these markets.² The question as to how the measures might affect the African peoples was not even raised in the debate. It was, however, generally admitted that it was the very cheapness of Japanese textiles and apparel which enabled Africans, in spite of the heavy drop in the prices of their export products, to maintain, and, in some cases, even to increase, purchases of these articles during the years of the depression.

The Acting Attorney-General, introducing the quota bill in the Nigerian Legislative Council,³ described it as 'not a scheme on our part to hand over to the Governor-in-Council', but one 'based on a model transmitted from England, which was sent to all the West African Colonies'. The bill provoked lively protests by members of the Council and was finally adopted against the votes of the three Unofficial Members for Lagos.⁴ The Acting Governor of Nigeria, whilst admitting that the pro-

¹ A detailed examination of the situation has been made by the present author in a memorandum written in 1940 for the Royal Institute of International Affairs on 'Trade Policy and Trade in African Territories' (hereafter to be cited as *Memorandum*).

² 'With a view to re-instating this country in those markets which she held before the present abnormal period, it is intended that the basis for apportioning these quotas as between foreign countries shall be as far as possible the average of their imports 1927 to 1931.' 289 *H.C. Deb.* col. 716 (Runciman, 7.5.1934).

³ *Legislative Council Debates*, 12th June, 1934, p. 47.

⁴ One of these members spoke of the 'wide-spread and deep-seated apprehensions' with which the population of Nigeria viewed the proposed measures; *ibid.*, p. 57.

posed legislation would increase prices for consumers, found consolation in the fact that 'it will drive consumers as a whole to spend less on imports, to keep Nigerian money in Nigeria, and thus to increase the purchasing power of the country'¹—an interpretation of the objects of the bill difficult to reconcile with that given by the Secretary of State in the House of Commons.

It was soon found that there were ways of evading the quotas. In 1935, certain made-up articles, such as handkerchiefs, head ties, mufflers, scarves, and sarongs, were accordingly included in the quotas for textiles from Japan, since they were being increasingly imported in lieu of piece-goods. Another way of evading the quotas, not so easily stopped, was to import the goods first into the British Cameroons or Togoland, which, in accordance with the mandate, had remained under a régime of the open door, and to smuggle them later into Nigeria and the Gold Coast, respectively, over the land frontier, where it was impossible to maintain a customs service without loopholes.

A development, however, which threatened to defeat the object of the quotas much more seriously than these evasions of the law, was the replacement of Japanese textiles by those of other cheap producers. First among the countries which were able to increase their share in cotton-goods was British India, which supplied about one-fifth of the cotton piece-goods imported into Nigeria in 1938 (Table XV). A few other countries raised their import share of cotton piece-goods—both actual and proportional—in some years, but did not maintain it throughout the period. Thus, the U.S.S.R. made an ephemeral appearance in the West African market in 1934, but is not to be found in the following years among the principal suppliers. The D.O.T. Report on British West Africa, published in 1937, mentioned China also as an oncoming supplier.² In view of the increasing imports from non-British countries, the quota restrictions were extended in 1937 to cotton and artificial silk piece-goods from all non-British countries. This had become legally feasible since Article 9 of the Anglo-French Niger Convention, stipulating mutual equal economic treatment, had been denounced by France as from October, 1936. A comparison of imports from various countries in 1936 with the quotas assigned to them for 1937³ makes strikingly clear, not only that total imports from non-British sources were severely cut down, but also that the assessment of the quotas was much more favourable to some countries than to others.

Actually, the reduction of imports from foreign sources was even more severe than indicated by the figures, since not all quotas were fully used.

¹ *Ibid.*, p. 6.

² Department of Overseas Trade, *Report on Economic and Commercial Conditions in the British Dependencies in West Africa*, No. 684, 1937, p. 58. See also *Memorandum*.

³ Such a comparison can be drawn, however, only approximately, as the quota period and that for which import figures are recorded are not identical.

Country of Origin	Cotton Piece-Goods		Artificial Silk Piece-Goods	
	Imports in 1936	Quotas fixed for 1937	Imports in 1936	Quotas fixed for 1937
Germany - -	9,581	4,295	992	364
Holland - -	2,991	3,612	—	—
Italy - -	7,610	3,229	1,816	2,446
Japan ¹ - -	1,728	3,007	813	439
Russia - -	256	4,053	—	—
All other Non-British Countries - -	32,266	2,880	988	91
Total Non-British	54,432	21,076	4,609	3,340
Grand Total -	192,173		8,605	

Russia, in particular, sent only 54,451 square yards in 1938.² Nor was Holland able to take full advantage of the relatively ample quota allocated to her as she supplies expensive printed cotton piece-goods which are non-competitive with the cheaper classes of goods mainly bought by Africans. Whilst in 1937 a considerable quantity of piece-goods not yet falling under the quota were still imported, total imports of cotton piece-goods in 1938 dropped to 68,914,000 square yards, that is to say, to a lower figure than even in 1933. The introduction of quotas has certainly reduced the Japanese share of cotton piece-goods, but has not prevented a further decline in the proportion of cotton piece-goods supplied by the United Kingdom, although the latter was still in 1938 by far the most important supplier of these goods (Table XV). Other cheap producers had reaped the main advantage of the restriction of imports from Japan. In the case of cotton piece-goods, it was chiefly British India, to which, as an Empire country, no quotas applied. In artificial silk piece-goods, however, Japan had been replaced mainly by other non-British countries, Italy and Germany³ in particular (Table XVI).

The additional duties levied on Japanese goods have been less successful in reducing imports from that source. In the case of two articles subject to an additional duty, viz. singlets and pullovers, the surtax has not prevented a considerable increase of imports from Japan. The imports of two other articles from Japan, namely socks and shorts, have decreased, but to a considerably less extent than the imports of these commodities from the United Kingdom (Table XVII). In general, as far as imports from Japan

¹ In 1933, 11,355,000 square yards of cotton piece-goods and 4,128,000 square yards of artificial silk goods came from Japan.

² Exports from Russia depend, as is well known, on the decisions of the State Commissariat for Foreign Trade.

³ The latter supplied mainly 'Artificial Silk goods mixed with other material', a circumvention of the quota which was stopped early in 1939.

are concerned, there seems to have been a shift from piece-goods to made-up articles (Table XIX). The most interesting fact, however, is that Hong Kong has appeared as a new source of many articles, the importation of which from Japan the new duties were intended to check. It is difficult to escape the conclusion that a considerable proportion of the goods recorded as imports from Hong Kong were actually of Japanese origin.

Some articles, as mentioned above, are not liable to an additional duty if imported from a particular country, but an alternative specific duty is levied upon them if it works out higher than a 15 per cent *ad valorem* duty. This means that the cheaper classes of these goods are, proportionally, taxed more heavily than the more expensive ones. Since Japan was the principal supplier of most of these goods, her manufactures usually fell under the higher specific tax. Among articles liable to an alternative specific duty, and imported mainly from Japan, were canvas shoes with rubber soles as well as umbrellas and parasols. As shown in Table XVIII, it was in these goods mainly that Japan had made headway, and the proportional higher duty seems not to have been a deterrent to increased purchases of these goods by Africans even in a relatively lean year like 1938. The same table shows further that imports of both articles from the United Kingdom have heavily decreased, but that other countries, Czechoslovakia in the case of shoes, Germany in the case of umbrellas, have gained considerable ground between 1933 and 1938.

Preferential duties on the basis of the Ottawa agreements have not been applied to Nigeria (or to the Gold Coast),¹ but as pointed out above, restriction of foreign imports by quotas has undoubtedly acted as an effective measure of imperial preference for India in the case of cotton piece-goods.

The large share of the United Kingdom in supplying the economic equipment to Nigeria is clearly shown in Table XX. Government imports, which came practically entirely from the United Kingdom (Table XXI), accounted to a considerable degree for the paramount position which the latter held in this class of goods.

3. CONCLUSION

In the inter-relation of the import and the export trade of a country, the latter is of primary importance. Its value determines up to what value goods may subsequently be imported. This is particularly true in the case of colonies, which have usually no large invisible items on the credit side of their balance of payments, except the proceeds of loans and grants mainly spent on the import of capital goods from the mother country. While this interdependence of exports and imports is clearly recognised, there is

¹ In *Memorandum* it has been shown that in Sierra Leone and the Gambia preferential duties have proved in the case of some goods a very effective means of diverting trade to the United Kingdom.

often a tendency to overlook the fact that the import policy most conducive to a country's prosperity is largely determined by that country's position as an exporter to the world's markets.

It is a very crude conception of this interdependence and one, moreover, not in accordance with the facts of world trade, which assumes that a country should import mainly from those countries which buy its own products.¹ Quotas based on bilateral agreements are the main instruments of such a policy. But import quotas, even if ensuring a certain volume of exports, not only, by their rigidity, make an expansion of markets difficult, but also deprive a country of the advantage of buying the required goods where they are to be had in the most suitable quality and at the most economical price.² This point of view is of particular importance for a country with a low average purchasing power. When such a country is forced to buy in a more expensive market, the poorer sections of the population will have to go without imported goods, and in the case of African countries, this will mean that the more backward sections will be prevented from acquiring the habit of using goods which are essential for a more civilised and healthier mode of life. Moreover, even in the years of increasing bilateral exchange preceding the second world war, 'there were few countries which did not materially depend upon their sales to certain countries in order to meet their requirements from others'.³

No doubt the foreign trade of some colonies lends itself more to regulation by bilateral agreement than that of others; and to some territories, such as the British West Indies, the granting by the mother country of preferential conditions to their main produce, sugar, may have become of vital importance. But it is essential to face the fact that, once bilateral exchange based on reciprocal concession is accepted as a method of carrying on colonial trade, it will no longer be possible to apply a uniform set of principles, even if varied in detail, to the trade of the whole colonial empire. Instead, it will be necessary to work out the trade policy for each colony separately. In other words, if the international framework of colonial trade is abandoned, it will have to be replaced by an intricate network of agreements, which, in order to allow for some flexibility, will have to be subject to frequent modification. It is difficult to see how such

¹ Such a policy was advocated by the Acting Governor of Nigeria in the debate on the textile quotas. *Legislative Council Debates*, 12th June, 1934, p. 6.

² The same objection applies to the use of exchange regulations as a means of concluding barter agreements. It is one of the great advantages of a free currency that it allows the geographical distribution of purchases to be determined primarily by economic considerations.

³ League of Nations Economic Intelligence Service, *The Network of World Trade*, 1942, pp. 87 f., where it is clearly shown that 'the significance of such (i.e. multi-lateral) trade can by no means be gauged by its percentage share in total trade', since multilateral trade is responsible for the world-wide integration of the economy of different countries.

a policy could be made to fit in any form the requirements of a country like Nigeria.

Like most tropical countries, Nigeria is dependent on several markets for both selling and buying, and before the 1939-45 war traded with a great number of countries. Although the United Kingdom is her most important customer as well as supplier of goods, it is impossible to imagine any degree of prosperity and progress for her in the future without the restoration of former, and the acquisition of new, foreign markets for her produce.

As shown previously, her main non-British customers up to 1939 were to be found on the European continent. Germany, Holland and France, in particular, took, in 1938, over 70 per cent of that part of her exports which did not go to the United Kingdom. With each of these countries Nigeria's balance of trade was strongly active;¹ this means, she would have been in a very weak position had she had to negotiate bilateral agreements with them. On the other hand, the two principal countries from whom Nigeria used to buy more than she sold to them, British India and Japan—the import excess in 1938 being £439,000 and £379,000 respectively—are not likely ever to become important markets for Nigeria's main products.

Nor is there much prospect of either the United Kingdom or other parts of the Empire being able to absorb considerably more of Nigerian exports than at present, since the Empire has an export surplus in at least four of Nigeria's most important products. The annual export balance (average of 1930 to 1937) amounted to:²

<i>Produce</i>	<i>Empire Export Balance</i>
	<i>Thousand Tons</i>
Palm-kernels - - -	241
Palm-oil - - -	62
Cocoa - - -	254
Ground-nuts - - -	696

Foreign markets may become of relatively even greater importance to Nigeria in the future. Should her tin resources become exhausted, there would disappear from the Nigerian export trade a product which in 1938 accounted for 15 per cent of the total exports, and which is sent at present entirely to the United Kingdom.

Moreover, the Nigerian oil-palm industry, at present responsible for between 30 per cent and 40 per cent of total exports, will presumably have to face increasingly severe competition from the plantations in the Far East and in the Belgian Congo which were able to increase rapidly their

¹ See above, p. 143.

² Imperial Economic Committee, *Vegetable Oils and Oilseeds*, 1938, and *Plantation Crops*, 1938.

export of palm-oil in the years previous to the second world war.¹ Against this menace, it is of paramount importance to pursue a trade policy that does not further prejudice Nigeria's position in the world's markets. Finally, for a country whose prosperity depends largely on exports, it is not only the diversity of these exports that must be considered a source of economic strength and security, but also the availability of a variety of markets for the disposal of its products.

¹ See Volume I, Chapter VI, pp. 225-7.

TABLE

PRINCIPAL NIGERIAN EXPORTS BY PRINCIPAL COUNTRIES EXPORTS, AND TOTAL IMPORTS BY PRINCIPAL COUNTRIES

Country of Destination and Origin	Years	EXPORTS							
		Palm-oil		Palm-kernels		Cocoa		Ground-nuts	
		£'000	%	£'000	%	£'000	%	£'000	%
United Kingdom -	1929	1,190	31.6	2,008	47.1	620	26.9	179	7.3
	1933	697	50.3	759	40.0	353	30.9	245	11.9
	1938	751	76.6	795	36.7	579	37.0	455	34.9
Rest of British Empire - -	1929	10	0.3	—	—	—	—	—	—
	1933	45	3.3	—	—	—	—	—	—
	1938	24	2.4	—	—	2	0.1	8	0.6
Germany - -	1929	268	7.1	1,740	40.8	434	18.8	706	28.6
	1933	122	8.8	749	39.4	257	22.4	280	13.6
	1938	102	10.4	721	33.2	282	18.0	154	11.8
United States -	1929	1,680	44.6	10	0.2	783	34.0	—	—
	1933	243	17.6	48	2.5	217	19.0	—	—
	1938	51	5.2	19	0.9	407	26.0	—	—
Holland - -	1929	177	4.7	362	8.5	434	18.8	424	17.2
	1933	55	4.0	221	11.6	302	26.4	143	6.9
	1938	7	0.7	524	24.2	269	17.1	90	6.9
France - -	1929	19	0.5	22	0.5	7	0.3	1,084	43.9
	1933	6	0.4	4	0.2	—	—	1,170	56.7
	1938	—	—	2	0.1	8	0.5	541	41.4
Japan - -	1929	—	—	—	—	—	—	—	—
	1933	—	—	—	—	—	—	—	—
	1938	—	—	—	—	—	—	—	—
Other Countries -	1929	423	11.2	123	2.9	28	1.2	73	3.0
	1933	216	15.6	118	6.3	15	1.3	226	10.9
	1938	46	4.7	108	4.9	20	1.3	58	4.4
Total - -	1929	3,767	100	4,265	100	2,306	100	2,466	100
	1933	1,384	100	1,899	100	1,144	100	2,064	100
	1938	981	100	2,169	100	1,567	100	1,306	100
Percentage of Total Domestic Exports	1929	—	21.4	—	24.3	—	13.1	—	14.0
	1933	—	16.2	—	22.2	—	13.4	—	24.1
	1938	—	10.6	—	23.3	—	16.9	—	14.1

Source: Trade Reports.

Note: Gold is included in 'Other Products': it was exported solely to United Kingdom and

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Import quotas cannot be regarded a suitable means for attaining these objects. The present textile quotas, introduced primarily to safeguard the West African market to British manufacturers, would, if used within the framework of bilateral agreements, defeat this very object, since they would imply the diversion of a larger proportion of the import trade to foreign countries at the expense of the United Kingdom. Quotas, on the other hand, applied as at present as a measure of imperial preference, are an unsuitable instrument for securing to Nigeria those foreign markets

XII
OF DESTINATION AND AS PERCENTAGES OF TOTAL DOMESTIC
OF ORIGIN, 1929, 1933 AND 1938

EXPORTS					IMPORTS						
Cotton Lint		Hides and Skins		Tin		Other Products		Total		Total	
£'000	%	£'000	%	£'000	%	£'000	%	£'000	%	£'000	%
533	98.2	477	51.3	2,299	100	458	45.6	7,764	44.2	9,316	70.5
184	95.3	187	29.9	659	100	260	43.7	3,345	39.1	4,391	69.2
197	80.0	164	31.7	1,435	100	271	25.5	4,647	50.0	4,713	54.6
—	—	1	0.1	—	—	126	12.5	137	0.8	381	2.9
—	—	1	0.2	—	—	92	15.5	138	1.6	265	4.2
—	—	—	—	—	—	175	16.4	209	2.3	739	8.6
—	—	23	2.5	—	—	247	24.6	3,418	19.4	1,320	10.0
9	4.7	20	3.2	—	—	89	15.0	1,527	17.8	525	8.3
20	8.1	18	3.5	—	—	350	32.9	1,647	17.7	755	8.8
—	—	74	7.9	—	—	5	0.5	2,552	14.5	1,005	7.6
—	—	237	38.0	—	—	2	0.3	747	8.7	399	6.3
—	—	158	30.5	—	—	36	3.4	671	7.2	694	8.0
3	0.5	3	0.3	—	—	37	3.7	1,440	8.2	485	3.6
—	—	2	0.3	—	—	90	15.1	812	9.5	161	2.6
8	3.1	21	4.0	—	—	82	7.7	1,001	10.8	150	1.7
6	1.1	314	33.8	—	—	8	0.8	1,460	8.3	311	2.4
—	—	116	18.6	—	—	4	0.7	1,299	15.2	82	1.3
7	2.7	99	19.1	—	—	8	0.8	665	7.2	77	0.9
—	—	—	—	—	—	—	—	—	—	2	—
—	—	—	—	—	—	—	—	—	—	317	5.0
—	—	—	—	—	—	—	—	—	—	379	4.4
1	0.2	38	4.1	—	—	124	12.3	810	4.6	396	3.0
—	—	61	9.8	—	—	58	9.7	694	8.1	199	3.1
15	6.1	58	11.2	—	—	141	13.3	445	4.8	1,125	13.0
543	100	930	100	2,299	100	1,005	100	17,581	100	13,216	100
193	100	624	100	659	100	595	100	8,562	100	6,339	100
247	100	518	100	1,435	100	1,063	100	9,286	100	8,632	100
—	3.1	—	5.3	—	13.1	—	5.7	—	—	—	—
—	2.2	—	7.3	—	7.7	—	6.9	—	—	—	—
—	2.6	—	5.6	—	15.5	—	11.4	—	—	—	—

amounted to £99,737 in 1933 and to £176,069 in 1938. Total Imports exclude bullion and specie: they include re-exports.

which she needs as an exporter. The future character of international trade policy is as yet uncertain, and it is obvious that it will be determined without special consideration of Nigeria's concerns. But an analysis of Nigerian conditions leads clearly to one conclusion: that multilateral trade, as free as possible from discrimination and artificial impediments, is the organisation of world trade which best serves Nigeria's interests. From this it follows that her own commercial policy should be framed with a view to this end. This need not exclude a moderate measure of protection for a few—at present, mainly secondary—domestic industries. But this should be limited to industries which are likely to attain within reasonable time such a standard of efficiency that they can offer their produce at least at the price at which it can be supplied from abroad. Even then, however, it will be an open question whether it would not be more economical to give that protection by direct subsidy rather than by customs duties. But any trade policy claiming to be primarily concerned with the prosperity of Nigeria and the welfare of her people will have to give first consideration to the country's situation as an exporter to the world's markets and adapt the import policy to the requirements of that situation.

TABLE XIII
DOMESTIC EXPORTS OF RUBBER

Year	Exports		Value per lb.
	Lb. '000	£ '000	
1925	2,128	108	1/-
1926	3,571	203	1/1½
1927	4,474	256	1/1¾
1928	5,139	256	-/11¾
1929	4,422	164	-/8¾
1930	4,877	150	-/7¼
1931	4,080	71	-/4
1932	1,894	31	-/3¾
1933	2,256	33	-/3½
1934	3,613	44	-/2¾
1935	4,612	62	-/3
1936	4,867	90	-/4½
1937	5,764	126	-/5¼
1938 ¹	7,023	136	-/4½

Source: *Trade Reports*.

¹ The destination of the rubber exported in 1938 was:

Countries	Lb. '000
United Kingdom - -	2,922
Germany - - -	2,251
Czechoslovakia - -	1,850

TABLE XIV
REVENUE FROM CUSTOMS DUTIES

Fiscal Years ending 1st April	Total Customs Revenue		Export Duties			Import Duties		
	Actual £'000	As Percentage of Total Revenue	Actual £'000	As Percentage of Total Revenue	As Percentage of Total Customs Revenue	Actual £'000	As Percentage of Total Revenue	As Percentage of Total Customs Revenue
1929	3,398	58.0	604	10.3	17.8	2,794	47.7	82.2
1930	3,310	55.4	625	10.5	18.9	2,685	44.9	81.1
1931	2,930	52.4	546	9.8	18.6	2,384	42.6	81.4
1932	2,066	46.3	431	9.7	20.9	1,635	36.6	79.1
1933	2,465	49.6	506	10.6	21.4	1,859	39.0	78.6
1934	2,116	46.4	465	10.2	22.0	1,651	36.2	78.0
1935	2,058	46.2	435	9.8	21.1	1,623	36.4	78.9
1936	2,896	52.7	398	7.2	13.7	2,498	45.5	86.3
1937	3,598	58.4	398	6.5	11.1	3,200	51.9	88.9
1938	3,477	48.7	394	5.5	11.3	3,083	43.2	88.7
1939	2,446	42.5	368	6.4	15.8	2,078	36.1	84.2

Sources: *Treasurer's Reports* (1928/29 to 1934/35); *Reports on Accounts and Finances* (1935/36 to 1938/39).

Note: Revenue in this context includes receipts from taxation, all trading services except the railway, the West African Currency Board and the Colonial Development Fund.

TABLE XV
IMPORTS OF COTTON PIECE-GOODS

Country of Origin	1929				1933				1938			
	Thousand sq. yds.	Per cent	£'s	Per cent	Thousand sq. yds.	Per cent	£'s	Per cent	Thousand sq. yds.	Per cent	£'s	Per cent
United Kingdom - - -	93,732	93.1	3,002,036	89.7	70,588	76.2	1,442,890	77.3	45,165	65.5	1,074,022	64.8
Germany - - - - -	1,548	1.5	131,186	3.9	5,857	6.3	83,365	4.4	1,376	2.0	27,637	1.7
Italy - - - - -	2,506	2.5	77,605	2.3	334	0.4	7,219	0.4	1,192	1.7	34,796	2.1
Holland - - - - -	1,443	1.4	71,810	2.2	1,379	1.5	46,691	2.5	1,312	1.9	49,659	3.0
British India - - -	157	0.2	9,369	0.3	2,454	2.6	107,636	5.8	13,443	19.5	344,892	20.8
Japan - - - - -	—	—	—	—	11,355	12.3	163,966	8.9	2,928	4.3	50,299	3.0
Other Countries - -	1,260	1.3	54,430	1.6	664	0.7	14,384	0.8	3,498	5.1	76,887	4.6
Total - - - - -	100,646	100	3,346,436	100	92,631	100	1,866,151	100	68,914	100	1,658,192	100
Percentage of Total Imports				25.2				29.4				19.4

Source: *Trade Reports*.

TABLE XVI
IMPORTS OF ART SILK PIECE-GOODS

Country of Origin	1933				1937				1938			
	Thousand sq. yds.	Per cent	£'s	Per cent	Thousand sq. yds.	Per cent	£'s	Per cent	Thousand sq. yds.	Per cent	£'s	Per cent
United Kingdom - -	2,143	29.2	63,456	31.5	3,804	58.0	142,704	48.9	820	31.6	31,450	34.6
Germany - - -	131	1.8	10,792	5.4	586	8.9	63,447	21.8	26	1.0	2,903	3.2
India - - -	—	—	—	—	292	4.5	7,437	2.6	179	6.9	4,878	5.4
Italy - - -	565	7.8	18,151	9.0	1,126	17.1	42,419	14.6	649	25.0	27,138	29.8
Czechoslovakia - -	—	—	—	—	81	1.2	11,782	4.0	33	1.3	5,390	5.9
Switzerland - - -	5	—	471	0.2	54	0.8	4,103	1.4	23	0.9	1,650	1.8
Japan - - -	4,128	56.3	93,407	46.5	305	4.7	8,001	2.7	734	28.4	12,718	14.0
Other Countries - -	359	4.9	14,991	7.4	311	4.8	11,582	4.0	127	4.9	4,836	5.3
Total - - -	7,331	100	201,268	100	6,559	100	291,475	100	2,591	100	90,963	100

IMPORTS OF ART SILK PIECE-GOODS MIXED WITH OTHER MATERIAL

Country of Origin	1933				1937				1938			
	Thousand sq. yds.	Per cent	£'s	Per cent	Thousand sq. yds.	Per cent	£'s	Per cent	Thousand sq. yds.	Per cent	£'s	Per cent
United Kingdom - -					2,012	28.2	75,501	16.5	482	14.1	16,465	7.2
Germany - - -					1,577	22.2	194,983	42.6	560	16.4	78,349	34.1
Japan - - -					543	7.6	33,180	7.2	618	18.1	36,713	16.0
Italy - - -					2,020	28.5	96,405	21.0	1,172	34.5	74,325	32.4
Other Countries - -					961	13.5	58,030	12.7	575	16.9	23,695	10.3
Total - - -					7,113	100	458,099	100	3,407	100	229,547	100

Source: Trade Reports.

TABLE XVII
DOMESTIC IMPORTS OF CERTAIN GOODS ACCORDING TO COUNTRIES OF ORIGIN

Country of Origin	1933					1938				
	No.	%	£	%	<i>Au. price per piece</i>	No.	%	£	%	<i>Au. price per piece</i>
SINGLETs (COTTON)										
United Kingdom -	1,665,210	68·9	38,579	68·2	5½d.	217,506	15·9	7,087	17·9	7½d.
Japan - - -	601,087	24·8	14,186	25·1	5½d.	862,329	63·0	24,246	61·3	6½d.
Hong Kong - -	—	—	—	—	—	227,473	16·6	5,706	14·4	6d.
Other Countries -	152,512	6·3	3,797	6·7	6d.	60,913	4·5	2,510	6·4	9½d.
Total - - -	2,418,809	100	56,562	100		1,368,221	100	39,549	100	
PULLOVERS										
United Kingdom -	83,566	84·4	2,754	84·4	7½d.	32,684	20·7	3,129	35·1	1s. 11d.
Japan - - -	10,155	10·3	283	8·7	6½d.	36,164	22·9	1,607	18·1	10½d.
Hong Kong - -	—	—	—	—	—	52,396	33·1	2,398	27·0	11d.
India - - -	—	—	—	—	—	22,848	14·4	798	9·0	8½d.
Other Countries -	5,315	5·3	226	6·9	10½d.	14,117	8·9	963	10·8	1s. 4d.
Total - - -	99,036	100	3,263	100		158,209	100	8,895	100	
SHIRTS										
United Kingdom -	216,410	89·8	19,155	89·8	1s. 9d.	42,658	27·6	8,693	54·3	4s. 1d.
Japan - - -	15,339	6·3	1,080	5·1	1s. 5d.	11,481	7·4	966	6·0	1s. 8d.
Hong Kong - -	—	—	—	—	—	91,961	59·6	5,211	32·5	1s. 1½d.
Other Countries -	9,335	3·9	1,091	5·1	2s. 4d.	8,309	5·4	1,159	7·2	2s. 9½d.
Total - - -	241,084	100	21,326	100		154,409	100	16,029	100	
SOCKS (COTTON)										
	<i>Pairs</i>					<i>Pairs</i>				
United Kingdom -	88,598	65·3	2,840	78·5	7½d.	21,084	28·9	896	46·5	9½d.
Japan - - -	29,785	22·0	300	8·3	2½d.	9,072	12·5	187	10·4	4½d.
Hong Kong - -	—	—	—	—	—	34,296	47·1	430	23·9	3d.
Other Countries -	17,207	12·7	480	13·2	6½d.	8,400	11·5	346	19·2	6d.
Total - - -	135,590	100	3,620	100		72,852	100	1,799	100	

TABLE XVIII
DOMESTIC IMPORTS OF CERTAIN GOODS ACCORDING TO COUNTRIES OF ORIGIN
BOOTS AND SHOES (LEATHER)

Country of Origin	1929				1933				1938			
	Pairs	%	£	%	Pairs	%	£	%	Pairs	%	£	%
United Kingdom - -	30,240	81.1	16,091	85.7	14,706	74.0	5,365	82.3	26,102	33.4	7,766	47.0
Czechoslovakia - -	—	—	—	—	1,514	7.6	271	4.1	41,531	53.1	6,616	40.0
Germany - - - -	4,039	10.8	1,242	6.6	2,859	14.4	702	10.8	1,666	2.1	478	2.9
Holland - - - -	386	1.1	137	0.7	—	—	—	—	566	0.7	112	0.7
Japan - - - - -	—	—	—	—	218	1.1	35	0.5	5,525	7.1	769	4.7
India - - - - -	—	—	—	—	—	—	—	—	1,033	1.3	64	0.4
Switzerland - -	—	—	—	—	—	—	—	—	612	0.8	356	2.1
Syria - - - - -	—	—	—	—	—	—	—	—	813	1.1	143	0.9
Other Countries -	2,606	7.0	1,311	7.0	570	2.9	149	2.3	413	0.5	210	1.3
Total - - - - -	37,271	100	18,781	100	19,867	100	6,522	100	78,261	100	16,514	100

BOOTS AND SHOES (OTHER THAN LEATHER)

Country of Origin	1929					1933					1938				
	Pairs	%	£	%	Price per pair	Pairs	%	£	%	Price per pair	Pairs	%	£	%	Price per pair
United Kingdom	105,610	65.2	17,419	73.5	3s. 3½d.	131,191	37.6	7,271	38.7	1s. 1d.	5,139	1.4	855	3.7	3s. 3½d.
Japan - - - - -	—	—	—	—	—	174,779	50.0	9,022	48.0	1s. 0½d.	273,058	75.4	16,890	73.4	1s. 2½d.
Czechoslovakia -	—	—	—	—	—	580	0.2	49	0.3	1s. 4½d.	76,900	21.2	4,476	19.4	1s. 1½d.
Other Countries -	56,324	34.8	6,269	26.5	2s. 2½d.	42,820	12.2	2,452	13.0	1s. 1½d.	7,318	2.0	811	3.5	2s. 2½d.
Total - - - - -	161,934	100	23,688	100	—	349,370	100	18,794	100	—	362,415	100	23,032	100	—

UMBRELLAS AND PARASOLS

Country of Origin	1933					1938				
	No.	%	£	%	Price per piece	No.	%	£	%	Price per piece
United Kingdom -	35,320	53.5	4,292	63.6	2s. 5d.	8,176	4.8	1,257	9.5	3s. 8½d.
Japan - - - - -	20,108	30.5	1,139	16.9	1s. 1½d.	115,207	68.1	6,507	49.2	1s. 1½d.
Germany - - - -	486	0.7	110	1.6	4s. 6½d.	39,382	23.3	4,892	37.0	2s. 5½d.
Others - - - - -	10,066	15.3	1,200	17.9	2s. 4½d.	6,444	3.8	569	4.3	1s. 9d.
Total - - - - -	65,980	100	6,741	100	—	169,209	100	13,225	100	—

Source: Trade Reports.

TABLE XIX
IMPORTS FROM JAPAN

Commodities	1933			1938		
	Value in £'s	Per cent of Total Imports from Japan	Per cent of Total Imports of each article	Value in £'s	Per cent of Total Imports from Japan	Per cent of Total Imports of each article
Total imports from Japan - - -	316,625	100	0	379,068	100	0
Cotton piece-goods -	163,966	51.8	8.9	50,299	13.3	3.0
Hosiery, cotton -	15,341	4.8	22.4	24,433	6.5	59.1
Other cotton goods -	6,702	2.1	8.8	31,226	8.2	24.7
Woollen goods -	146	0	0	19,722	5.2	30.1
Silks and artificial silks - - -	103,046	32.5	43.0	77,060	20.3	19.7
Apparel - - -	7,135	2.3	10.1	21,335	5.6	28.0
Canvas shoes - -	9,022	2.9	47.6	16,890	4.5	73.2
Buckets, pails and basins - - -	155	0.1	0	23,412	6.2	61.4

Source: *Trade Reports*.

TABLE XX
IMPORTS OF IRON AND STEEL GOODS (EXCLUDING CUTLERY AND HARDWARE), RAILWAY MATERIAL, AND MACHINERY

Country of Origin	Value in £'000			Percentages		
	1929	1933	1938	1929	1933	1938
United Kingdom - -	1,352	419	1,029	72.4	76.9	67.5
Germany - - -	144	81	198	7.7	14.8	13.0
Belgium - - -	32	13	39	1.7	2.5	2.5
United States - - -	20	3	133	1.1	0.5	8.7
Other Countries - -	319	29	127	17.1	5.3	8.3
Total - - -	1,868	545	1,526	100	100	100
Percentage of total Imports - - -	14.1	8.5	17.6			

Source: *Trade Reports*.

TABLE XXI
GOVERNMENT IMPORTS, 1929-1938

Year	Government Imports £ '000		Government Imports as per cent of Total Imports
	Total	From U.K.	
1929	1,212	1,203	9.1
1930	925	917	7.3
1931	643	633	9.1
1932	282	279	3.9
1933	273	270	4.3
1934	309	307	5.8
1935	382	378	4.9
1936	472	467	4.4
1937	713	649	4.9
1938	884	877	10.2

Source: *Trade Reports*.

PART TWO

MONEY, PUBLIC FINANCE AND EXTERNAL PAYMENTS

Chapter IV

THE MONETARY AND BANKING SYSTEM AND THE LOAN MARKET OF NIGERIA¹

BY J. MARS

The whole subject of the Nigerian monetary and banking systems and problems of investment is too vast to be treated adequately in the space of one short chapter, particularly since so much space must be devoted to description and explanation of matters with which the general reader must be assumed to be unfamiliar, before problems of policy can be discussed. It is, therefore, considered advisable to restrict the discussion to the working of the 100 per cent sterling exchange standard system in the setting of a colonial economy and the merits and demerits of certain modifications to meet changing conditions, distinguishing between those for which the need seemed already apparent in pre-war days, such as the need for greater flexibility in the volume of localised circulation, and those which may be called for by probable future development in the Nigerian economy, such as the need for a central bank. The all-important problem of the supply of capital is perforce relegated to an inadequate cursory treatment.

1. HISTORY OF CURRENCY AND ESTIMATES OF VOLUME

In 1880 all trade in Nigeria was said to be barter trade,² but by 1900 it had become a mixture of barter and cash transactions: the cash comprising both native currency and European coins. The former consisted of several types of monetary commodities: cowries, which were still used in 1912, manillas and brass or copper rods, the circulation of which gradually diminished after 1902 when their import was prohibited. United Kingdom

¹ This chapter is a very brief extract from a comprehensive unpublished study referred to subsequently as the treatise.

² *Currency Committee Evidence*, p. 71, evidence of Sir John Kirk (a director of the Niger Company).

silver coins began to circulate from 1872 onwards, the net importation into the four West African colonies between 1872 and 1911 inclusive amounting to £6,675,514,¹ about 38 per cent of which sum went to Nigeria. From 1872 to 1893 the African Banking Corporation was the sole distributor of silver coins in Lagos and was also the sole repatriating agent, and from 1894 to 1911 the right to perform these functions was held by the Bank of British West Africa by virtue of an agreement with the Lagos government which stipulated that 1 per cent should be the upper limit of the charge which the bank might make for a supply of United Kingdom silver coin shipped free of charge by the Royal Mint to Lagos.

This system came under criticism from the merchants, who objected to paying commission to a bank for silver coin which the government supplied to the bank at par, from the Exchequer, on account of the perhaps exaggerated fear that a sudden large repatriation of silver coin might cause inflation in England, and from the four West African governments, who wanted to share in the contingent profit on the silver issue. This contingent profit is the seignorage (the difference between the metal value of coins and their face value) less the cost of coining, the cost of recoining damaged or worn coins, the cost of transport to and from the colonies, the cost of storing reserve stocks of metal and coins, insurance, administrative costs, etc. Nothing was done,² however, until 1912, when, upon the recommendation of a departmental committee under Lord Emmott, the West African Currency Board (W.A.C.B.) was appointed by the Secretary of State for the Colonies on 12th November. The constitution, duties and powers of the Board were defined in a memorandum dated the 6th December, 1912. These regulations were revised in 1915 and again in 1924, since when no change has been made.³ The changes brought about by the establishment of the West African Currency Board are summarised in sections 12 and 13 of the *Report of the West African Currency Board* for the period ended 30th June, 1914. These two sections read:

'Among the first matters dealt with by the Board was the creation in West Africa of the machinery necessary for the proper management of the new silver coinage.

'One of the most important points was to secure the convertibility of the new silver into gold. Lord Emmott's Committee had recommended that this should be effected by giving holders of silver coin a legal right to tender it in West Africa for conversion into gold in London at a specified rate of exchange not exceeding the cost of sending specie from West Africa

¹ *Currency Committee Evidence*, p. 104, evidence of the Rt. Hon. W. G. Ellison-Macartney.

² A committee was set up in 1900 under the presidency of Sir David Barbour, but nothing was done about its recommendations which were not published.

³ These regulations are contained in the *Report of the West African Currency Board* for the year ended 30th June, 1924.

to England. This recommendation has been carried out by the establishment of one centre in each colony which is bound to issue drafts on the Board payable in gold in London in exchange for silver coin paid in at that centre, and by the maintenance of a gold standard reserve in London. The four currency centres are Lagos, Accra, Freetown and Bathurst, at each of which the Board is represented by a currency officer. The present currency officers are the Treasurers of Nigeria, the Gold Coast and Sierra Leone, and the Receiver-General of the Gambia. The business of receiving, storing, and subsequently issuing the coin tendered in exchange for drafts on London is discharged by the Bank of British West Africa, Ltd. acting as Agent for the Board. The charge made for draft on London has been fixed by the Board, until further notice, at 15s. per cent. Owing to the inadvisability (and, it may be added, the practical difficulty) of differentiating for this purpose between United Kingdom and West African silver coin, it was recognised by Lord Emmott's Committee that the right of obtaining drafts on these terms would have to be given, not only to holders of the new currency, but also to holders of United Kingdom silver coin. The Board thus had thrown upon them from the outset the responsibility of receiving, not only the West African coin issued by them, but also United Kingdom silver, so far as either may be tendered to them in West Africa for conversion into gold in London. On the other hand, the Treasury agreed, in accordance with a recommendation of Lord Emmott's Committee, to receive annually at face value £100,000 in United Kingdom silver coin repatriated from West Africa by the Board.

'The Board supply West African, or United Kingdom coin, used or unused, at their own option. They also reserve the right to supply, if necessary, coin of different denominations from that ordered.'

It was the Board's intention from the outset to stop sending United Kingdom silver coin to West Africa as from July, 1913, and to transmit in future only the new West African silver coins. The actual development of West African currency since the Board was set up is illustrated by Table XXII¹ which gives annual estimates of various forms of state money in circulation at the end of June in each year. In 1913 the currency consisted entirely of British and West African silver coins (column (1)) and nickel bronze coins (column (5)). Owing to an unexpectedly heavy demand for British gold and bronze coins in the United Kingdom in 1913, the Mint was not able immediately to supply the large quantities of West African silver coin that would have made possible immediate large-scale repatriation of United Kingdom silver coins from West Africa. Heavy re-

¹ This table shows the results of the first attempt ever made to estimate the amount of state money in circulation in Nigeria. A similar estimate has been made for the Gold Coast for several years past by the Gold Coast government. The estimates are based on figures published in the annual *Reports of the West African Currency Board* and may contain a margin of error of + or - 5 per cent.

TABLE XXII—ESTIMATED VOLUME OF STATE MONEY IN CIRCULATION, 1913-1942

(£'000 omitted)

Cumulative Totals of Currency in circulation at end of the Currency Board Year

Year ending 30th June	Silver coin (Customs statistics)	Alloy coin (Customs statistics)	Unreported exports of silver and alloy coins	Corrected estimate of notes	Estimated nickel bronze coin in circulation	Estimated British notes in Nigeria	Estimated circulation of state money in Nigeria					Official estimate of circulation of state money in the Gold Coast at 31st March
							1	2	3	4	5	
	£	£	£	£	£	£	£	£	£	£	£	£
1913	1,878*		24		(80)			1,934				
1914	2,563		33		(101)			2,631				
1915	2,096		25		(123)			2,194				
1916	1,951		25		(150)			2,088	Low			
1917	3,274		40	(50)	(162)	12		3,896				
1918	4,445		54	(88)	(164)			4,643				
1919	5,114		64	(1,048)	(187)			6,285				
1920	5,956		74	(2,543)	(302)			8,727	High			
1921	4,796	690	170	(303)	312			5,932				
1922	4,015	1,233	91	(205)	322			5,684				
1923	2,875	2,289	119	(15)	333			5,392	Low			
1924	2,210	3,626			234			6,395				
1925	1,885	5,001	32		253			7,466				
1926	1,568	5,202			265			7,438	High			
1927	1,305	5,018			236			6,978				
1928	1,131	5,502			262			7,338				
1929	956	5,204			271			6,895				
1930	841	4,695			274			6,279				6,435
1931	693	3,000			208			4,372				5,135
1932	581	2,707			176			3,935				4,706
1933	493	2,731	3		193			3,887				4,759
1934	423	2,089	4		181			3,176	Low			4,461
1935	351	2,792	7		198			3,841				5,589
1936	305	3,906	9		301			5,084				6,602
1937	271	6,041	1		791			7,986	High			11,136
1938	224	3,843			668			5,553				10,992
1939	171	2,083	23		237			3,285	Low			7,673
1940	143	2,617			386			4,168				
1941	117	2,978			591			4,869				
1942	102	4,553		1,131	1,403			7,189	High			

*Estimated. Figures in brackets in columns 4 and 5 are actual figures published in *Reports of the West African Currency Board*.

patriation of these coins, however, became possible in 1921 and has continued since.

In 1920, the Board decided to replace West African silver coins by West African alloy coins (column (2)) of the same denominations (2s., 1s., 6d. and 3d.), mainly to discourage hoarding and melting down which was the fate of too large a proportion of the silver coinage. These alloy coins were issued in denominations of florins, shillings, sixpences and threepences. They contained only copper, tin and zinc, and no silver whatsoever, but were of the same weight as the corresponding silver coins (see Table XXII). At the metal prices prevailing in June, 1942, their metal value was equivalent to only about 1 per cent of their face value.¹ The alloy coins are, therefore, hardly worth hoarding for the sake of their intrinsic value and are approaching notes in this respect. They will, however, continue to be hoarded for the same reason as notes are hoarded. The West African Currency Board is to be congratulated for having destroyed the 'silver fetish' in respect of West African currency. The alloy coins are a much more modern currency than the British silver coins even after their debasement in March, 1920. By the end of 1920 imports of silver coin into Nigeria had diminished considerably: they stopped altogether in 1930, while the net imports of the new alloy coins into Nigeria in 1920-21 amounted to £690,000 (see Table XXII). In depression years coins were exported, the peak net export figure of alloy coins being £1,695,000 in 1931. In 1937 it was decided to recoin all alloy coins in order to prevent counterfeiting, which was prevalent. Counterfeiting was facilitated by the composition of the alloy coins hitherto used because one of their constituent metals was tin, which is mined in Nigeria. The new coinage differs from the old in that nickel is substituted for tin. This makes counterfeiting somewhat more difficult. By 30th June, 1940, 96 per cent of the old alloy coin issued by the Board to the four West African colonies had been withdrawn.

Nickel bronze coins (column (5)) had been introduced into Nigeria in 1907 (under the Nigerian Coinage Order of 1906). The denominations used were 1d., ½d., and ¼d., until 1939 when a 3d. bit was introduced to take the place of the previous silver or alloy 3d. bit. Nickel bronze coins are limited legal tender up to one shilling. The percentage ratio of the

¹ A direct calculation of the value of the alloy coins in circulation or in stock on 30th June, 1942, resulted in a ratio of value of metal content to face value of .81 per cent. The ratio of proceeds of alloy coins disposed of in 1941-42 to the face value of the coins shipped to England worked out at 1.03 per cent without allowing for cost of disposal and at .88 per cent if this cost is deducted from the proceeds. If the total cost of manufacture of old alloy coins between 1920 and 1927 is expressed as a percentage of the face value of the total amount of such coins in circulation and in stock on 30th June, 1937, a figure of 3.02 per cent is obtained. A similar percentage ratio for the cost of manufacture to face value of new alloy coins in circulation and in stock on 30th June, 1942, is 2.77 per cent.

value of the metal content of the nickel bronze coins to their face value was in the neighbourhood of 12 per cent to 13 per cent in 1942.¹

Up to 1916 no West African currency notes existed. There was a small circulation of Bank of England notes and Treasury notes in the country, but they were not legal tender. By an ordinance of 1916, currency notes of the following denominations were made unlimited legal tender: £5, 20s., 10s., 2s., and 1s. The 2s. and 1s. notes were used on a large scale during the last war as a result of the metal shortage, but owing to their unpopularity with Africans they were withdrawn as soon as possible, so that at present only the 20s. and 10s. currency notes are of practical importance.² The design was changed in 1927-28 owing to an attempt at forgery, and it may be assumed that the notes of the original design have now passed out of circulation. In view of the disinclination of Africans to use paper money, the Emmott Committee proposed that there should be a coin reserve of 75 per cent for any note issue to ensure immediate convertibility. The following table shows the note circulation in Nigeria and the actual coin reserve in early years:

<i>Year ended 30th June</i>	<i>Face Value of West African Currency Notes in Circulation in Nigeria</i>	<i>Amount of coin reserves held at Lagos</i>	<i>Percentage</i>
1917	£49,500	£49,500	100
1918	£87,600	£52,600	60·04
1919	£1,048,295	£14,400	1·37
1920	£2,542,607	Nil	Nil

At the end of June, 1920, there were coin reserves in the other three colonies, but not in Nigeria. The report of the Board for 1921 states that at the end of June, 1921, there was one joint coin reserve kept (probably at Lagos) against the notes in circulation in West Africa. In all the succeeding years the practice of keeping a specially earmarked coin reserve in the colonies was dropped. The stocks of coin kept in each colony (which a few of the reports refer to as quasi-coin-reserves) were held primarily for satisfying the direct demand for coins and not for ensuring the convertibility of the notes, and, in fact, the convertibility broke down on several occasions,³ especially in 1937 when currency notes were at a discount.⁴

¹ Assuming that the metallic composition was 95 parts copper to 5 parts nickel, the ratio of metal value to face value of nickel bronze coins in circulation and in stock was 12·1 per cent. The ratio of the proceeds of (worn) nickel bronze coins brought to England for disposal in 1941-42 to their face value was 13·9 per cent. The ratio of costs of manufacturing to face value of nickel bronze coins shipped to West Africa between June, 1935, and June, 1942, was 31·1 per cent.

² In June, 1942, 2,827,079 £1 notes and £1,082,989 worth of 10s. notes were in circulation in the four West African colonies.

³ See Ward Price, H. L., *Dark Subjects*, 1939, p. 251.

⁴ Dan Tata, a Kano merchant, is reported to have exchanged between £10,000 and £20,000 of notes for coins at the rate of £1 in paper for 17s. 6d. in coin in 1937.

In order to popularise the use of notes by Africans, it would be desirable to keep earmarked coin reserves in each colony to ensure easy convertibility, and so increase confidence in paper money. The coin reserve would, of course, have no separate physical existence. Its reinstatement would merely have the effect of forcing the currency officers to treat only the excess of reserve stocks of coins over the coin reserve as being available for satisfying the direct demand for coins. If to-day the reserve stocks should shrink to an amount equivalent, say, to a half of the currency notes, the currency officers might not be alarmed; but they would take quick action, if they were not allowed to touch the coin reserve except for the redemption of notes, or only with the consent of the governor. Such a coin reserve is becoming even more important as the ratio of currency notes to total currency in Nigeria is rapidly increasing in consequence of the second world war. The ratio used to be $\frac{£722,000}{£5,553,000}$ or 13.0 per cent in

1938 and had risen to $\frac{£1,131,000}{£7,189,000}$ or 15.7 per cent in 1942.

On two occasions special legislation was passed in the four West African colonies to authorise the circulation of United Kingdom notes (currency notes in 1916 and bank notes in 1937) as legal tender money (column (6)). On both occasions this step was necessitated mainly by exceptionally large purchases of cocoa in the Gold Coast and Nigeria, and the notes were withdrawn after the urgent need had passed.

Column (7) of Table XXII shows the estimated yearly total of state money in circulation in Nigeria. The figures may be compared with the official estimates of the total currency in circulation in the Gold Coast, shown in column (8). The comparison brings out very strikingly the fact that the circulation of money in Nigeria is smaller than in the Gold Coast, despite the fact that the population of Nigeria in 1931 was approximately 22 million, while that of the Gold Coast was merely 3.5 million. This is, of course, a clear indication of the comparative poverty and monetary backwardness of Nigeria.

To complete this survey of Nigerian currency, reference may be made to 'optional currency', i.e. currency which circulates without being legal tender. This includes some United Kingdom and French coins, the surviving manillas, cowries and brass rods, and postal orders.¹

In order to draw a comprehensive picture of the monetary situation in Nigeria, it is also necessary to give some idea of the amount of bank

¹ In 1912, the *Currency Committee Report*, para. 43, stated that Arab traders in Northern Nigeria carried about large amounts of postal orders to meet current expenditure. In 1938, 404,500 British postal orders worth £218,130 were issued in Nigeria.

TABLE XXIII-

<i>Years ending 31st March</i>	<i>Total deposit liabilities (Note: Figures in brackets refer to 30th June)</i>	<i>Reserve money</i>	<i>Reserve ratio</i>
1	2	3	4
	£	£	
1926	2,884 (2,444)	727	·2522
1927	3,308 (2,803)	694	·3325
1928	2,874 (2,436)	890	·3097
1929	3,000 (2,542)	748	·2494
1930	3,605 (3,055)	966	·2680
1931	2,657 (2,252)	803	·3022
1932	2,610 (2,212)	532	·2000
1933	3,658 (3,100)	692	·1891
1934	2,843 (2,409)	393	·1381
1935	3,203 (2,714)	407	·1271
1936	3,786 (3,208)	982	·2595
1937	4,494 (3,808)	1,323	·2943
1938	5,415 (4,589)	3,601	·6650
1939	4,008 (3,397)	1,378	·3439
1940	3,854 (3,266)	1,221	·3168

-ESTIMATE OF BANKING FIGURES, 1926-1940

(£'000 omitted)

<i>Discounts</i>	<i>Loans and advances</i>	<i>Estimated net profit</i>	<i>Index numbers of total deposit liabilities</i>	<i>Index numbers of total deposit liabilities of all Nigerian branches of Barclays D.C. & O. Bank (Figs. for 30th Sept.)</i>	<i>Ratio: Bank money State money in Nigeria</i>	<i>Sum of state money and deposit money (Col. 7 of Table XXII + Col. 2 of Table XXIII)</i>
5	6	7	8	9	10	11
£	£	£				
857	1,497	60	100	100	·328	9,882
856	1,532	61	114·7	105·5	·402	9,781
733	1,341	57	99·7	109·1	·332	9,774
580	1,597	62	104	94·9	·369	9,437
568	2,380	77	125·0	94·3	·487	9,334
421	1,402	13	92·1	96·7	·515	6,624
264	1,222	31	90·5	91·8	·562	6,147
273	1,264	36	126·8	101·0	·797	6,987
193	1,213	32	95·6	101·8	·758	5,585
264	1,304	36	111·0	104·2	·707	6,555
332	1,379	46	131·2	112·3	·631	8,292
317	2,582	54	155·8	142·0	·476	11,794
257	1,792	42	187·8	145·1	·826	10,142
285	1,440	26	139·0	114·4	1·094	6,682
206	1,485	23	133·6	125·7	·784	7,434

money in existence.¹ There are at present only two important banks operating in Nigeria, namely the Bank of British West Africa and Barclays Bank (Dominion, Colonial and Overseas). As these two banks were unwilling to disclose any further information beyond that given in their published balance sheets, the estimates given in Table XXIII, which were based mainly on the balance sheets of the two banks, may contain errors up to 33 per cent in either direction.²

Column (2) gives the estimate of total deposit liabilities, i.e. those on current, deposit or savings account. A comparison of these figures with those in column (7) of Table XXII will show that the cyclical fluctuations exhibited by the two time series is rather similar but not synchronous, since the banking figures show a time lag of about one year, except in 1934 when a low point was reached by both series.

It is very instructive to ascertain the ratio between bank money and state money in Nigeria, for although Nigeria is a very primitive country, its ratio of bank money to state money is comparatively high because the Western capitalist enterprises which handle so much of the exports and imports of the country use banking facilities in the colony almost as much as they do in their own country. In order to compute this ratio it was necessary to re-estimate the deposit liabilities, which were calculated for the 31st March each year, to derive their approximate value for the 30th June each year. These figures have been entered in brackets in column (2) of Table XXIII. The ratios shown in column (10), which were obtained by dividing the June figures for deposit liabilities by the estimates of state money (see column (7) of Table XXII), must be considered to be fairly high for a primitive community, and are indicative of the relative importance of the few extra-territorial enterprises amidst a vast number of poverty-stricken native farmers and craftsmen.

Column (11) of Table XXIII finally gives the sum of the estimates of bank money and state money for June of each year.³

¹ The term 'bank money' usually means deposit liabilities of banks on current account, or so-called checking accounts. In this context, however, the term will be somewhat inaccurately used to cover credit balances on deposit account or savings accounts as well as credit balances on current account, since the former can be easily cashed at the sacrifice of some interest, and since published statistics do not generally distinguish between these three types of deposit liabilities.

² The methods of estimation used in preparing the table are given in the treatise.

³ There is not sufficient space for a commentary on columns 4 to 9 of Table XXIII. This is dealt with in the treatise. The index numbers of total Nigerian liabilities (on current deposit or savings account) of Barclays Bank (D.C. & O.), shown in column 9, were very kindly supplied by the late Sir John Caulcutt, when Chairman of Barclays Bank (D.C. & O.).

2. NATURE AND WORKING OF STERLING EXCHANGE STANDARD

The essence of the West African currency system is the convertibility of West African coins and notes on demand into sterling balances in London. It is an 'external sterling exchange standard currency', any holder of it being entitled in the country where it is legal tender to claim by right and at a recognised rate the superior currency abroad, in this case sterling in London, in order to make payments in other countries. The monetary reserve, consisting of superior currency, is held externally, i.e. in London.

The convertibility of the West African currency is maintained by the simple expedient of issuing it only in exchange for London sterling. It is an essential feature of the sterling exchange standard currency that the issue and redemption are completely 'automatic', that is the currency authority does not exercise any discretion as to the amount it issues or redeems. The West African Currency Board is, in fact, not a money issuing bank with power to vary the amount of currency at will but merely a passive money changer which receives superior money, i.e. London sterling, and gives in return token money ('something the intrinsic value of the material substance of which is divorced from its monetary face value'),¹ i.e. West African currency. This automaticity in the issue and redemption of currency means, however, nothing more nor less than that the increments and decrements of the localised circulation are strictly determined by the balance of payments. In fact, the decrements and increments of West African currency are the one item that brings about equality between all the positive and negative items of the balance of payments. This fundamental characteristic, which will be further examined below, is unfortunately not appreciated in the world of colonial finance. Small wonder, therefore, if almost complete indifference is shown to the question whether the fluctuations in the volume of currency are desirable or undesirable, avoidable or unavoidable.

The superior currency, i.e. sterling, received for West African currency is used to buy the metal, of which the coins consist, and to pay expenses, while the contingent profit is mainly invested in securities of the governments of any of his Majesty's dominions or in such other manner as the Secretary of State may approve.² Some of the contingent profit is held in the form of United Kingdom coin in stock and a varying proportion in cash in hand and at bankers. The contingent profit plus the current income of the Board, i.e. the current interest on investments and premiums currently

¹ Keynes, J. M., *A Treatise on Money*, 1930, Vol. I, p. 7.

² Before 1936 some funds were invested in the Stanton Iron Works Co., and before 1934 in the North British Aluminium Co.

payable upon the buying and selling of West African currency less the expenses of operation, form the currency reserve fund for the West African currency.¹

In June 1923, the Board published the first of a series of general statements of the currency position showing the liabilities on the left-hand side and the assets held against them on the right-hand side.² The statement of the position at 30th June, 1942, is given below.

<i>Liabilities</i>	<i>Circulation at 30th June, 1942</i>	<i>Assets</i>	<i>£</i>
W.A. silver coin -	962,107	Estimated bullion value of W.A. silver coin in cir- culation or in stock -	295,950
W.A. alloy coin -	11,671,882	Investments at mean mar- ket price, 30th June, 1942 - - - -	16,954,474
W.A. nickel bronze coin - -	1,735,042	U.K. coin in stock, etc. (face value) - -	14,638
W.A. currency notes - -	3,384,407	Cash in hand and at bankers - - -	3,197,767
		Suspense account - -	38,002
	<hr/>		
	17,753,438		
Surplus - -	2,747,393		
	<hr/>		
	20,500,831		<hr/> 20,500,831

The assets in this statement are actually partly undervalued and partly overvalued. The first item should include the metal value of the alloy and nickel bronze coin. If this metal value were included in the statement of the currency position at the end of June, 1942, an indefinable part of £345,000 would have to be added to the assets.³ The bullion value of West African silver coins in circulation or in stock, i.e. £984,012, is probably overvalued to the extent of £121,000.⁴ The maximum net correction of the assets amounts, therefore, to (£345,000 - £121,000) i.e. £224,000. If this were added to the surplus on the liabilities side (raising it to £2,970,000) and to the value of metal content on the assets side, the revised balance sheet for the currency would then show that the total cover for the £17,753,488 of West African currency in circulation was £20,724,000. This gives a reserve ratio of 116.7 per cent.

¹ See stipulation 14 of the regulations of the W.A.C.B.

² It is possible to construct similar statements for the years 1913 to 1922 on the basis of information contained in the reports and supplemented by information about metal prices, etc.

³ See Appendix A.

Prior to 1926, however, the cover was usually less than 100 per cent. The actual coverage percentages for these years were as follows:¹

<i>Year ending 30th June</i>	<i>Coverage percentage</i>	<i>Year ending 30th June</i>	<i>Coverage percentage</i>
1913	38·9	1920	96·4
1914	44·7	1921	75·5
1915	57·7	1922	93·6
1916	65·8	1923	96·9
1917	75·3	1924	99·3
1918	102·8	1925	98·4
1919	103·2		

In all these years, except 1918 and 1919, a portion of the West African currency varying from .7 per cent in 1924 to 66·1 per cent in 1913 was without cover, and therefore merely fiat money,² i.e. a token currency (with some or no intrinsic value) which cannot be converted into an objective standard.³ A 100 per cent cover has never been a *sine qua non* of the West African currency system, simply because it is quite impossible for the whole of the West African currency to be presented for conversion into London sterling at any one time, since the West African colonies can never dispense entirely with the use of money. It is, therefore, quite safe for the quantity of fiat currency to rise to the minimum amount necessary to finance local payments for domestic goods, services and securities, and the hard core of hoarding, as there could not be any danger of a demand for redemption.

The part of the West African currency which will never be offered for redemption in London sterling may be called 'localised currency'. The minimum localised currency is, of course, the amount in circulation during the seasonal trough month of the cyclical trough year, i.e. May of the worst depression year. In addition to the localised currency, there is currency that migrates either in the course of a year or in the course of a trade cycle between the West African colonies and London. The portion of the currency which migrates between West Africa and London owing

¹ These figures were partly taken from the statements of the estimated currency position contained in the reports of the Board for the years 1923 to 1925 and partly from statements of the currency position specially estimated for the purpose of calculating these percentages.

² Since the Board has always unquestionably assumed a *de facto* liability for United Kingdom silver coins circulating in West Africa (see the quotation from the 1914 report of the Board on pp. 178-9), the face value of the U.K. silver coins was included under the liabilities and their current silver value under the assets.

³ Each silver coin had, of course, an intrinsic value which, however, was much below its face value. On 30th June, 1915, when the price of silver was 22·91d. per troy ounce, the bullion value of the sterling silver shilling (millesimal fineness 925) was 3·8d.; on 30th June, 1923, when the price of silver was 31·4d. per troy ounce, the bullion value of the now debased shilling (millesimal fineness 500) was 2·85d.

to seasonal trade fluctuations might be called 'seasonally migratory money' or, adopting a happy phrase coined by Sir John Caulcutt, 'shuttle money'. The portion of the currency which becomes localised in times of booms but is repatriated to London in times of depression may be called 'cyclically migratory money'.

The seasonal pattern of the demand for money in Nigeria can be roughly estimated by calculating an index number of monthly payments over a period of years. The results of such a calculation are given in the following table:¹

Month	<i>Index no. of monthly payments for domestic export produce and imported goods during the period July 1935 to June 1939</i>	<i>Deviation from the average</i>
1	2	3
July	·848	-·152
August	·818	-·182
September	·817	-·183
October	·997	-·003
November	1·229	+·229
December	1·177	+·177
January	1·185	+·185
February	1·168	+·168
March	1·062	+·062
April	·989	-·011
May	·811	-·189
June	·900	-·100
	Sum of deviation = 0	

It will be seen from column 2 of this table that the low ebb of the demand for money lasts from May until the end of September. The cocoa crop arriving in October causes the demand to rise, and by November the increase in palm-oil deliveries is causing a huge increase in demand, which is later on sustained by the arrival of the ground-nut crop. In April the demand for money begins to dwindle. Thus, from November until the end of March the money needed is on an average 32 per cent higher than the average amount of money needed from May until September inclusive. In any one year the localised currency of Nigeria may be deemed to be equal to the amount circulating in May, but over a trade cycle period the minimum localised currency is equal to the amount of currency in circulation in the trough month (which may or may not be

¹ In calculating this table it was assumed that, on the whole, exports which leave Nigeria in any month are paid for during the previous month, and that imports which enter the colony in any month are paid for three months after. Index numbers of the average monthly payments were then calculated by dividing the four yearly average monthly payments by their own average. The relevant figures were taken from the *Monthly Nigeria Trade Summaries*.

May) of the trough year of the depression. The minimum localised currency in circulation which occurred in June of the trough year of 1934 was £3,176,000. (See column 7 of Table XXII.)

One of the most remarkable features of the West African currency system is that whenever the localised currency increases the increment is virtually obtained at the expense of a commodity loan by Nigerian producers to London. This point can readily be grasped if the process of acquiring localised currency is shown in the following analytical stages. Supposing:

(i) Nigerian producers sell their export goods direct to the United Kingdom, obtain London sterling balances, refrain from using them for buying import goods.

(ii) The Nigerian producers now lend their London sterling balances to the West African Currency Board, which are the four West African governments under another name. This Board invests them in United Kingdom, dominion and colonial government or public utility securities, the Nigerian producers receiving in return certificates or tokens of indebtedness known as West African currency notes or coins.

(iii) The latter are then transferred to Nigeria and used there as money. In so far as these certificates or tokens of indebtedness will never be used to re-acquire the London sterling balances surrendered to the Board, a perpetual loan has been made to the empire governments and public utilities whose securities were bought by the Board.

(iv) The interest on the loan, after deducting the expenses of running the currency system, is received by the four West African governments¹ through their agency, the West African Currency Board.

If the various ways in which increases in the localised currency come about are analysed in detail it can be shown that in almost every case the increment entails an ultimate sacrifice of exported goods and services, no matter whether money is brought in by the activities of exporters, importers or the government.

The exporting firms obtain their money capital either from London or else from the banks in Nigeria. That part of the money which is used in trading is handed over to the native producers, who will bring about a permanent increase in localised circulation in so far as the money they receive continues to be spent on domestically produced and consumed goods. Such an increase is obviously secured by means of exports. If

¹ According to stipulation 20 of the 1924 revised regulations for the West African Currency Board (*Report of the West African Currency Board, 1923-24, Appendix I*), the Board may, with the approval of the Secretary of State, pay any part of the income from its invested funds to the West African governments. Stipulation 21 provides that a surplus of the reserves, over and above an amount sufficient to ensure the convertibility of the currency into London pounds and to provide a reasonable reserve against the possible depreciation of the investments, may be paid over in whole or in part to the West African governments.

money is invested by mining or export trading companies in fixed capital equipment in Nigeria, the cost of installation, trial and running in, and most of the cost of local buildings, roads and other earth works connected with the investment will result in Nigerian incomes. It appears, at first sight, that any increase in localised circulation due to the expenditure of these incomes on home products costs Nigeria no exports. This is not the case, since the fixed capital equipment will be written off in the course of years and the depreciation charges must be transferred abroad in the form of goods. Hence, the cost in exports is incurred subsequently to the increase in localised circulation.

Similarly, when importing firms instal capital equipment, part of the money cost becomes permanently localised currency. No exports are necessary in exchange for the increment of localised currency at the time of acquisition. The depreciation charges, however, are taken out of the country in the form of money which has been obtained from Nigerians in return for imported goods. The Nigerians obtained the money by the production of either export goods or domestic goods or services. If by the former, it is obvious that the increment of localised circulation costs exports. If by the latter, two cases are distinguishable. The seller of domestic products may have sold them to someone who earned his income in the export business or to someone who earned it in internal trade. In the first case, the money exported by the importers has cost exports, and in the second case a net reduction of the internal circulation takes place, cancelling the original augmentation which accrued at the time of the import of money by the importers.

The situation is not very different if extra money capital is imported for the provision of working capital for productive enterprise in Nigeria, such as plantations, manufacturing establishments and mines. This working capital takes partly the form of cash balances and partly that of unfinished or finished export goods which are awaiting transport to overseas countries. When wages are being paid out to obtain these working capital or liquid capital goods part of them will be spent on domestic goods by the original and successive income recipients. Thus, the importation of extra working capital may give rise to an increment of permanently localised money. Again, it can be demonstrated that this increase in permanently localised circulation costs Nigeria a certain amount of exports. Supposing that an exporting company, especially a mining company, is closing down or reducing operations for one reason or another, it will then allow its stocks of unfinished and finished goods in Nigeria to run very low or to run out completely. Money is then received abroad for these goods and the total money capital previously imported into Nigeria is thus retrieved. (The question of losses does not need to be considered here.) Again, it is obvious that the cost of extra currency due to the importation of working capital was met by exports except for that part which took the form of the normal cash balances,

The case where an exporting firm never reduces its local stock of working and liquid capital goods is different. In this case the increment of currency would require exports to pay for it only if the company in question were wound up.

Supposing the government desired to stimulate monetary exchange by means of a public works programme in one of the backward parts of Nigeria where development is rather hampered by the absence of monetary exchanges, e.g. in Adamawa. Two cases may be distinguished: the money may either be raised internally through taxation or borrowed from abroad. In the first case, if the government raised an additional export tax, it is obvious that any resulting increment of localised currency has been paid for by exports. If the money is raised by an extra import duty, it amounts to a seizure by the government of part of the export surplus. Again, the increment of localised currency costs exports. If the public works programme is financed by an income tax, the tax will fall upon the incomes earned either in the export or internal trade. In the first case any increment of localised circulation brought about by the public works programme obviously costs exports. If the taxed income has been earned in internal trade, it may have been obtained through selling to persons making a living in the export trade, in which case the increment of localised circulation has again been obtained at the cost of some exports; or the income may have been earned in strictly internal trade; in which case the net effect is a redistribution of cash balances with no change in the volume of localised circulation.

If the public works programme is financed by a foreign loan the increment of localised circulation does not immediately cost Nigeria anything at all, but when interest payments and repayments are made, costs of the increment of currency make their appearance. The government is then obliged to resort to import or export duties, or income tax, in order to raise the necessary sums. The analysis given above as to the cost of money raised through taxation applies fully.

There are experts who do not deny the validity of the above analytical propositions but they maintain strongly that, so far, Nigeria has not been making sacrifices of exports in the acquisition of localised currency because the bulk of it was derived from imports of money capital by extra-territorial companies and by the government of Nigeria, and, they add, that Nigeria has not yet lost the use of this freely imported money. This view has been developed into the further hypotheses that the localised currency of Nigeria is but 'found money', or that it has not cost Nigeria exports, or that it is acquired in return for purely domestic commodities, services or property rights (securities) without involving exports in exactly the same way as cash balances are acquired by individuals in a sovereign economy using exclusively domestically created and wholly fiduciary money. It is not difficult to disprove this view by means of some

statistical analysis. As column 7 of Table XXII reveals, the volume of currency decreased from £7,466,000 in 1925 to £3,176,000 in 1934. This decrease of 57·5 per cent happened in spite of the fact that between 1st January, 1927, and 31st December, 1934, £3,524,000 were appropriated to works in Nigeria out of loan funds. (See column 5 of Table XXV.) The mining companies also imported capital into Nigeria during the period, i.e. £1·3 million in 1927 and £1·5 million in 1928, more than offset by withdrawals of capital from 1929 to 1934. (See column 11 of Table XXV.) The influx of all this capital has most obviously not had the monetary consequences which the critics maintain it has always had.

Examination of Nigeria's balance of payments, however, provides statistical verification of the fact that imports of money cost the country exports in the long run. (See Appendix B.) In such a balance sheet drawn up each year, the incoming payments (receipts for exports and receipts of unilateral payments, i.e. receipts of income on property situated abroad but owned by residents, and receipts of new loans or repayments of old loans) are called positive items and the outgoing payments (payments for imports and unilateral payments outwards) are called negative items. The outgoing payments must always equal the incoming payments. The complete equality is brought about either by involuntary loans (postponement of payments for exports or imports) or by transfer of 100 per cent exchange standard currency (or of monetary gold if it were in use). The term transfer of 100 per cent exchange standard currency is not identical with physical exports or imports of currency, as disclosed by the trade returns, as the currency officer may increase or decrease his stocks of currency by means of imports or exports of currency respectively, which stock changes have nothing to do with payments across the frontier. The term transfer of 100 per cent exchange refers to increments or decrements of localised circulation. A transfer inward is thus equivalent to [imports of currency plus net decrease of stocks of currency officers] and a transfer outwards to [exports of currency plus net increase of stocks of currency officers]. An increment of localised currency is a positive and a decrement a negative item of the balance of payments. It depends entirely on the size of the other positive and negative items in the balance of payments how big the increment or decrement of the localised currency is. *The balance of payments as a whole and not an individual item (such as an inward transfer of capital) determines the increments or decrements of localised currency under the rigid 100 per cent sterling exchange standard.*

There is in fact no difference between a 100 per cent gold standard currency of a country not itself producing gold and a 100 per cent sterling exchange standard currency. Both countries have in the long run to acquire their currency in exchange for exports and they may lose it in exchange for import surpluses. It makes no difference that the one currency is gold and the other notes or coins of no or practically no intrinsic

value like the West African notes and coins. None of the critics would maintain that gold currency accumulates in a country with a 100 per cent gold standard currency in actual fact only as a result of imports of money capital; they adhere to the universally accepted view that it is the whole balance of payments which determines the influx or efflux of gold. Why they fail to see that the influx or efflux of a 100 per cent exchange standard currency is identically determined is difficult to understand. Once it is realised that the balance of payments as a whole determines the influx or efflux of localised currency, and that in the last analysis increments of such currency are paid for by exports, two reflections suggest themselves. The first is that a primary producing country must find it especially costly to acquire a 100 per cent exchange standard currency if the terms of trade between primary producing countries and manufacturing countries tend to move against the former. This was the case from 1929 to 1939. From one year to the next the same physical quantity of exports brought in an increasingly smaller quantity of 100 per cent exchange standard currency. The other is that a poverty-stricken country, like Nigeria, with an undeveloped banking system, can much less afford a costly 100 per cent exchange standard currency than a rich country.

This sacrifice of exports to obtain localised currency is a very heavy cost which could be rendered unnecessary if the Nigerian government were able to follow the example of the United Kingdom government since the outbreak of the second world war. Thus Nigeria could obtain localised currency notes and coins merely by creating a government loan, and sending enough exports abroad to pay for the metal and other manufacturing costs absorbed by the coins and to transfer interest payments on the loan at as low a rate as offsets the increase in the administrative costs of the Board due to the loan.

When Great Britain was on the gold standard it might have been said that her localised non-fiduciary currency was very costly, but she could easily afford it because, firstly, the annual increment of localised non-fiduciary gold currency was but a comparatively small percentage both of the volume of state money already existing and of the national income, and, secondly, because an increment of state money led to an increment of bank money approximately six times as large. Neither of these two conditions applies to Nigeria. Since the colony is a new country, the volume of monetary exchange is (except in depression) rapidly growing, the output of domestically produced and consumed goods is rising steadily, a financial circulation is emerging, while widespread hoarding and destruction of currency, leakage into neighbouring territories and the gradual withdrawal of native and foreign currencies in Nigeria call for a steady compensatory injection of West African currency. The annual increment of localised currency in Nigeria during periods of expansion has amounted to a considerable proportion of annual exports. Since annual exports

constitute about one-third of the total national output, the sacrifice of real national income necessary to obtain an increment of localised currency is great. The state money in circulation increased, for instance, from £3,176,000 in 1934 to £7,986,000 in 1937, an increase of £4,810,000. If the this national income of Nigeria is put between £36,000,000 and £48,000,000 triennial increment equals from 10 to 13½ per cent of one year's national income which has to be sacrificed over 3 years to obtain localised currency. Consequently, less than the necessary increment of localised currency is obtained, and the result appears to be a steady deflationary drag on prices of home-produced and home-consumed commodities and services.

The second difference between a poor and a rich country in respect of the cost of currency is equally important. If there were more bank money in circulation, the increment of state money necessary to finance more trade could be much smaller. But the ratio of bank money to state money exceeded unity only in 1939 and was usually smaller. (See column 10 of Table XXIII.)

3. FLUCTUATIONS OF MONETARY CIRCULATION AND SECTIONAL PRICE LEVELS

Lord Keynes defines the price level as the 'price of a composite commodity, made up of the various individual goods and services in proportions corresponding to their importance as objects of (some specific type or purpose of) expenditure'.¹ It is convenient in any discussion of international monetary theory and policy to classify all goods and services into three categories—import, export, and domestic (i.e. internally produced and used) goods—and to distinguish accordingly between the different composite commodities and their respective price levels. These categories of goods are not mutually exclusive. The same goods, e.g. palm-oil, can be both export and domestic goods; or both export and import goods like all re-exports; or both import and domestic goods like salt; or import, export, and domestic goods like cotton cloth, kola nuts and coal. These overlappings are not the exception but the rule. It depends upon the ruling price whether certain home-produced goods, e.g. cotton, will be purely domestic goods or also export goods; or whether it pays to produce domestic goods competing with import goods; or whether it pays to produce for domestic use and export a certain type of commodity which is also imported.

The three sectional price levels are intimately connected. It is best to analyse the fundamental interrelations under three heads:

(i) The interrelation between prices of export and domestic goods. Some of the Nigerian exports form so small a proportion of the total world supply that their prices are determined exclusively by forces outside the Nigerian

¹ *Op. cit.*, Vol. I, p. 53.

TABLE

INDEX NUMBERS OF IMPORT, EXPORT

Year	Index numbers of import and export prices. 1926 is base year		Export	Weighted index numbers of Lagos retail prices of imported goods	Weighted index numbers of Lagos retail prices of domestic goods	Index numbers of volume of localised currency at 30th June of each year. 1926 is base year
	Import price indices	Export price indices	Import price indices Col. 3			
1	2	3	4	5	6	7
1926	100	100	1.0	1.0	1.0	1.0
1927	91.617	98.254	1.072	1.086	1.542	.938
1928	84.226	97.390	1.156	1.174	1.182	.986
1929	90.194	87.648	.972	1.174	1.180	.926
1930	80.815	74.508	.922	1.172	.962	.844
1931	73.312	47.203	.644	1.186	.953	.587
1932	66.327	49.975	.753	1.149	.797	.529
1933	61.418	47.336	.771	1.170	.669	.523
1934	58.842	41.691	.709	1.139	.601	.427
1935	68.182	51.729	.759	1.064	.671	.517
1936	62.268	58.559	.940	1.128	.713	.684
1937	56.397	50.724	.899	.990	.593	1.075
1938	64.993	44.806	.689	.981	.592	.748
1939	60.994	41.301	.677	—	—	.456
1940	61.459	37.844	.616	—	—	.586

Col. 2 based on wholesale prices at port of entry of 52 imported commodities whose value in 1926 and 1936 amounted to c. $\frac{2}{3}$ of total imports, using as weights average values of imports in 1926 and 1936, which appeared to be normal years.

Col. 3 based on prices of 18 exported domestic products whose value in 1926 and 1936 amounted on an average to 81 per cent of total exports, using as weights average values of exports in 1926 and 1936. Source: *Nigeria Trade Reports*.

Col. 5 includes wheat bread, evaporated milk, butter, rice, coffee, cocoa, tea, sugar, salt, brandy, beer, kerosene, soap, stockfish. Source of weights: *Report of Cost of Living Committee, Lagos, 1942*. Source of prices: *Nigeria Blue Book*.

Col. 6 includes eggs, beef, mutton, native tobacco, maize, yams, plantains, bananas, fowls, ducks, Nigerian stockfish, palm-oil, gari. Source of weights and prices: Same as for Col. 5.

economy, i.e. the world market. Some exports, however, form a significant part of the total world supply (see Appendix B), and Nigeria has an influence on their world prices. If the export commodity is also home-used, Nigeria will withdraw her supply to the world market if its price is lower than the price in the internal market and vice versa. If the export commodity is not also home-used, a fall of the world market price below the price of the alternative product of the factors engaged in the production of export commodities will drive the former into the domestic goods industry where prices will subsequently also fall.

(ii) The interrelation between prices of domestic and import goods. The prices of import goods are entirely determined by world supply and demand as Nigeria takes only an infinitesimal fraction of world sales. In so far as domestic goods are substitutes for import goods their prices will move in sympathy with each other.

XXIV

AND DOMESTIC PRICES, 1926-1940

Weighted index numbers of average prices of commodities marketed in six towns. 1934 is base year				Weighted averages of price relatives for domestic foodstuffs in Kano market	Board of Trade index numbers of wholesale food prices	Ministry of Labour index numbers of retail food prices	Index numbers of volume of localised currency on 30th June of each year. 1934 is base year
Domestic commodities		Domestic and ex- port commodities					
Maize	Tams	Cassava	Palm-oil				
8	9	10	11	12	13	14	15
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
1·000	1·000	1·000	1·000	1·000	1·000	1·000	1·000
1·226	1·552	1·123	1·178	1·261	1·019	1·021	1·210
1·842	1·448	·743	1·369	1·992	1·079	1·063	1·602
1·274	1·948	1·070	2·203	2·052	1·201	1·139	2·518
1·674	1·844	1·860	1·473	1·496	1·144	1·139	1·752
1·074	1·279	·719	1·021	1·367	1·148	1·160	1·069

Cols. 7 and 15 derived from Col. 7 of Table XXII.

Cols. 8-11. Source: Graphs and lists of prices at Abeokuta, Agege, Benin, Ibadan, Onitsha, Umuahia, prepared by the Agricultural Department. The weights used to obtain average price relatives for all towns together were the populations of each town given in the *Census*.

Col. 12 includes dawa, gero, rice, wheat, beans, cassava, beef, mutton, fowl, eggs. Source: Statistics supplied by the Agricultural Department. Weights based on Professor Forde's chapters in Volume I.

Col. 13. Source: *Board of Trade Journals*.

Col. 14. Source: *Ministry of Labour Gazette*.

(iii) The interrelation between prices of import and export goods. In so far as export are substitutes for import goods, the prices of export will follow those of import goods after a time-lag. If the prices of export goods are driven down sufficiently far by those of import goods, the factors of production will move into the domestic goods industries where prices will subsequently also fall.

The three sectional price levels thus interrelated are affected by changes in the volume of localised currency and these are determined by changes in the balance of payments as a whole. Thus any change in the balance of trade (itself dependent on prices and the propensity to import) or any change in the volume or direction of the balance of unilateral payments will affect the three sectional price levels. The prices of export and domestic goods (which are alternative products of the domestic factors of production) may change because of the world market conditions for export goods, the monetary consequences of changes in the balance of payments, or changes

in the domestic circulation of money not caused by outside influences (such as hoarding or dishoarding, acceleration or deceleration of the velocity of circulation, or growth in monetary exchange sector). The three sectional price levels would also be much affected by a change in the propensity to import. If this decreases, less money is drained off to foreign countries, and domestic prices and some export prices are likely to rise and vice versa; though variations in the prices of domestic goods in Nigeria are caused by factors other than the volume of circulation, yet this remains the largest single factor explaining these variations. Since the value of domestic goods is perhaps three times that of imported goods, it follows that the Nigerians are very much affected by the changes in prices of domestic goods caused principally by changes in the volume of money.¹

The above analysis is broadly confirmed by the index numbers of Nigerian import and export prices given in columns (2) and (3) of Table XXIV, which show that since 1926 the prices of Nigerian exports have declined much more rapidly than the prices of imports, which have been fairly steady since the depression year 1933. This relatively rapid decline of Nigerian export prices may be partly ascribed to the desire to place extra exports on the world market for the above reasons, and partly to the world-wide deterioration in the terms of trade between primary and secondary industries.²

Columns (5) and (6) show that while Lagos prices of imported consumers' goods were remarkably steady from 1926 to 1938, the Lagos prices of domestic consumers' goods declined between 1927 and 1938 by about $\frac{2}{3}$ of the 1927 price. This rapid decline may be compared with the more gradual decline in export prices, shown in column (3), which dropped by 54 per cent from 1927 to 1938. These price changes accompanied a fall in the localised currency of about 20 per cent. (See column (7) of Table XXIV). The situation after 1938 is equally instructive. Between 1939 and 1942, the localised currency apparently increased by more than 100 per cent. (See column (7) of Table XXII). The accompanying changes in the internal price level were remarkable though less violent. A calculation based on information given by the *Report of the Cost of Living Committee, Lagos*, showed that between September, 1939, and March, 1942, the weighted average price index of domestic consumers' goods and services had risen by 41.04 per cent. This may be compared with an increase of 46 per cent in British retail prices of domestic and imported goods in the

¹ For a somewhat fuller treatment of the above problems, see Appendix C.

² This phenomenon, which has been apparent since the early 'thirties, is due to the continuous shrinkage of markets that has resulted from increasing economic nationalism; a situation to which secondary industries with their more monopolistic organisation are much better fitted to adapt themselves by restricting supply than agricultural primary industries, which can naturally adapt their output to a shrinking market only with a considerable time-lag.

longer period from 1938 to 1942 inclusive.¹ It also can be learnt from the *Report of the Cost of Living Committee, Lagos*, that the price level of imported consumers' goods at Lagos rose by 66 per cent from 1939 to 1942. The greater rise in comparison with prices of domestic goods may be attributed to the war-time scarcity of imported commodities and the increased cost of ocean transport.

The fluctuations in the prices of domestic foodstuffs in other large towns in Nigeria from 1934 to 1939, indicated by the figures in columns (8) to (12) of Table XXIV, should be compared with the trends of wholesale and retail food prices in Great Britain, shown in columns (13) and (14), and also with the index numbers for the localised currency, shown in column (15). It appears that the British prices were comparatively steady while the Nigerian ones fluctuated as violently, and usually in the same direction, as the volume of the localised currency.²

It is probable that some of the violent domestic price changes shown in Table XXIV are due to real factors such as shortage of crops or increasing demand for home-produced goods owing to the scarcity of imported goods; but the close parallel relation between these domestic price fluctuations and the changes in the volume of the localised currency which, in turn, appear to be closely related to the trend of export prices except in the year 1937, as shown in column (3), lead to the conclusion that the price level of domestic goods of Nigeria is very largely determined by the volume of localised currency. Thus it appears that, operating in a situation where the terms of trade between primary and secondary industries have been continuously deteriorating, the 100 per cent sterling exchange standard has had a deflationary effect on the Nigerian internal price level. This tendency might have been counteracted had the Nigerians been capable of decreasing their imports *pari passu* with their declining incomes derived from the export trade. This has not been the case since the Nigerian has a very high propensity to spend his cash income on manufactured goods; and since at present there are very few secondary industries producing such commodities in Nigeria, he has no choice but to continue to buy imported goods even when his income from export goods has fallen.³

¹ See *Analysis of the Sources of War Finance*, Cmd. 6438 (1943).

² The treatise examines in detail the degree of reliability of the various internal price statistics referred to in these pages. Though the degree of reliability of most of these index figures is low, they are sufficiently reliable to disclose general trends.

³ Assuming that annual increments and decrements of the total value of domestic exports are equivalent to increases or decreases of the total national income, it has been found that from 1930 to 1938, whenever the national income in this sense rose, the Nigerians bought extra imports to the extent of from 84 to 89 per cent of the increment of income. When the national income fell, imports were reduced by from 21 to 111 per cent of the decrement of income. On the likely assumption that internal activity moves in the same direction as exports, the indices of the marginal propensity to import, i.e. the ratio of changes in imports to changes in income, would be smaller than the figures quoted.

It should by now be quite clear to the reader that under the 100 per cent sterling exchange standard the volume of localised currency in Nigeria is determined by external economic forces, i.e. by the balance of payments between Nigeria and the rest of the world, regardless of the colony's internal currency needs. In view of such factors as the growth of population, which causes an increased demand for cash balances, the continuing encroachment of the monetary exchange sector upon the barter sector of the economy, the increasing specialisation which gives rise to production for a market instead of for self-consumption, and the emergence of a financial circulation due to sales of land, town property and capital goods, it is probable that the demand for localised currency has been continuously increasing. The above-mentioned deflationary factors and some others, which will be discussed below, have, however, caused the amount of localised currency to be decreased during the last two cyclical periods, which were from 1921 to 1930, and from 1931 to 1939 inclusive. Thus the amount of localised state money in the trough year 1923 was £5,392,000, and in the trough year 1934 £3,176,000, i.e. a decline of 41·1 per cent, in spite of the fact that exports had declined between the two years only from £10,802,900 to £8,733,630, i.e. by 19·15 per cent, and that the export surplus in the former year amounted only to £469,834 but in the latter to £3,368,950. Moreover, the average amount of localised state money in the period 1921 to 1930 was £6,580,000 and in the period 1931 to 1939 only £4,635,000, i.e. a decline of 29·56 per cent, while average annual exports decreased from £14,021,600 in the first to £11,159,300 in the second period, i.e. by only 20·4 per cent, and the average annual export surplus, far from decreasing, actually increased from £1,487,200 to £2,920,800. This trend reveals the deflationary effect of the 100 per cent sterling exchange standard reinforced by various internal deflationary tendencies such as the destruction of currency by conversion into jewellery, the withdrawal of optional currency like cowries, manillas and brass rods, and the prevalence of hoarding among Africans,¹ while it is probable that there is no loss of West African currency across the frontiers of Nigeria. The resulting currency stringency has had a depressing effect on native production for home consumption. The native producer, who has a strong sense of the 'just' or 'normal' price, knowing that quantity and price are inversely related, reduced production in order to maintain prices or slow up their decline when they showed a long-run tendency to fall.²

Under the present currency system Nigeria is tied rigidly to the industrial fluctuation of the sterling area and somewhat less directly to the inter-

¹ The treatise gives a full review of the evidence showing the existence of this habit up to the present day.

² Before 1939 there was probably an absence of a pronounced secular tendency to increase production for exchange in native markets.

national trade cycle. During international price booms more money is brought into the country not only by increasing exports, while imports increase to a somewhat smaller extent, but also by a series of external loans obtained by extra-territorial and colonial enterprises and frequently by the government. Both the migratory and localised circulation of money are greatly expanded. During international depressions, on the other hand, not only are no external loans obtained, but the old ones are recalled. The excess of exports over imports decreases as imports decrease less than exports, while various unilateral transfers outwards, such as remittances by Europeans working in Nigeria, continue more or less as before. The result of all this is that the migratory and localised circulation shrinks. But this state of affairs is merely the outcome of the essential characteristic of the sterling exchange standard, i.e. that the volume of localised currency is determined exclusively and automatically by the balance of payments. The detrimental effects of the exclusive dependency of a currency upon the balance of payments is especially great in Nigeria because of the special demand and supply conditions of Nigerian export products.¹ For most of these products there exists a fairly pronounced world income elasticity of demand coupled with a low-price elasticity of demand, and for most of them the supply has a very low-price elasticity. These conditions, combined with the fixity of external costs (ocean freights, expenses of head offices overseas, etc.), necessitate extreme monetary shrinkages and expansions of the localised currency in order to equate the positive and negative items in the balance of payments.

This dependence of the volume of currency upon the balance of payments is also particularly harmful in the Nigerian circumstances because the high propensity to consume imported consumers' goods aggravates the deflationary effect on domestic prices of a depression in world markets for Nigerian exports.² The absence of secondary industries is both an explanation of and an aggravating factor in the deflationary effect of a depression in the world markets for Nigerian exports.

There are in Nigeria almost purely inter-native exchange areas, e.g. the backward parts of Bornu, Benue, Adamawa, Cameroons and Ilorin, which have little connection with world markets. Their inhabitants obtain money by exchanging native goods for other native goods round their borders. It seems very hard on them that their prices and their localised currency should depend upon the fluctuations of international trade and lending.

¹ The treatise has a section on the demand for and supply of Nigerian export products.

² Nigeria's domestic exports and imports probably amount to about a third and a quarter, respectively, of her national output, while in 1937, for example, her major unilateral transfers amounted to about £4 million, or about a tenth of the national output.

The sterling exchange standard makes it quite impossible to deal with the aftermath of war-time inflation except by a drastic deflation via the changes in the balance of payments. It is to be expected that, as soon as the restriction of imports ceases after the war, Nigeria will make heavy purchases of imported goods, partly with dishoarded money but largely with internally circulating money. This will tend to cause a drop in the localised circulation and a consequent rapid fall of domestic prices from their present high level; this would have a depressive effect on local production and incomes. This effect of the sterling exchange standard and the high propensity to consume imported goods could, of course, be prevented by various means. A depreciation of the rate of exchange would amount to a fundamental change in the currency system, i.e. the replacement of rigid by a flexible sterling exchange standard. The government could also impose high import duties to discourage importation and could use the proceeds for reflationary public works programmes in all those areas where the propensity to import depleted localised currency. Moreover, the government could try to finance a public works programme by external loans, as it did at the end of the first world war.¹

A few more comments may be made on the question whether a rigid exchange rate is advantageous. It is now a recognised phenomenon that a fixed exchange rate operating in an area with comparatively low tariffs results, in set circumstances, in a certain volume of unemployment in the home industries which produce commodities competing with imports. These circumstances are mainly:—lack of technical progress in the importing country compared with the exporting country; more rigid money wages in the importing country than in the exporting country; very elastic home supply of the goods similar to those imported and very inelastic demand for them in the importing country, while there is an inelastic supply of all goods exported by the importing country to the world market and an inelastic home and world demand for them. The resulting unemployment would not be overt but disguised in the case of Nigeria. Examples in point are the native tin smelting and brass smithing, iron smelting and blacksmithing and salt refining. The unemployed went back to the land where their productivity is much less than it was in their former crafts and where their presence led to work sharing, i.e. to lowered pro-

¹ In 1919 and 1920 respectively, when exports amounted to £14.5 million and £16.7 million, imports amounted to £10.7 million and £20.7 million, the latter figure being the peak figure from 1900 to the present day. This high figure is partly explained by wholesale dishoarding of previously sterilised money and partly by imports of capital. Of the £6.4 million loan floated in November 1919 only £2 million was spent on the construction of the Eastern Railway, the remainder being used to redeem a previous loan. The fact that, despite heavy imports immediately after the war, the localised circulation (column 7 of Table XXII) did not fall much below its 1919 level may be attributed partly to the vigorous public works policy pursued by the government during that time.

ductivity of the original farming population. The rigid rate of exchange means, of course, that there is an automatic appreciation and depreciation of the West African pound corresponding to that of sterling. Nobody will wish to assert that this is always desirable and never detrimental from the point of view of Nigeria. From 1913, when West African currency was first put into circulation, up to the present day London sterling has passed through many complicated changes. The result has been that if West African currency were obtained in exchange for goods, services or securities at one point of time and its conversion into sterling were undertaken at a much later point of time, the seller of the West African currency might get either a more or less valuable London sterling or a London sterling which was at one time convertible and at another time not convertible into gold. If it is further recognised that Nigeria is a country large enough to benefit more from a stable internal price and income level than from completely inflexible exchange rates, the question of permitting very rare depreciations or appreciations of West African currency to counteract a fundamental disequilibrium of the balance of payments should not be dismissed out of hand.

The sterling exchange standard, making the amount of localised currency automatically and exclusively dependent upon the balance of payments, precludes any central banking activity, of which in the modern world one of the chief purposes is the variation at will of the volume of localised currency in order to promote full employment, a high real income, and prosperity as a whole. More will be said about this problem below.

The unnecessarily high cost of the currency to the country has already been commented on above and constitutes a very strong objection to the rigid 100 per cent sterling exchange standard. One of the consequences of this high cost of currency is the high cost of purely reflationary public works programmes. In this connection it is often asserted that government borrowing from the currency authority provides no advantages compared with borrowing from the London money market. This view is, however, not tenable. It can be shown that the rates of interest on market loans raised by the Nigerian government were higher in the past than the average rate of interest on investments received by the currency authority. A loan from the currency authority would completely eliminate the very high cost of government borrowing, which from 1919 to 1935 varied between 2·7 per cent and 17·4 per cent. The cost of 17·4 per cent was incurred on a loan of £5,700,000 in 1923. The total cost of raising this loan was £844,533, of which £160,333 were the expenses of raising it and £684,000 were the discounts allowed to investors.

No contributions to a sinking fund are necessary on a government loan from a currency authority, provided that the loan is merely used as a fiduciary cover for the permanently localised circulation. This de-

creases the annual burden of the loan. There are other advantages of government borrowing which can only be mentioned cursorily, such as the reduced control by the Colonial Office of borrowing, the complete absence of indirect control of financial issuing houses over such government borrowing, the elimination of the time-lag between the planning of a loan and the approval by the Colonial Office for the anticipatory spending of the loan, and the absence of the pressure to use a loan only for self-liquidating projects like harbours and railways or for buying British goods or to repay old loans.

All the above objections to a rigid 100 per cent sterling exchange standard suggest the advisability of substituting for it a flexible fiduciary standard. Such will be a sterling exchange standard which permits the use of Nigerian and other West African government loans as cover for permanently localised currency and allows a variation of the exchange rate if the purchasing power of the London £ is manipulated in a direction and to an extent which is positively harmful to Nigeria or if the Nigerian balance of payments is in a state of fundamental disequilibrium for other reasons.

4. SUGGESTIONS FOR MONETARY REFORM

The experience of the past thirty years has shown that the nickel bronze coins are never offered for redemption. Thus the cost of currency to the West African colonies under the present system could be somewhat reduced if that part of the nickel bronze coin issue which is equivalent to the contingent profit were turned into a fiat issue, i.e. an issue without any cover whatsoever. This means in practice that the sterling securities equal to the contingent profit on the nickel bronze coins could be handed over to the four West African governments to be used at their discretion. The most profitable use they could make of them would, of course, be to buy up part of their outstanding public debt in the market. The same end could be served by limiting the excess cover for currency liabilities to 10 per cent at the most.¹ If the first suggestion were adopted it would be necessary to have a cover only for the alloy coins, outstanding silver coins, and notes. The cover would include the metal value of the alloy coins and the West African silver coins, the full face value of the United Kingdom silver coins circulating in West Africa and the market value of all the sterling securities. An excess cover of 10 per cent is advisable in view of the possibility of a depreciation of the sterling securities and the value of metals.

Certain slight modifications might be recommended to increase the confidence of Africans in the currency system. The desirability of ensuring the mutual convertibility of notes and coins by keeping an adequate coin reserve has been mentioned above. It would also be advantageous to prevent a recurrence of cyclical shortages of notes and coins in Nigeria, such as

¹ The expression 'excess cover' is explained on pp. 187-8 of this chapter.

occurred in 1916, 1937 and 1938, by keeping more liberal stocks of notes and coins during boom periods. This would be assisted by world trade cycle and crop forecasts, which would in turn require the keeping of more detailed statistics regarding currency in circulation in each colony, the volume of bank money and of currency movements across frontiers, and also monthly statistics regarding local crops, and their prices and quantities marketed.

It might be possible to counteract the deflationary pressure on the volume of localised currency exerted by purely internal factors¹ by strictly compensatory issues of fiduciary currency against newly issued West African government securities. Thus it might be possible to create a local market for such securities in which native administrations, Syrian traders and local representatives of extra-territorial companies might be persuaded to invest their surplus cash.² The object of such a policy would, however, be defeated if the recipients of the newly issued currency were to spend a very large part of it on imported goods. It would be necessary to prevent such a leakage by a campaign to promote the purchase of Nigerian secondary products on their own merits.

The West African currency system could be rendered far less costly and more flexible if the whole of the localised currency became a fiduciary issue. The sort of currency that is needed may best be described as a 'managed sterling exchange standard currency'.

Its chief characteristics may be summarised in the following terms: The West African Currency Board might be authorised to issue fiduciary money, i.e. money covered by government securities from the four colonies, to the extent of the permanent and semi-permanent localised circulation in the four West African colonies. The amount of the permanently and semi-permanently localised circulation should be determined as follows:

(i) *Permanently localised circulation.* This amount should be equivalent to the demand for cash balances during the month of May of the trough year of the last major depression³ plus an annual increment or minus a decrement to allow for the trend in the increase of demand for cash balances. This trend in the demand for cash balances should take account of the following factors:

¹ See pp. 199-200 of this chapter.

² A promising beginning has been made with the development of a home market for Nigerian savings certificates. These were introduced by the Nigerian Savings Certificates Ordinance (No. 7 of 1941), which regulates their issue along lines successfully tried in the United Kingdom and lays down that the government may lend part of the money raised to the Treasury of the United Kingdom for specified purposes. The remainder would be used internally. Statistics of the amount issued and locally held are so far lacking.

³ This formula presupposes a reasonable expectation that there is a secular trend upwards, i.e. that the last depression will not be followed by a worse one.

Increase in population.

Extension of the monetary exchange sector at the expense of the barter sector.

Withdrawal of optional currencies (e.g. native currencies and old foreign currencies) from circulation.

The increase in trend value of the output of domestic goods industries.

The increase in trend value of the number of businesses.

The increase in trend value of the financial circulation.

The increase in trend value of expatriation of West African currency.

(ii) *Semi-permanently localised circulation.* This circulation will be predominantly a positive quantity, though it may occasionally be a negative one. It is supposed to allow for the variations in demand for localised currency due to:

Hoarding money (complete withdrawal from circulation).

The deviation¹ from the trend value of the output of domestic goods industries.

The deviation¹ from the trend value of the increase in the number of businesses.

The deviation¹ from the trend value of the financial circulation.

If a separate fiat money were created to offset the diminution in the volume of currency due to the melting down of coins and irretrievable loss of coins or notes through burning, burying, etc., this diminution must not be offset also by a fiduciary issue. If, however, no special fiat issue were made, the suggested fiduciary issue would have to be increased to offset such loss of currency. If nickel bronze currency is treated as fiat money as suggested above, it must be deducted from the volume of the permanently localised currency, as calculated above; otherwise it should be included.

Any West African currency issued over and above the fiduciary issue, including the coin reserve of the notes, should require a 100 per cent sterling cover as hitherto. Thus, convertibility of West African pounds would continue to be assured for the migratory circulation.

The following advantages might be expected to accrue from such a system:

Extra money could be injected to prevent a deflation of local prices due to the internal factors mentioned above. The government of each colony could inject the newly created money into circulation by public works programmes, especially in order to draw undeveloped areas into the monetary exchange sector or in order to pursue an anti-cyclical policy. The newly created securities need not cost the colonial govern-

¹ i.e. Cyclical, seasonal or random deviations.

ments much per annum as the rate of interest on such issues to be used for currency cover could be kept down to the level of the necessary contributions to the expenses of the Board. Above all, the natives need no longer forego the consumption of imported goods in order to increase the cash balances in their own country and, conversely, the opportunities of importing firms to sell goods to natives would be increased. The only disadvantages of the fiduciary issue would be that the four governments would have to forego their share in the profits which they would receive from the Board had the addition to the localised currency been obtained in the present way, and would have to pay a low rate of interest on the newly created securities. But it is likely that the increased economic activity made possible by the legitimate expansion of the localised circulation would put into the hands of the governments an amount of revenue much greater than the monetary sacrifice just mentioned.

The exchange rate between West African currency and sterling is at present fixed at unity. There are many reasons in favour of the continuance of this rate, such as the dependence of these colonies on trade with the sterling bloc and their many obligations fixed in terms of London pounds and at fixed rates of interest, but circumstances might occasionally justify a change in the exchange rate. An example of such circumstances would be a change in the value of the London pound to an extent which hampered the trading relations of the West African colonies with the rest of the world, or to take a more realistic example, the Nigerian government could more easily cope with the aftermath of war-time inflation, if the Nigerian pound were depreciated in terms of sterling. This would liberate part of the currency reserve to be distributed between the four West African governments which would then buy depreciated West African pounds and spend this money on public works programmes involving few imports. Nigerian incomes would be generated through public works and the localised circulation would be maintained in spite of heavy import purchases. Should the world market prices for Nigerian raw materials sag after the second world war, such a policy would also have the advantage of stimulating exports provided that competing countries do not engage in a rival depreciation of their currency.

5. BANKING SYSTEM AND THE LOAN MARKET

The banking system of Nigeria is still at a rudimentary stage of development. It comprises branches of two extra-territorial banks, Barclays Bank (Dominion, Colonial and Overseas) and the Bank of British West Africa; one intra-territorial bank, the National Bank of Nigeria; and the Post Office Savings Bank. Some idea of the volume of business handled by the extra-territorial deposit banks has been given above. They deal mainly with the large extra-territorial mining and trading companies, with Syrian

or Indian traders, and, to a small extent, with African traders. The non-African customers use the banks for deposit purposes and to obtain advances: Africans use them mainly for saving and current accounts, since the banks are reluctant to advance loans to Africans owing to their comparative financial unreliability and lack of security. The banks do a medium amount of business in discounting bills, mainly finance bills which arise in the course of buying West African currency by the agents of European firms stationed in Nigeria. The acceptance business is probably growing, the chief type of bill accepted being that drawn on African, Syrian and Indian importers by their foreign suppliers. The deposit banks also finance consignment business for Nigerians who want to import goods from abroad. In this case, the importer makes a cash deposit either with a Nigerian bank or directly with an overseas supplier. The foreign goods are then consigned to the bank's warehouse where the consignee clears them against either a bill with the Nigerian bank's acceptance or a simple cash on delivery.¹ The banks do not at present buy or sell securities in Nigeria.

The National Bank of Nigeria, which is quite insignificant in comparison with the two extra-territorial banks, is engaged in more risky types of transactions with Africans with what little deposits it possesses.² It would probably be beneficial to the economic life of the colony if intra-territorial banking were extended, for it is at present almost impossible for an enterprising African to raise capital through impersonal channels, while an internal banking system, enjoying the confidence of the people, would enable savings, which now lie in sterile hoards, to be used productively. Since intra-territorial banks would be primarily interested in the internal development of the country, they would be more eager to create conditions enabling them to lend to Africans than the extra-territorial banks. These naturally concentrate on external trade; and, to the extent that they are interested in the profitability of existing investments in the United Kingdom, they are probably more anxious to preserve the present industrial structure of Great Britain, by retaining colonial markets for British export goods, than to develop secondary industries in Nigeria and elsewhere, when conditions are favourable for their growth, or initiate complementary changes in the industrial structure of Great Britain. Intra-territorial banks would also probably be more willing to assist in counteracting seasonal and cyclical fluctuations of economic activity than extra-territorial banks, for the latter can always return their funds to London when investment opportunities in Nigeria are either less profitable or more limited.

That the willingness of Nigerians to deposit their savings in banks, in-

¹ Both banks apparently keep large storehouses in Lagos and there are said to be times when the goods in store exceed £1 million in value.

² In 1938 the paid up capital was £4,628 while the total deposits amounted to £7,855.

stead of hoarding them, is on the increase is shown by the experience of the Post Office Savings Bank. Between December, 1926, and March, 1942, the total deposit liabilities rose from £34,351 to £365,671, the number of depositors rising from 6,033 to 54,320¹ between December, 1926, and December, 1942. It is to be regretted that even in 1939 the passive deposits of the Post Office Savings Bank were still exclusively invested in external gilt-edged securities.² The number of branches has grown from 46 in 1929 to 94 in 1938. It might be recommended that two of the first steps in adapting the Nigerian banking system to the requirements of a community, where the use of capital is developing, should be an increase in the number of branches of the Post Office Savings Bank and the investment of deposits in internal securities.³ As long as such a central bank or internal market for government securities does not exist, investment by the Post Office Savings Bank in government securities may be possible only if an undertaking on the part of the government were given to purchase them from the Post Office Savings Bank in order to ensure their liquidity.

There are also in Nigeria some salary earners' thrift and savings co-operative societies which, although they fulfil an excellent function in encouraging thrift, largely fail to promote internal enterprise. On the 31st March, 1939, there were nine such societies with total deposits amounting to £834, of which only £199 was lent to members, while £578 was cash at the bank and the remainder cash in hand.⁴ At present, therefore, these societies merely function as intermediaries between savers and extra-territorial banks; they would be rendered more beneficial to the Nigerian economy by the establishment of a central thrift and credit society, under skilled financial direction, which could invest savings internally.

On political and social grounds co-operative credit societies seem to be the most desirable local institutions for the better financing of production and trade. Their possibilities have been proved to a certain extent in India and in Palestine. Official and other responsible quarters therefore regard co-operative credit as the paramount means of satisfying the need for credit on the part of the African producer. No effort should be spared to advance the cause of co-operation in Nigeria as in other colonies, but it would be fatal if it were not realised that the co-operative solution of any economic problem in Nigeria, be it the provision of credit, marketing,

¹ Comprising 43,726 active and 10,594 dormant depositors. See *Nigeria Gazette*, 5th August, 1943, p. 384.

² On 31st March, 1939, investments comprised United Kingdom, Dominion, Indian and colonial stock (other than Nigerian) and British municipal corporation stock.

³ According to the *Census*, Vol. I, p. 7, there were 535 towns in the colony with a population of over 5,000. The Post Office Savings Bank might aim at maintaining a branch in each of these towns.

⁴ *Report on the Progress of Co-operation in Nigeria, 1938-39*, p. 18.

supply, or production facilities, etc., is no solution at all for the next few decades unless government policy towards co-operative societies is completely revolutionised. Such a revolution in practice might, for instance, consist in establishing producers' 'marketing boards' in Nigeria with compulsory membership, and then replacing these compulsory local, regional, and national administrative organs in a period of, say, ten or twenty years, by organs of co-operative societies, first superseding local administrative organs by those of local societies, then regional organs by those regional societies, and finally the national board by an organ of a central co-operative society. Credit societies could function well only if they were closely interwoven with producers' societies, as only in this way could their credit-worthiness be properly assessed and a satisfactory security for a loan offered. Looking at the actual facts—not the theory—of co-operation in West Africa, one cannot help feeling that the suggestion of a co-operative solution is tantamount to postponing a solution for many decades if the growth of co-operation remains as slow as it has been hitherto.¹

If it is decided to carry out a far-reaching programme of industrial development in Nigeria, it would be advisable to go further than the minor modifications to the existing financial system suggested above by the creation of new financial institutions to facilitate the supply of both medium-term and long-term capital to internal enterprises.² The former function might be performed by various banks specialising in medium-

¹ This opinion seems to be somewhat harsh, but available figures permit of no other conclusion. The *Report on the Progress of Co-operation in Nigeria, 1938-39*, for instance, states on p. 7 that 4,877 active members of cocoa-selling societies marketed 1,608 tons of cocoa in 1933-34, and 9,468 active members sold 5,059 tons in 1938-39. Let it be assumed that the total annual output of Nigerian cocoa will remain in the neighbourhood of 100,000 tons. If the growth of co-operative sales is 3,451 tons (5,059 - 1,608) in five years, and if the rate of growth is arithmetic rather than geometric, it will take 145 years before the whole output of cocoa will be co-operatively marketed. (It would, of course, probably take considerably less time, as the rate of growth would be geometric.) The prospects of co-operative progress are, however, rather worse if the present experience is applied to all types of agricultural output, for the existing produce-selling societies for other produce, e.g. the palm-oil societies, are so small as to be negligible. If it can, for instance, be assumed that the increase of 4,591 in active membership of the cocoa societies over the five year period is the total increase of productive co-operators in Nigeria as a whole, then prospects of success of the co-operative movement recede into the dim future. Assuming that only heads of farming families, consisting on an average of 6 persons, enrol as members, and that there are altogether 3½ million of these in Nigeria, and that the rate of progress is arithmetic, it will take 4,000 years before all heads of farming families are co-operators. This calculation may seem fantastic, as nobody can possibly foresee or assume circumstances to be unchanged over such long periods of human history, but it is made simply to demonstrate that the co-operative solution of the economic problem is likely to be no solution at all for the next few decades.

² This need is felt by Africans and was forcibly expressed in the *Nigerian Cocoa Committee Report*, para 56.

term loans to producers. The composition of the liabilities of such banks differs from that of deposit banks since it comprises a larger proportion of share capital, which enables the banks to engage in a larger amount of risk bearing, and a much smaller proportion of passive deposits from the general public. Loans from deposit banks and insurance companies might form the major part of passive deposits. The typical assets of a medium-term credit bank are self-liquidating money loans of three to five years' duration in all stages of maturity. These money loans are designed to supply the agricultural, mining, manufacturing and building industries, transport and commerce with working and fixed capital repayable after two to five years. A more recent innovation, which is particularly suited to Nigerian conditions, in the assets of such banks in Great Britain is the hire-purchase credit loan, which assists new enterprises by providing capital for the hire-purchase of new equipment and machinery.¹

The Agricultural Department devised a hire-purchase scheme for the acquisition of livestock (draught bullocks and cows) and implements (ploughs, cultivators and carts) in the years 1929 to 1931; this has proved a successful idea, although its practical importance is still small. There were only 1,930 mixed farms out of a total of nearly 2 million farms in tsetse-fly-free areas in 1940. At this rate of development (and at a geometric rate of growth) it would take 462 years before all 2 million farmers became mixed farmers. Native administrations advanced the money; on 30th September, 1938, the total outstanding advances may have been in the neighbourhood of £7,500, a comparatively small sum of money.

The hire-purchase schemes should as far as possible be linked up with economic and political organisations, such as native authorities and African co-operative organisations. There might be established up and down the country depots of farm, transport, sanitary, simple processing and manufacturing equipment. Local producers and credit co-operatives might become the *del credere* agents² of the firms providing the equipment. The government and native authorities could provide a *del credere* guarantee fund.

Under Nigerian conditions a mere renting scheme for capital goods might be preferable to a hire-purchase scheme. The annual rent could include free servicing, which would probably prove a boon. But a more important feature of a renting system is the marking of all capital goods so supplied as the property of some firm, thus making it well-nigh impossible for the hirers to sell them in deference to the parasitical claims of some family members.

At present the scarcity of adequate collateral security is an obstacle to

¹ A full treatment of the subject of medium-term credit banks is contained in the treatise.

² The *del credere* agent becomes liable to refund any credit to his principal in case of default of the debtor.

medium-term lending for productive purposes to Nigerians, for at present the only available satisfactory securities are the expected output and the ownership of acquired capital goods by the hire-purchase creditor. The most promising development in future in the sphere of providing collateral security would be the improvement of housing, the improvement of agricultural land and the accumulation of movable farm equipment (such as ploughs, carts and cattle).

The control of the volume of money in accordance with the needs of the community, as recommended in the foregoing section, would be greatly facilitated by the establishment of a central bank, more especially when bank money begins to play a more important part in the internal circulation of Nigeria than it does at present. A central bank in Nigeria might be given power to vary deposit money directly or indirectly by such means as requiring an increase of the cash ratio of the deposit banks during a boom and vice versa, or, alternatively, by laying down the exact amount of deposit liabilities which the banks might keep. It might also have the power to be the lender of last resort to prevent insolvency of temporarily illiquid, but otherwise sound, intra-territorial banks. If a shortage of state or bank money were to arise the central bank should be authorised to lend to the deposit banks at agreed rates of interest, which would become the basic short-term interest rates ruling in the market. It might also be empowered to sterilise the inflow of West African currency into Nigeria in boom years by reducing the localised circulation through open market operations. This, of course, presupposes the existence of a market for government securities which may take a long time to develop to a sufficient extent. But for the purpose of financing self-liquidating electricity works, pipe-borne water supplies, drainage systems, it should not be impossible to create some gilt-edged local loans which might become so popular that they would attract most of the money which would otherwise be hoarded. So long as highly liquid securities do not exist the government might have to increase taxes in boom years and hoard tax receipts and distribute them in some suitable way in depression years.¹ A central bank might also assume certain advisory functions such as the power to advise the government when disequilibrium in the balance of payments makes a change in the sterling rate of exchange desirable, and the power to regulate imports and repayments of long-term capital which have been somewhat ill-timed in the past.

The potential internal supply of long-term capital in Nigeria is at present very small as it is limited by the low productivity of Nigerians and their high propensity to consume. Even if the latter could be reduced—which is doubtful, though consumption could well be improved by the

¹ It should not be forgotten that many poor European states operated central banks without having a large internal market for gilt-edged securities. The techniques deserve to be studied.

substitution of essential foodstuffs for luxuries—the supply of capital would still be limited by the low productivity, which can be remedied to a significant extent only by investment. An increased inflow of external long-term capital is thus essential to break the vicious circle.

In the past, external private investment in Nigeria has been limited to mining and external trade in primary products. The future need for capital for internal enterprises, some under African management, will bring new problems. It will be necessary to win the confidence of the overseas investor, who already regards the present type of colonial investment as risky, by the widespread use of mixed corporations comprising both internal and external capital as investment media, by the establishment of a Nigerian investment and planning board (controlled by the local government), which would eliminate the risk of fraudulent flotations, and by measures to increase the marketability of colonial securities. Such measures would include precautions to keep Nigerian costs low in order to provide a high inducement to invest, and to ensure a certain amount of compulsory investment in Nigerian securities by extra-territorial companies and government authorities; this would have the additional advantage of inducing the former to take more interest in internal development than they do at present. There is at present very little non-British capital in Nigeria, but if rapid development is desired and Great Britain or the dominions cannot provide enough capital themselves, the United States or other foreign countries may have to be approached for capital. As the individual investor appears loath to invest in colonial securities, it may be necessary to set up some intermediary body such as a special finance corporation. Space forbids a detailed discussion of many further investment problems that might arise if it were decided to embark on a programme of energetic industrial development.

APPENDIX A

THE METAL VALUE OF ALLOY, NICKEL BRONZE, AND SILVER COINS

1. There were £1,198,192 worth of old alloy coins, weighing about 298,600 lb. (avoirdupois), and £14,183,976 worth of new alloy coins, weighing about 3,534,800 lb., in circulation or in stock in West Africa on 30th June, 1942. At the prices ruling for copper, tin, nickel and zinc on 30th June, 1942, this total metal value might be in the neighbourhood of £125,000. It is, however, the practice of the Board to deduct the cost of realisation of alloy coins from their metal value. The Secretary of the Board has kindly supplied the following information about this problem in a letter dated 10th November, 1944: 'Prior to the war the sale price of the metal ranged from £27 to £36 per ton and since the war it has ranged from £28.10.0 to £55.12.6 per ton. The best price obtained for about 11 tons

sold in September (1944) was £47.5.0 per ton. On the average over the whole period the price realised is reckoned to be approximately £36 per ton whilst expenses incurred are calculated on the whole to be about £37 per ton. Such expenses include the provision of bags and boxes, local handling, (which possibly includes sorting out) and transport, homeward sea freight, insurance, transport from the port of arrival in the United Kingdom to the refinery and melting charges. For these reasons the metal value of alloy coins is not regarded by the Board as an asset.²

This statement conflicts with the figures published by the Board in the annual reports under the heading: Statements of Receipts and Disbursements. The following entries occur in them:

<i>Year ended June 30th</i> (1)	<i>Proceeds of alloy coins brought to England for disposal</i> (2)	<i>Charges in connection with alloy coins brought to England for dis- posal</i> (3)	<i>Percentage</i> Col. (3)
			Col. (2) (4)
1938	£ 2,521	£ 478	18.8
1939	27,877	9,317	33.4
1940	35,999	6,736	18.7
1941	6,237	1,355	21.7
1942	2,759	394	14.3
1943	232	36	15.5

Why the accounts state that the costs of disposal were only from 14.3 per cent to 33.4 per cent of the metal value, when apparently they were about 103 per cent of it (£37 expressed as a percentage of £36), requires an explanation. Two further points deserve to be made: (a) Even if the cost of disposal and the realisation value were equal from 1938 onwards, they were probably not equal before 1938. (b) If only small lots of worn out coins are shipped home for disposal, certain fixed charges which do not vary with tonnage shipped may well raise the costs of disposal up to the realisation value. Moreover, as the bulk of the coins will never be sold, but only re-coined in years to come, it would seem to be reasonable to consider as metal value the bulk realisation value minus the bulk cost of disposal for the total amount outstanding. It appears, therefore, that a fraction of £125,000, being the metal value of the alloy coins outstanding on 30th June, 1942, should be shown in the balance sheet.

The £1,829,606 worth of nickel bronze coins in circulation and in stock on 30th June, 1942, weighed about 7,220,640 lb. (avoirdupois) and the copper and nickel contained in them was worth about £220,000. The metal value of both the alloy and the nickel bronze coins on 30th June, 1942, may therefore be put at about £345,000.

The question arises as to whether the cost of realisation should be deducted from the metal value. The statements of receipts and disbursements of the Board reveal that there was no sale of nickel bronze coin from

1913 to June, 1923, and again from June, 1925, to June, 1935, but £24,333 were realised in the accounting years 1923 to 1925, and from June, 1936, to June, 1943, only £8,723 were realised. This slow rate of realisation is, of course, due to the steady expansion of nickel bronze coins. No costs of realisations are stated. In view of the fact that the bulk of the nickel bronze coins will never be sold for metal, only a small deduction should be made from the metal value to allow for costs of realisation.

Summing up this discussion, it appears that the metal value of both the alloy and the nickel bronze coins on 30th June, 1942, would be about £345,000, if no deduction were made for costs of realisation. It cannot, however, be said how large a deduction should be made to allow for this cost.

2. The West African silver coins in circulation and in stock on 30th June, 1942, had a face value of £984,012. This quantity of silver coins weighs 245,224 lb. (avoirdupois), half of which is silver and the other half alloy. The controlled spot price for one troy ounce of bar silver was 23·5d. from September, 1941, onwards. At this price the value of 122,612 lb. (avoirdupois) of silver is £175,077 and not £295,950 as the Statement of the General Position shows. Actually the silver is valued at 41·4d. To put the same matter differently: according to the Statement of Position, the ratio of bullion value to face value is 30·1 per cent, but at the controlled silver price (allowing for the metal value of alloy) the ratio would be only 18·9 per cent.

APPENDIX B

STATISTICAL VERIFICATION OF THE PROPOSITION THAT THE BALANCE OF PAYMENTS AS A WHOLE DETERMINES THE INCREMENTS OR DECREMENTS OF LOCALISED CURRENCY

Though the data about the balance of payments contained in table XXV are incomplete, they nevertheless permit a convincing verification of the analytical proposition that the increments or decrements of localised currency (which is only incidentally identical with imports or exports of currency as shown in the customs statistics) are determined by the balance as a whole. Table XXV shows in column 16 the increments or decrements of state money from one year to the next derived from column 7¹ of table XXII. This column shows that in the years 1935, 1936 and 1937 there was an increment of localised currency, while in all other years the currency

¹ Figures for 31st December of each year were derived from the figures for 30th June given in column 7 of Table XXII by interpolation, taking into account the presumable increase in the volume of payments at the end of the calendar year compared with the mid-year due to seasonal factors. The figures in column 16 of Table XXV are, therefore, less reliable than those in column 7 of Table XXII, but are sufficiently accurate for our purpose.

TABLE
SOME CONSTITUENT PARTS OF THE
(£'000 omitted)

Year	Imports of merchandise for calendar years	Exports of for calendar years	Balance of trade Col. 3- Col. 2	Current expenditure on public works out of loan funds. (Adjusted to calendar years)	Government transfers outwards of interest and sinking fund pay- ments for calendar years	Net remit- tances by govern- ment servants out of emoluments for fiscal years	Net remit- tances of pensions and gratuities for fiscal years	
1	2	3	4	5	6	7	8	9
1927	14,438	15,674	+1,236	+663	—	-1,325	-613	-292
1928	15,765	17,075	+1,310	+574	—	-1,325	-612	-313
1929	13,219	17,757	+4,538	+219	—	-1,325	-649	-304
1930	12,517	15,029	+2,412	+672	—	-1,607	-683	-306
1931	6,511	8,772	+2,261	+664	+391	-1,607	-701	-378
1932	7,195	9,477	+2,282	+293	+84	-1,581	-638	-466
1933	6,340	8,727	+2,387	+125	+131	-1,511	-602	-447
1934	5,364	8,874	+3,510	+314	+3	-1,616	-587	-454
1935	7,804	11,615	+3,811	+151	—	-1,609	-571	-453
1936	10,830	15,077	+4,247	+61	—	-1,385	-577	-459
1937	14,625	19,436	+4,811	+72	—	-1,385	-616	-482
1938	8,632	9,701	+1,069	+122	—	-1,385	(-627)	(-488)

decreased. If the critics were right these increments should always be associated with imports and the decrements with exports of money capital. The table shows, however, that this is usually not so. The imports of money capital for which alone figures were available are given in columns 5 and 6 (i.e. expenditure on works out of loans and other funds) and in column 11 (i.e. increments of issued mining capital).¹

The imports of capital into Nigeria, i.e. unilateral payments inwards, are shown in column 13. It will be noticed that there were positive entries only for three years to which should probably be added some other unilateral transfers inwards for which, however, no figures were available at the time of drawing up the table. The incomplete sums of the major unilateral transfers outwards are shown in column 12. The incomplete balance of unilateral payments (the sum of columns 12 and 13) is shown in column 14. If this incomplete balance of unilateral payments is added to the balance of trade (i.e. if columns 4 and 14 are added) the incomplete balance of payments shown in column 15 is obtained. One of the explanations of this residual balance of payments is the increase or decrease of monetary circulation, made up of the balance of currency imports plus net reduction of stocks of currency held by the Nigerian currency officer minus exports of currency minus net increase of stocks of currency held by

¹ Not all of the issued capital of mining companies enters Nigeria either in the form of capital goods or cash balances but only from 90 per cent to 92.6 per cent as a statistical investigation has shown. The figures of increments or decrements of issued mining capital should really have been decreased by some 7.4 per cent to 10 per cent.

XXV

BALANCE OF PAYMENTS, 1927-1938

<i>Profits and depreciation on external trade (2 per cent) for calendar years</i>	<i>Increments or decrements of issued mining capital for calendar years</i>	<i>Sum of major unilateral transfers outwards</i>	<i>Sum of major unilateral transfers inwards</i>	<i>Incomplete balance of unilateral payments</i>	<i>Incomplete balance of payments (4) + (14)</i>	<i>Increments or decrements of state money for calendar years</i>	<i>Year</i>
10	11	12	13	14	15	16	17
-602	+1,300	-2,832	+1,963	-869	+367	-64	1927
-657	+1,522	-2,907	+2,096	-811	+499	-54	1928
-620	-1,180	-4,078	+219	-4,297	+241	-677	1929
-553	-1,103	-4,252	+672	-3,580	-1,168	-1,613	1930
-306	-2,059	-5,051	+1,055	-3,996	-1,735	-1,499	1931
-335	-239	-3,257	+377	-2,880	-598	-405	1932
-301	-118	-3,059	+256	-2,803	-416	-395	1933
-285	-301	-3,243	+317	-2,926	+584	-30	1934
-388	-139	-3,160	+151	-3,009	+802	+1,220	1935
-518	-107	-3,046	+61	-2,985	+1,262	+2,651	1936
-681	+62	-3,164	+134	-3,030	+1,781	+300	1937
-367	+159	-2,867	+281	-2,586	-1,517	-3,006	1938

the Nigerian currency officer. These net balances are shown as increments and decrements of state money in column 16.

It will be seen that there was a decrement of state money from 1926 to 1927 of £64,000, although in 1927 £663,000 was appropriated to public works and £1,300,000 of mining capital (or rather 90 to 92.6 per cent of it)¹ entered the country. This import of capital was associated not with an increment of state money, which the critics believe to be inevitable, but with a decrement. The critics apparently forget that most of the external capital flowing into Nigeria enters chiefly in the form of capital goods and not of money. In 1928 there was a decrement of state money of £54,000; this was associated with an increment of issued mining capital of £1,522,000, of which between 90 and 92.6 per cent may actually have entered Nigeria. In 1929 there was no major unilateral transfer inwards and the localised circulation promptly declined because the heavy unilateral transfers outwards were bigger than the balance of trade. The figures for 1930 will not give the critics much comfort for they show that in spite of the large government expenditure on public works, amounting to £672,000, the localised currency decline by £1,613,000. The comparison of columns 12 and 13 shows that the imports of capital were more than offset by the unilateral transfer outwards. It is not the imports of capital (and other unilateral payments inwards) which explain the increment of currency, but the balance of payments as a whole.

In the years 1931 to 1934 there were no major unilateral transfers in-

¹ See footnote 1, p. 216.

wards but heavy major unilateral transfers outwards, and the amount of localised currency decreased heavily. From 1931 to 1933 the major unilateral transfers outwards exceeded the comparatively small balance of trade; this resulted in the withdrawal of state money from Nigeria as the comparison of columns 12 and 4 reveals.

The best reply to the critics is, however, afforded by the figures from 1935 to 1937. In these years the localised currency increased by large amounts though no new capital worth mentioning entered Nigeria. The reason was that in these years the balance of trade was considerably in excess of the major unilateral net transfers outwards and thus created the high incomplete positive balance of payments shown in column 15.

In 1938 the localised circulation of state money was drastically reduced by £3,006,000. This again was determined by the balance of payments. The major unilateral transfers outwards were far in excess of the balance of trade and resulted in the negative incomplete balance of payments of £1,517,000 shown in column 15.

In short, a comparison of columns 13 and 16 shows that, during the period from 1927 to 1934 inclusive, when capital imports were heaviest, the volume of currency in circulation in Nigeria was decreasing continuously, while during the years 1935 to 1937, when capital imports were relatively low, imports of currency were very high. Thus, the belief that increases in the localised circulation are determined to any significant extent by capital imports is invalidated.

Admittedly the figures for the balance of payments given in column 15 of table XXV are incomplete and, therefore, no close correspondence with the increment or decrement of state money shown in column 16 can be expected, but the figures in these two columns show quite a high degree of correspondence for eight out of the twelve years for which figures were given. The figures do, however, lend sufficient support to the analytical proposition that *it is the balance of payments as a whole which explains the increments or decrements of the localised currency under the rigid 100 per cent sterling exchange standard.*

APPENDIX G

BALANCE OF PAYMENTS AND THE THREE SECTIONAL PRICE LEVELS

The fundamental interrelation between the price levels of domestic, export and import goods.

These interrelations may conveniently be analysed under three heads:

(1) The interrelation between prices of export and domestic goods.

If a country like Nigeria does not produce the major part of the total volume of world trade in a commodity (it does so only in respect of the

skin of the Red Sokoto goat and columbite) the prices of these export goods are determined chiefly by forces outside the Nigerian economy, i.e. the world market. There may be seasonal, cyclical or random increases or decreases of world supply or demand as a whole, as a result of which Nigeria would experience a price change, usually in a passive capacity. But it would be untrue to say that Nigeria has no perceptible influence on the world prices of those commodities in which its share in the total volume of world trade or production is more than negligible. The exports or output of many of the major Nigerian export products form a substantial part of total world output or trade, as the following list shows:¹

The exports of Nigerian ground-nuts in 1937 were 4.9 per cent of the total world production; the exports of Nigerian cocoa in 1937 were 13.2 per cent of world output; the production of Nigerian columbite is over 90 per cent of world output; the production of Nigerian tin ore was over 5.1 per cent of world output in 1937; the export of Nigerian palm-kernels was 44.5 per cent of total world trade in 1937, and of palm-oil 29.0 per cent in the same year; Red Sokoto goatskins are over 90 per cent of total world output.

Nigerian producers of the major export goods such as timber, goatskins, cattle hides, palm-oil and kernels, shea-nuts, ground-nuts, benniseed (sesamum), cocoa, rubber, tin ore, and gold have some influence on prices. Supposing that the Nigerian producers of columbite, palm-kernels, palm-oil, and Red Sokoto goatskins lower their selling prices, an increase of exports would result, if the world demand were price-elastic. Let it be supposed that Nigerian producers of cocoa, tin ore, timber, hides, shea-nuts, benniseed, rubber, and gold offer bigger quantities of these export goods to the world market at the ruling prices than they did before.² The resultant satisfaction of world demand at this world price may subsequently lead to a slight lowering of the world market price which would not have happened were it not for the increased Nigerian supply. Similarly, Nigerian producers can bring about an upward movement of prices of commodities of which they produce a more than negligible share of total world output. They may reduce supply when world prices are low, thus causing world prices to rise slightly. It must not be forgotten that by means of varying their contribution to world supply Nigerian producers have some influence, however small, on the selection of one of the possible world demand prices as a transaction price. Nevertheless, most changes in prices of the major Nigerian export goods are determined chiefly by

¹ See League of Nations, *Raw Materials and Foodstuffs*, 1939, Table II.

² This sometimes happens in a rather interesting way. For some export products, e.g. cotton, ground-nuts, and palm-oil, there exist differential prices in Nigeria; a higher home market price and a lower export market price. When the home market absorbs less than before—which may happen because of loss of money to foreign countries—more will be offered at the lower ruling world price to the export market.

the world market price, i.e. by the supply and demand of all other countries, and the changes in prices of all minor exports of Nigeria are exclusively so determined.

No matter whether Nigeria has much or little or no influence on world supply, and through it on world prices, there are strict interrelations between the prices of export and domestic goods. Two cases must be distinguished: export goods may or may not be in demand for home use. To take the former case, (e.g. palm-oil, ground-nuts, cotton, or hides and skins) if the intersection between the domestic demand and supply curve of a Nigerian commodity used both in Nigeria and abroad lies above the world demand curve, the commodity in question will not be exported. This sometimes happens in respect of Nigerian cotton from some areas. But the general situation for such commodities is that the Nigerian supply curve intersects the Nigerian demand curve at a price lower than that where the world demand and supply curves intersect. Were it not for world demand, the Nigerian price would be lower. Moreover, since world demand changes more often than home demand, the Nigerian prices change more often than they would otherwise.

Turning now to export goods for which there is no Nigerian demand, e.g. cocoa and palm-kernels, the interrelation between their prices and those of domestic goods is as follows: As the Nigerian factors of production can be used in the production of either domestic or export goods, a change in the prices of export goods will be transmitted—with a time-lag—to the prices of domestic goods as resources are transferred. If, for instance, the prices of export goods fall, factors will turn to the production of domestic goods for which the prices will fall in turn after a while because of the greater supply, and vice versa.

(ii) The interrelation of prices of domestic and import goods.

The prices of import goods are entirely determined by world supply and demand as Nigeria takes only an infinitesimal fraction of world sales. As long as Nigeria remains on the 100 per cent sterling exchange standard, the prices of currently arriving import goods will remain sterling area prices, if not world prices. Nigeria has no influence on these import prices. It can only increase or decrease the quantity taken. Only stocks already in the country of import goods which it does not pay to re-export might be, and sometimes are, sold at prices differing from world market prices both in an upward and downward direction. This fact distinguishes export prices from import prices.

Most domestic goods are substitutes for import goods and vice versa. It is chiefly only for domestic services that no imported substitutes exist. Therefore, prices of domestic goods will generally move in sympathy with imported goods, though much less than proportionately—because some wants cannot be satisfied by imported but only by domestic goods—and only after a considerable time-lag.

(iii) The interrelation between prices of import and export goods.

When export goods such as Nigerian soap or cotton goods compete with import goods, the relationship between their prices is obvious. The import prices being given, Nigerian export prices will move in sympathy with them. But the relationship is purely monetary when there is no such competition, as is often the case. This relationship will be examined below.

The interrelation between changes in the volume of localised currency and changes in the three sectional price levels.

Since the influx or efflux of localised money depends upon the balance of payments as a whole, the problem is reduced to the relationship between changes in the balance of payments and resultant changes in the three sectional price levels. For the purposes of exposition it is convenient to distinguish in the balance of payments four principal changes which may cause an influx of localised money:

(i) Unchanged value of exports but increased export surplus and unchanged balance of unilateral transfers.

This implies a change in the average propensity to absorb imports. This propensity is the ratio of retained imports to total resident-owned income. (This latter is net income generated by the factors of production actually located in the country minus net outward transfers of investment income or plus net inward transfers.) An unchanged value of exports may mean (1) constant prices and constant quantities, (2) higher prices and proportionately smaller quantities, or (3) lower prices and proportionately larger quantities.

(ii) Increased value of exports and increased export surplus and unchanged balance of unilateral transfers.

This implies that the average propensity to import has decreased, remained constant or increased to a lesser extent than exports have increased. An increased value of exports may mean: (1) constant prices and increased quantities, (2) higher prices and smaller, the same, or larger quantities, (3) lower prices and more than proportionately increased quantities.

(iii) Unchanged value of exports and a favourable change of balance of unilateral transfers and, in addition, either (1) an unchanged export surplus which implies a constant propensity to import, or (2) an increasing export surplus which implies a decreasing propensity to import.

(iv) Increased value of exports and favourable change of balance of unilateral transfers and, in addition, either (1) an unchanged absolute export surplus implying an increase in propensity to import, or (2) an unchanged proportionate export surplus implying a constant propensity to import, or (3) increased absolute export surplus implying a strong increase of the propensity to import.

If the direction of the four types of principal changes were reversed, an efflux of localised currency would occur. The reader will be able to

make the necessary changes in the list given above and in the arguments given below, and the following discussion can, therefore, be confined, for the sake of brevity, to the interrelation between the various types of influx of money and the sectional price levels. Two basic problems are involved in this interrelation, the answers to which explain the dynamic interrelations between the sectional price levels and the 100 per cent exchange standard:

Two dynamic forces behind changes in sectional price level.

(1) The causes of the lowering and the raising of the prices of export and domestic goods.

Upon export prices may depend the increase or decrease of the export surplus and—*ceteris paribus*—in turn the increase or decrease of monetary circulation. The causes may conveniently be subdivided into three groups: (1) world market conditions, (2) the monetary consequences of the changes in the composition of the balance of payments, and (3) the monetary consequences of behaviour inside the Nigerian economy. Nothing need be added to what was said above about cause (1). The monetary consequences of the changes in the composition of the balance of payments are well known to any student of the theory of international trade. All that is said about the adjustment mechanism for an adverse balance of payments under a gold standard applies here, except that loss or gain of foreign exchange reserves must be substituted for loss or gain of gold, that a 100 per cent exchange standard must be substituted for a specie (or coin) gold standard, and that Nigeria has no influence on the world market prices of import goods.

In case any of the readers should be unfamiliar with the theory of international trade the following explanations may be helpful. If the government of Nigeria has to make heavy fixed-interest payments or heavy amortisation payments on foreign loans, it will in the ordinary course obtain the necessary sums of money by means of taxation. The Nigerian producers of export goods receive so much less money for them as is equivalent to the export duty; the Nigerian consumers of import goods have to hand over so much more money for them as is equivalent to the import duty, and the Nigerian income recipients are deprived of part of their money income by the income tax. The government sends part of all this tax-revenue out of the country to service the external debt. There is now less money in Nigeria and this affects prices. As prices of currently arriving import goods are fixed by the world market, only those of some domestic and export goods can be changed. Assuming that the production of both of these and the propensity to import are unchanged, the producers of export and domestic goods will now be anxious to sell all they have produced or can produce in order to secure as many or more import goods as they used to consume. Prices both of domestic or export goods will decline as outlined previously. Thus the paradoxical statement is

fully justified that, in order to make possible a unilateral transfer outwards, export and domestic prices will be reduced, although an exporter is guided in his buying policy only by the desire to make a profit and is completely disinterested in, and perhaps does not comprehend, the consequences of unilateral transfers outward. Or to take cognate cases: supposing the normal amount of annual investment or replacement in Nigeria is curtailed in any one year, the expenditure on local construction and/or local installation or dismantling, financed from abroad, is either curtailed or eliminated. Less money than usual enters Nigeria. Or suppose that the prices of import goods dictated by world market conditions go up while the propensity to import increases in proportion to the prices or even more; the resultant changes of the balance of payments would cause money which ordinarily would enter Nigeria, not to do so, or to leave Nigeria. *Ceteris paribus*, the prices of some domestic and export goods would show a tendency to decrease as before. Thus, once more the paradoxical statement can be made that prices of domestic and export goods have to be lowered to make the necessary adjustments required by the balance of payments. Again it is irrelevant whether the exporter is aware of the forces which ultimately determine export prices. When all the above-mentioned cases are reversed, the prices of some domestic and export goods will have a tendency to increase; thus, when the whole or part of a new government loan is spent in Nigeria, or some new construction and installation expenditure is made in Nigeria, or world prices of import goods or the propensity to import decline, the prices of some domestic and export goods will rise.

The third cause of changing prices of export and domestic goods is purely internal and may best be described as being due to such changes of the Fisherine equation of exchange ($MV = PT$)¹ as would occur in Nigeria if it were a closed economy. There might be an increase in output of domestic and exportable goods, or a change in the velocity of circulation of goods, or a growth in the monetary exchange sector, or a change in the

¹ M stands for the average quantity of state and bank money in circulation on any one day during a certain period (e.g. a year), and V for the number of times each unit of note or coin or money in bank accounts changes its owners during the same period. M times V is obviously the sum total of payments made during the period for goods, services and securities bought. P is the general price level, i.e. the weighted average ratio of prices in the current period to prices in the base period. The weights can be either the quantities bought in the base or current year, or the expenditure (prices and quantities) in the base or current year. T is the sum total of goods, services and securities bought in the current period multiplied by their respective prices in the current period, each deflated by division by P . PT is therefore the sum total of the actual current receipts for goods, services and securities sold in the current period. The equation is really an identity between payments made and revenue received for goods, services and securities, but it does bring out the proximate causes of changes in the general price level. The deeper causes of such changes find expression in more modern formulae.

quantity of money through hoarding and dishoarding or any other purely internal variation in the quantity of money, or a change in the velocity of circulation of money. For all these reasons the prices of domestic goods, and, by sympathy, those of export goods, might go up or down.

(ii) Changes in the propensity to import and sectional price levels.

If the propensity to import decreases, the world prices of currently arriving import goods remain, of course, unchanged (the prices of existing stocks in Nigeria might decline), but the quantities taken would decrease. This can be expressed by saying that the demand curve for imported goods shifts to the left. More money will now circulate in Nigeria and domestic prices will increase. All those export goods which are also domestic goods will be sold chiefly in the domestic market where prices are higher than in the export market. Unless export prices rise too, factors of production will be diverted to the domestic goods industries. The prices of those export goods of which Nigeria produces a large share of total world trade are likely to rise.

If the propensity to import increases, the opposite will happen. The demand curve for imported goods will shift to the right, i.e. bigger quantities will be bought at the ruling world prices. Money will flow out; prices of domestic goods, and, to a lesser extent and only after a time-lag, prices of export goods will fall.

Chapter V

PUBLIC FINANCE

BY A. W. PIM

Public finance is a subject which lies on the borderline between economics and politics.

In an advanced country it reflects international and internal economic, social and cultural policies both on its income and expenditure sides. It is those policies which mainly determine the directions of expenditure, and it is from this side that budget problems are approached, the income being adjusted so as to furnish the necessary resources. In countries in the early colonial stage, with little flexibility of resources and a low taxable capacity, budget problems have on the contrary hitherto been approached in general from the revenue side, and the expenditure has been adjusted to that standard. In this respect their public finance has an analogy with the budgets of private individuals, and, like them, colonies cannot in general have recourse to internal loans, nor can they manipulate their currencies. As compared with more advanced countries their income and expenditure include a much smaller element of internal transfers of purchasing power, and a larger proportion of external transfers of resources. Money has to be raised by the easiest means to hand having regard to the probable reaction of the local population to different forms of taxation, while expenditure has to be concentrated at first on establishing the organisation of the conditions necessary to the stability of the community before much attention can be given to improving the social and economic standards of living. It is, therefore, difficult to generalise on colonial budget methods; they must vary according to the local economic position and to external commitments. They have the common feature that all colonial financial policies are, in their broad lines, laid down by the metropolitan government. The ultimate responsibility rests on the central government though it may refrain from detailed control. The fact that a large part of the colonial debt—and of the colonial assets—is usually held in the metropolitan country strengthens the feeling that this is so, more especially if a part of the debt is guaranteed by its government. The financial difficulties of a colonial government cannot be a matter of indifference to the central authority if there is any danger of default on interest payments, which would seriously prejudice colonial credit. On the other hand, steps should be taken to avoid the dangers of action in support of vested interests analogous to the 'dollar diplomacy',

which has played a considerable part in the relations between capitalist countries and independent countries of colonial status.

The public finance of a colony must also be largely affected by the attitude in the metropolitan country to economic development and to social services, and by the prevalent conception of the proper economic relations between the mother country and its dependent territories. The old idea of colonies as sources of tribute has long passed away, but it was succeeded by the somewhat negative policy embodied in the principle laid down by Earl Grey in 1852 that 'the surest test for the soundness of measures for the improvement of an uncivilised people is that they should be self-supporting'.¹ This policy has in the main lasted up to the present day though it has been partly modified by the conception introduced by Joseph Chamberlain in 1895 of colonies as undeveloped estates. It has largely governed practice and has resulted in sudden reversals of policy and the suspension of schemes of development owing to economic setbacks. Except in territories with large mineral resources it necessarily involves a very slow rate of progress.

This doctrine of self-support is now being increasingly recognised as inadequate, and the 'climate of opinion' is changing to the conception of a more positive policy based on a recognition of the proper relation between the metropolitan country and the dependencies as a partnership of financial and economic interdependence with the purpose of raising the general standards of living.² It is on this new basis that the public finance of colonial territories should now be studied, and to no colony is it more applicable than to Nigeria, with its large population of many types at all stages of civilisation and with its extensive and varied natural resources.

The problem of reducing 'the more positive policy' suggested by *The Economist* to any clear formulation in terms of principles is no easy one. It raises in a much more complicated form difficulties, both financial and psychological, similar to those still only partly solved in connection with the depressed areas in Great Britain. Taxpayers in this country are now largely prepared to see their money spent in any part of Great Britain, without any thought of the precise area where it has been collected. The controversies over variations in local rates show clearly, however, that the principle of income transfer by various state instrumentalities is not always gladly accepted. To ask them to apply similar principles to colonial dependencies with the aim of assisting them towards self-government, and to look on expenditure in Nigeria or in the West Indies in the same light as corresponding expenditure in South Wales or on Clydeside, is to put a much more severe strain on their capacity of adaptation to a wider sense of the common good. Yet unless some practical solution of this problem can

¹ Grey, Earl, *The Colonial Policy of the Administration of Lord John Russell*, 1853. Letter dealing with the West Coast of Africa, p. 281.

² 'Finance of Empire', *The Economist*, 9th August, 1941, p. 160.

be found the policy of social and material development implied by the passing of the Colonial Development and Welfare Act, 1940, and frequently proclaimed in authoritative statements, cannot be implemented without long delay in most dependencies, and probably not at all in many of the weaker colonies.

1. REVENUE

(a) HISTORY OF SYSTEM OF TAXATION

The general character of public finance in Nigeria, and more especially its sources of revenue and their relative burden on the different areas and different sections of the community, are largely the result of historical causes. A short historical retrospect is, therefore, necessary for their interpretation. Unlike the position in the British territories of Central and East Africa, and apart from some early and, for the most part, unsuccessful attempts in limited areas, direct taxation of the native inhabitants of West Africa has been a comparatively recent development. In Southern Nigeria, which grew from the original nuclei of Lagos and the Niger Coast Protectorate by gradual trading penetration, there were no money difficulties in the early days. Revenue came in easily from customs duties which yielded some 90 per cent of the public revenue: 70 per cent of the customs revenue came from duties on alcoholic liquors. It would, in fact, have been impossible to collect any substantial sum from native sources until a satisfactory currency system had been introduced, and this did not come into any extended operation until after 1900. The money required for railways was obtained by raising a series of loans through the Crown Agents, and by 1913, when Northern and Southern Nigeria were amalgamated, Southern Nigeria had a revenue of £2,668,000, an expenditure of £2,096,000, and a public debt of £8,248,000. The railway was, however, a burden; and 1913 was the first year when the net railway receipts exceeded the interest on capital, apart from any allowance for renewals or depreciation. Lagos and the Colony formed an enclave administered on European lines and heavily subsidised from the general revenues both directly and indirectly.

No such easy methods were applicable to Northern Nigeria, where the revenue was only £94,000 in 1905-06, and the parliamentary grants between 1900 and 1913 amounted to £3,434,000, apart from £845,000 paid as compensation to the Royal Niger Company. Direct taxation was the only possible source of income and its organisation was one of the first measures to be undertaken. It was accepted without difficulty both as a recognition of allegiance and because it was not a new impost, but took the place of the previous onerous multiplicity of dues based, nominally at any rate, on an income standard. These were consolidated into two taxes, a general tax representing the variety of levies made on settled agri-

culturalists and traders, and a cattle tax on nomad pastoralists. The general tax was not a flat-rate tax, as in most African territories, but was described in Lord Lugard's memoranda as a tax 'on the income and profits of each individual'. Profits were defined as 'the gross income derived or derivable, regardless of the appropriation of the whole or any part of it to the use of the owner'; in the case of agriculture it meant 'the yield of the land if cultivated to a normal standard'.¹ The system of lump sum assessment was sufficiently flexible to permit of extensive graduation between different areas and even between individuals in the same area. In the more primitive areas it is, in effect, a flat rate. The traditional rate of tax was the Koranic tithe—a tenth of the gross annual income—but according to the *African Survey* the usual proportion is 5 per cent², and Lord Lugard says that the poorer classes may be rated at 4 to 8 per cent only.³ The report on the primitive and very poor Jos division of the Plateau province recommends percentages varying from 3.9 to 4.8 with a few lower percentages to avoid unduly large enhancements. On the other hand, the report on the Fulani of Gwando division, Sokoto province, estimates that the ordinary rate of cattle tax (*jangali*) at 1.5s. per animal represented 13.6 per cent of gross profits. The return of collections shows that the taxes have been collected almost in full whether the times have been good or bad. In the estimates of 1939-40 of the central government and of the native administrations the receipts from the general tax and the *jangali* are put at £1,364,336, or 2.40s. per head of total population. On the ordinary assumption of five persons per family this is equivalent to 12s. per family, but an average of four persons per family is probably nearer the facts and would give an average tax of 9.60s. per family.

In Southern Nigeria the imposition of direct taxation came at a later stage of British administration. In the western provinces, including the organised communities of the Yoruba and related tribes, the Oyo province, where there was a pre-existing system of tribute, was the first to accept direct taxation in 1918 when the native administration was reorganised; the other provinces followed in 1921. The tax is nominally assessed at 2½ per cent on the gross income of the farmers but in practice it takes the form of a general flat rate for the farming population, with special rates for the various trades and professions or those possessing special types of property. There is not the same degree of graduation as in the northern provinces, but the system does allow to some extent for the apportionment of tax in accordance with means, though this is mainly in respect of the charges which fall outside the general flat rate imposed on the ordinary cultivator. The total estimated receipts for 1939-40 of £323,578 represent 1.79s. per head of population or 7.16s. per family of

¹ *Political Memoranda*, 1919, p. 170, para. 14 ff.

² Hailey, p. 578.

³ *The Dual Mandate*, 1929, p. 240.

four persons. The tax has in general been collected without serious difficulties.

In the eastern provinces the introduction of direct taxation has met with much more opposition, except in the Cameroons where the system introduced by the Germans has been retained with modifications from 1916 onwards.¹ Political evolution had not advanced beyond the local community and sub-tribal stage, and there was no previous system of taxation or even of tribute. The only obligations previously imposed on the native population, for the removal of which the new taxes could be represented as an equivalent, had taken the form of taxes in kind, i.e. providing labour for public works on the order of the native authorities. On the other hand, direct taxes were regarded as essential to the establishment of native administrations. The first assessments were made in 1928 and the series of disturbances which followed, though partly due to other causes, showed how tenacious these people were of their indigenous system. The taxes imposed have taken the form of a flat rate on the basis of 2½ per cent of the average income of the peasant farmer, thus allowing for the variations in different localities. As in the western provinces, there are special rates for the various trades, and in some divisions a tradition is reported to have been established for chiefs or the heads of villages and of houses, or among the Ibibios even for members of courts and councils, to regard it as a matter of prestige to pay higher rates.

The total estimated receipts for 1939-40 of £285,418 are at the rate of 1·14s. per head of the estimated population of nearly 5 million² or 4·56s. per family of four. The tax has been collected without much difficulty since the reorganisation of the native administration which has been carried on from 1930 onwards.

(b) COMPARATIVE INCIDENCES OF SYSTEMS OF DIRECT TAXATION

Incidences of 2·40s. per head of population in the northern provinces, of 1·79s. in the south-western provinces, and of only 1·14s. in the south-eastern provinces appear to suggest decidedly higher standards of taxation in northern than in southern Nigeria. These differences do not correspond to differences in the taxable capacity of the groups of provinces as is shown by the analyses of household incomes given in Volume I. The annual report for the northern provinces for the year 1940 mentions difficulties in collecting the tax in southern Igala,³ where immigrants from the eastern provinces objected to paying the local rate of tax as in their home areas it was much lower. The report adds the comment that for approxi-

¹ *Annual Report on the Southern Provinces, 1938*, Section A—Eastern Provinces, paras. 7 and 11.

² *Annual Reports on the Northern, Western, Eastern Provinces and the Colony, 1939*, p. 77, para. 2.

³ *Ibid.*, 1940, p. 1, para. 7.

mately equal populations, the direct tax in the northern provinces is about double that in the combined eastern and western provinces. These differences in the standard of direct taxation are, however, not a full measure of the burden of taxation on the various areas as they may be counteracted or reinforced by the incidence of indirect taxes which will be dealt with later.

There are similar discrepancies with reference to the incidence of direct taxation in the Colony, including the township of Lagos with a population of 158,500 and three outlying districts with a population of 168,500. In the township the present rate of tax is laid down by the Income Tax Ordinances—Nos. 29 of 1943 and 36 of 1944—which prescribe a fixed rate of 5s. for all incomes up to £24. This represents a rate of $2\frac{1}{2}$ per cent on a gross income of £10 and the tax is thus regressive up to £24. This is apart from the Lagos township and water rates which fall on limited sections of the urban community. In the districts outside the municipal area, the report of the committee appointed to examine direct taxation in Lagos and the Colony describes the system in 1937 as being a poll tax for the peasant supplemented by special rates on various trades and professions, and a graduated income tax, as in Lagos, for the persons in receipt of regular incomes.¹ The annual report for 1940 states that in two districts there was the same basic flat rate of 5s. as in Lagos, with higher rates for the well-to-do, and that in the third an attempt had been made to make individual assessments at 2 per cent of income.² Broadly speaking, therefore, assuming an average income of £10 per taxpayer, the standard assessment in the Colony for the poorer classes is roughly equivalent to that in the adjacent Yoruba districts of the Protectorate.

To complete the picture of direct taxation it is necessary to summarise the provisions of the Income Tax Ordinance, No. 29 of 1943 (as amended by Ordinance No. 36 of 1944), which now applies to all sections of the community, other than the great majority outside the township of Lagos, who are assessed under the Direct Taxation Ordinance of 1940, or are non-residents with Nigerian incomes under £50. The Nigerian ordinance has a wider scope than the corresponding ordinances in other British African dependencies but it has parallels in French dependencies. In the latter, however, the general income tax is supplemented by personal taxes which also apply to all sections of the community.

Income tax in the Colony was first introduced in 1927 and prior to 1940 was levied under Ordinance No. 4 of 1937. That Ordinance was framed generally on British lines with the important differences that it contained no provision for the taxation of companies and applied to males only. It

¹ *Report of the Committee appointed by His Excellency the Governor to examine the Methods of Direct Taxation in force in Lagos and the Colony*, Sessional Paper No. 11 of 1937, para. 32.

² *Op. cit.*, p. 33, para. 30.

exempted all persons in the municipal area with incomes under £30 and classed larger incomes into grades, each grade having a fixed tax calculated at 1 per cent of the lowest income in the grade. A general income tax for the Colony and Protectorate was introduced in 1940 and the principles on which it was based have been followed in the later ordinances; the only important modifications relate to the rate of taxation at the various levels of income.

As compared with the Ordinance of 1937 there are a number of radical alterations. The tax has been imposed on companies at the rate of 5s. in the pound and women have also been made liable to it, but with the special concession that they are exempt as regards the first £200 of their assessable income. Under the Ordinance of 1940 only the first £50 of a woman's income was exempt but the women of Lagos showed such unanimity and determination in opposing the new taxation that the limit was raised to £200. The other important changes were the abolition of the exemption for incomes under £30 and the imposition of a basic tax of 5s. for incomes up to £24 with a fixed tax of 3d. in the pound for incomes from £25 to £50. The total exemption of incomes under £30 had resulted in a collection of undesirables in Lagos, while there were strong administrative objections to restoring the earlier practice of detailed assessment of these low incomes which cost more to collect than they brought in.

For incomes over £50 a graduated scale of progressive assessment on the chargeable income has been laid down. In calculating that income allowance is made on the ordinary lines for the expenses incurred in its production, including wear and tear, and also for wives, children and insurance. There is, however, the unusual further provision that the tax levied on the chargeable income shall not be less than a tax at the rate of 3d. in the pound on the total income before deduction of the allowances for wives, children and insurance. The abolition of the exemption for small incomes and the laying down of a minimum rate of tax for incomes over £50 mark a reversion from European to what may be called African principles of assessment.

The graduated scale of assessment for incomes over £50 rises from 3d. in the pound or 1.25 per cent for the first £200 to 10s. in the pound for every pound exceeding £10,000; the results may be considered for the ordinary case of a married man with a wife and two children. A taxpayer of this type with an income of £500, after allowing for the expenditure necessary to the earning of that income, would have to pay £3.15s.0d. or .75 per cent on his income. With an income of £1000 he would pay at the rate of 2.25 per cent or less than the 2.5 per cent represented by the fixed tax of 5s. on an income of £10. The latter rate is also laid down as the general standard for the two provinces of southern Nigeria where, moreover, no allowance is made in the regulations for any expenditure

involved in earning the income, nor, of course, for wives and children. The 5 per cent standard of northern Nigeria (and in some areas it seems to be considerably higher) would not be reached until the income exceeded £1,500.

On the new scale of taxation the most important question, so far as the finance of Nigeria is concerned, is not so much the adequacy of the local taxation as the proportion of the total taxes levied on companies registered in Great Britain which is credited to the territory. Under the provisions for the avoidance of double taxation, Nigeria is entitled to receive up to half the proceeds of the income tax levied in Great Britain on the profits derived by the companies in Nigeria. At the present time this would give the territory 5s. in the pound on these profits. The very difficult questions are thus involved of what proportion of the companies' profits is derived from Nigeria, and what criteria are to be laid down as to what constitutes carrying on trade in any territory. Legal difficulties on the second point appear to have limited the Nigerian share, in particular the ruling that the mere purchase of produce in a country does not legally constitute the carrying on of trade in that country.

Up to the present no excess profits tax has been levied in Nigeria, and no share of this United Kingdom tax is, therefore, credited to the dependency. Should such a tax be imposed, the normal procedure, under the provisions for the avoidance of double taxation, would be to divide the proceeds at the United Kingdom rate between the United Kingdom and Nigeria in the proportion that their respective rates of tax bear to one another. The main difficulty lies in obtaining a staff with the necessary technical qualifications.

The labour and thought which have been devoted in Nigeria to the basing of native taxation on definite principles make it possible to compare the incidence of direct taxation on the mass of the native population, and on non-natives who pay the bulk of the income tax, in a way which cannot be paralleled in any other British African territory. The figures given above show how wide the gulf still is between them. Apart from the subsidiary purposes intended to be observed by the direct taxation of the native populations, such as the recognition of allegiance, and what is called in Uganda 'the inculcation of habits of exertion', it has been argued that native direct taxation was fundamentally different from European income tax as being entirely a tax on surplus. However true this may have been in the past, the distinction loses its importance as native society advances, and the recent war has provided a great stimulus to changes in this direction. Conventional necessities increase in number and importance, and in agriculture the improved methods which are being stimulated must involve increased expenses to make increased production possible. If the aim of the future is to bring about the coalescence of the diverse elements of the colonial population into a real community, it

would seem essential to bring about an increasing approximation in the methods and standards of taxation, with the ultimate aim of an unitary system for all sections of the population. In Nigeria the standards of native taxation are moderate as compared with those of many other African territories, but the rates are not low, more especially in northern Nigeria, and there appears to be little scope for increasing taxation yields by the raising of basic rates, though some increase may be obtained by the extension of graduation.

(c) INDIRECT TAXATION

The main source of income in Nigeria continues, however, to be from indirect taxes and more especially from import and export duties. The customs tariff of the territory is described in the *Economic Survey of the Colonial Empire* as being purely a revenue tariff designed to impose as little taxation as may be possible on the poorer classes, only luxury articles being dutiable at high rates.¹ The protection of local industries which plays a large part in the tariffs of East Africa has not been an object of policy except to a very minor extent as in the case of kola nuts. Up to 1938 there were no corresponding excise duties on local manufactures, and such a duty was first introduced in 1939 when it was considered that the cigarette industry could stand it. The distinction between revenue and protective duties is, however, a fine one. As the home production of such commodities as salt, dried fish, and cigarettes develops, the revenue duties automatically become protective duties to their full extent, less any corresponding excise duty which may be imposed.

The history of the development of the present import tariff represents, broadly speaking, a process of the gradual transformation of a largely *ad valorem* tariff to one under which over 93 per cent of the customs receipts from imports in 1938 were brought in by specific duties. In some cases specific and *ad valorem* duties are alternatives, the higher of the two being taken. On this scheme of specific duties has been superimposed a system of quotas for the purposes of limiting the imports of certain classes of cheap commodities; this was primarily directed against Japan, but was extended in a milder form to other non-Empire countries. These countries have been further penalised by heavy additional duties on some types of imports in which they had specialised. The general principle has been that only articles specially scheduled are dutiable, and the free list included, broadly speaking, all capital goods and other classes of goods considered to be of general benefit to Nigeria or required in the interests of production. Revenue necessities, increased recently by war-time requirements, have brought about a considerable modification of the free list and an increase in the rates of duty. Exemption from duty has become the exception rather than the rule. The chief factor in the extensive change from *ad valorem* to

¹ *An Economic Survey of the Colonial Empire (1937)*, Colonial No. 179, 1940, p. 152.

specific duties was the increase in the imports of cheap classes of commodities with the consequent fall in customs income. When specific duties proved to be an inadequate check on cheap imports, they were supplemented by the system of quotas.¹ That system was, however, introduced not in the interests of the inhabitants of Nigeria, or of the finances of the territory, but on instructions from the home government for the protection of British exports. Specific duties may, in fact, be nearly as flexible as *ad valorem* duties if graduation is carried out to an adequate extent so as to avoid imposing an undue burden on the consumer of cheap commodities. This point will be further considered in connection with the most important import, cotton textiles, but generally it may be said that, so far as revenue necessities and the policy laid down by the home government in the quota system permitted, the Nigerian scale of import duties has aimed at distributing this form of taxation in such a way as to reduce the burden on the poorer classes as far as is feasible under the local conditions.

Export duties, which are relatively unimportant from the revenue point of view, were first imposed during the war of 1914-18 to make up for the loss of the revenue from liquor, and were, therefore, applied to cocoa, palm-oil and palm-kernels, products of the areas where the liquor was chiefly consumed. Duties on tin ore and metallic tin,² and on ground-nuts and cattle hides, were added later, but that on ground-nuts was abolished during the depression of 1930-34, and was not re-introduced until 1939. Later additions were duties on fresh and dried bananas—mainly products of the Cameroons plantations—and on rubber. With the exception of the new duty on rubber, all are specific duties, and the burden on the industry concerned varies inversely, therefore, with the price of the commodity. The duty on rubber resembles in principle the levy on cotton in Uganda in that no duty is levied when the price is at or below 6d. per lb., and that it rises or falls with the price from a rate of 1d. per lb. when the London price is above 6d. per lb. to higher rates for prices between 6d. and 7d. and above 7d.

(d) INCIDENCE OF EXPORT AND IMPORT DUTIES

In so far as the final incidence of the duties rests on the growers, the duties on cocoa, palm-oil, and palm-kernels fall on the native producers of southern Nigeria, those on bananas on the European plantation owners in the Cameroons, and the duties on ground-nuts and cattle hides on the native producers of Northern Nigeria. In 1938, the duty on cocoa represented 8.1 per cent of the average market price in Lagos of grade II cocoa as against 4.1 per cent in 1937. Similarly the duties on palm-oil and kernels

¹ See Chapter III, pp. 159-63.

² The temporary differential duties on tin ore and palm-kernels imposed in 1919 are a separate question.

represented 9.0 and 9.5 per cent of the average wholesale market price in Lagos in 1938, as compared with 4.3 and 5.8 per cent in 1937. The wholesale market price in Lagos does not, however, represent the return to the grower as there has to be deducted the bulk, if not the whole, of the carriage and handling charges from the up-country buying station, as well as the cost of conveying his produce by head-load or lorry from the plantation to the buying station. In the case of cocoa the second of these charges was estimated by the Cocoa Commission at an average of about £1 2s. per ton,¹ approximately the same as the export duty of £1 3s. 6d. per ton. Compared, therefore, with the actual return to the producers the export duties represent, in times of depression, a considerable handicap in a keenly competitive world market when added to the other charges such as transport costs and ocean freights. In fact, they have had to be substantially reduced on occasions, more especially during the economic depression after 1930 when the duties on cocoa, palm-oil, and palm-kernels were lowered to the present level from previous much higher rates. The receipts of £339,754 from these duties in 1938 must be taken into account when considering the general burden of taxation on northern and southern Nigeria. On the other hand, transport costs fall much more heavily on the products of northern Nigeria, the receipts from ground-nuts alone represented from 38 to 47 per cent of the total railway revenue from merchandise over the period between the years 1931-32 to 1938-39. In 1937-38, ground-nuts yielded £1,009,293 out of a total of £2,204,761 received by the railways from merchandise, and in 1938-39, £684,244 out of £1,502,552. The burden on northern Nigeria has been increased by the re-imposition in 1939 of the duty of 5s. per ton on ground-nuts, raised to 10s. per ton from 31st October, 1940.

5s. per ton is equivalent to 8 per cent of the average wholesale market price in Kano of ground-nuts in 1938, and to 4 per cent of the corresponding price in 1937. As in the case of other commodities, the proportion to the return actually received by the grower is considerably larger as he has to meet at least the bulk of the transport costs to Kano from the buying station as well as that of conveying his produce to the buying station. The fact that the average declared export value of ground-nuts in 1937 and 1938 was £12 8s. and £7 4s. as against average Kano market prices of £6 7s. 9d. and £3 2s. 10d. suggests the heavy toll laid on the industry.

As regards the incidence of the import duties on different sections of the population, no such enquiry into the allocation of the duties between the different racial communities as was carried out in Kenya by the Commissioner of Customs appears to have been undertaken as yet in Nigeria. Approximate figures could be arrived at by an analysis of typical European, Syrian and African household budgets, or, as in Kenya, by the Customs Department with their accumulated experience of local con-

¹ *Cocoa Commission Report*, para. 120.

sumption habits. Nigeria is, however, fortunate, as compared with colonies such as British Guiana, in that it does not have to import any large proportion of the necessities of life. The most important classes of dutiable goods of general consumption are cotton piece-goods, salt, and dried, salted, and smoked fish, with the luxury or semi-luxury imports of spirits, cigarettes and tobacco. The high duties on spirits are said to come in fairly equal proportions from Europeans and from natives, but those from cigarettes and tobacco are predominantly a native contribution. The imports of cotton piece-goods, salt and fish were valued at £4,864,823 in 1937 and at £2,315,631 in 1938. The import duties levied on these commodities under the system of specific rates represented 17·6 per cent of the value of the cotton piece-goods after import in 1938 as compared with 17·0 per cent in 1937, with corresponding percentages of 54·9 and 59·3 per cent for salt and 7·6 and 8·0 per cent for fish.

The first two percentages seem high as compared with the ordinary *ad valorem* rates of 10 to 15 per cent, and suggest a considerable burden on the poorer classes of the population. Cotton piece-goods are easily the largest item of imports and it is to this item that the customs administration looks for the bulk of its revenue. The general trading term 'piece-goods', however, covers some hundreds of lines of trade goods of very different values, and the statement in the Nigerian *Blue Book* that the duties run from 1d. to 2½d. per square yard¹ does in fact cover a great variety of specific rates so designed as to diminish the burden on the poorer consumers. Revenue and administrative considerations are the limiting factors, apart from the questions of commercial policy referred to earlier. The duty on salt is certainly heavy, and, like the corresponding excise duty in India, hits all classes of the native population. The defence in both cases is that salt is still cheap and that the market can stand it. This defence seems inadequate when a real necessity of life is concerned. The duties on stockfish are a special case. They are not unduly high and the imports are entirely from foreign sources, mainly Norwegian. A great deal more could be done by local fishermen to supply the need and early accounts of Nigeria speak of the gradual displacement of a local industry by Norwegian imports. The duties may, therefore, serve a dual purpose by assisting in the re-establishment of a local industry for which there should be extensive possibilities.

The fact remains that duties of this kind offer very doubtful encouragement to the now accepted policy which aims at increasing the consumption of many classes of foodstuffs, particularly proteins. Increase in local production is, it is true, an essential part of that policy, but it may be contradictory to its main purpose if the increase in local production is secured by an excessive increase in the price to consumers. Ideally, therefore, it would be desirable to replace duties of this type by some form of direct

¹ *Blue Book, 1938*, p. A.4, No. 14. See also Chapter III, p. 157.

taxation, and to assist local production by such measures as subsidies borne by the general body of taxpayers and not by the consumers of the particular article the consumption of which it is desired to increase. The psychological and administrative difficulties involved in such a major change of fiscal policy would make it necessary to proceed by gradual steps. A new attitude to direct taxation and adequate machinery for its collection take time to build up.

As regards the distribution of indirect taxation between northern and southern Nigeria, export duties have been considered. So far as import duties are concerned, the relative pressure on the two divisions of the territory could only be estimated if the cash incomes of the two areas, and the character and value of consumer goods imported into each, could be ascertained. In the absence of these statistics all that can be said is that some classes of imports, spirits more especially, are mainly consumed in southern Nigeria. The staple imports, including the main source of customs revenue, cotton piece-goods, find their consumers in all parts of the country. Except as regards export duties and the heavy duties on spirits, the general incidence of indirect taxation is less the result of deliberate government policies than in the case of direct taxation.

Excluding the interest payments and other receipts from the railways and the income of self-balancing departments, direct and indirect taxes provided 82 per cent of the revenue of the central government in the estimates for 1938-39. Money had to be raised from a community with a very low average standard of income and of living, and the Nigerian government has made more consistent and logical efforts than many other African governments to secure such a distribution of the burden that the relatively greater pressure of both direct and indirect taxation on the poorer sections of the community should be progressively reduced. Recent changes, and more especially the new Income Tax Ordinances, have also been in the direction of securing larger contributions from the more prosperous classes. The analysis of the position as regards both direct and indirect taxation seems, nevertheless, to show that the relative burden on the poorer classes is still substantially heavier than that which would have resulted from the application of principles of taxation more in accordance with those which have been adopted in Great Britain. Such a position was largely unavoidable in the very different circumstances of the two countries, and other methods of raising the necessary revenue, such as has been applied elsewhere in Africa, might have proved more onerous.

(e) ANALYSIS OF PUBLIC REVENUES

A general picture may now be given of the sources of public income of which direct and indirect taxes form only a part.¹ For the central govern-

¹ Table XXIX shows revenue and expenditure for 1938 as presented by the government in the *Blue Book*.

ment these include licences and internal revenue, fees of court or office, receipts from mining leases and rights, the income of self-balancing departments, the payments by the railways, the earnings of government departments and rent of government property, the receipts from the West African Currency Board, reimbursements of various types, and the grants from the Colonial Development Fund. There are, in addition, the receipts from public loans. The revenues of the native administration must be included in the picture. They are for the most part derived from the same sources, and the central government and the native administration must be considered as forming parts of a single whole. Townships will be considered separately; from a financial point of view they are relatively unimportant in Nigeria and their incomes are in the main derived from local rates or licence fees supplemented by subsidies from the central government.

The following statement gives an analysis of the revenue available for general purposes as shown in the budget estimates for 1938-39, excluding that of all the more important self-balancing departments except the motor transport service and the small industrial operations of the Forest Department. The year 1938-39 has been selected, as this was the last budget year before the outbreak of war, and because a comparison with the actual figures for that and the preceding year provide a good illustration of the vicissitudes of Nigerian finances.

TABLE XXVI
STATEMENT OF INCOME BASED ON ESTIMATES FOR 1938-39
EXCLUDING SELF-BALANCING DEPARTMENTS

(Thousand £)

Source of Income	Central Government		Native Administrations			
	Amount £	Percentage of total income	Northern Provinces		Southern Provinces	
	Amount £	Percentage of total income	Amount £	Percentage of total income	Amount £	Percentage of total income
Import duties - - -	2,709 ¹	55.6	—	—	—	—
Export duties - - -	410	8.4	—	—	—	—
<i>Direct taxes:</i>						
(a) Native taxes - -	837	17.2	786	87.6	359	55.6
(b) Income taxes - -	33	0.7	—	—	—	—
Mining - - - - -	105 ²	2.1	—	—	—	—
Interest on invest- ments and reim- bursements - - -	357 ³	7.3	34	3.8	20	3.1
Other sources of in- come - - - - -	434	8.7	77	8.6	267	41.3
Total income - - -	4,885	100	897	100	646	100

¹ After deducting the provision for refunds and drawbacks.

² After deduction of the share of royalties payable to the United Africa Company.

³ Excluding the railway payments towards the interest on colonial loans.

It will be seen that £1,145,000 or 57·8 per cent of the receipts from native direct taxation (£1,982,000) remained at the disposal of the native administrations.

The estimates of £2,709,000 and £410,000 for the receipts from import and export duties were moderate as compared with the actual receipts of £3,083,000 and £394,000 in 1937-38, but the actual receipts under these heads in 1938-39 were only £2,064,000 and £368,000. This serious shortfall illustrates the financial uncertainties of the central government, and explains the stress which the government has always laid on the necessity of retaining the right to vary the proportion of the receipts from native taxes to be allocated to the native administrations. They have several times increased that proportion, as they have on occasions also reduced it, more especially during the depression of 1930-34.

The estimate of receipts from income tax was a very low one as there was then no income tax on companies. That position has been changed by the Income Tax Ordinance of 1940, later replaced by the Ordinance of 1943. The estimates for 1941-42 include £290,000 as receipts under this head, of which £80,000 represents receipts from individuals, and £210,000 from companies. This marks a substantial advance as compared with £33,000 in 1938-39, but, as already stated, any large further increase will depend not so much on the rate of taxation on the companies as on the division of the total receipts between the imperial government and the colonial administration.

The estimated net mining receipts of £105,000 are the sum left after deduction of £100,000 payable to the United Africa Company. The actual net receipts were only £16,000 after deducting £96,000 paid to the company. This extraordinarily low figure was due to special causes, more especially to the operation of the International Tin Control Scheme, and the net receipts in 1937-38 and 1939-40 were £131,000 and £134,000. The figures, show, however, the weight of the burden imposed on the territory by the obligation to pay half the royalties to the United Africa Company, though in this respect Nigeria is fortunate as compared with Northern Rhodesia. The question suggests itself whether the territory receives an adequate contribution from such rapidly wasting assets, as the tin mines are apparently not expected to have a long life.¹ No contribution was received from the West African Currency Board, though £80,000 had been estimated from that source from which £50,000 was secured in 1937-38. The Currency Board has in the past contributed substantial sums to the government resources. The possible economic effects of its currency policy have been dealt with in another section of this book.²

The receipts under the head of interest amounted to £260,000 apart from the contribution made by the railways towards the interest on their share of the colonial loan. This represents a substantial sum to set off

¹ See Chapter I, p. 2, footnote 4.

² See Chapter IV.

against the liabilities under this head, but only £128,000 is derived from investments outside Nigeria, the remainder being mainly the result of financial transactions with the railways, and dependent, therefore, on their solvency.

As regards other sources of revenue, apart from the self-balancing departments and the receipts from the Colonial Development Fund (now replaced by grants under the Colonial Development and Welfare Act), a noticeable feature is the small amount received from the commercial activities of the government departments. The Forestry Department received £1,051 from the sale of forest produce, against an estimate of £800, and £24,000 for fees for timber concessions, against an estimate of £25,000. Its small activities in manufacturing are approximately self-balancing. The Agricultural and Veterinary Departments received £919 and £633 as against estimates of £850 and £300. They cannot be expected to be the sources of any substantial revenue, but the Forestry Department, though hampered by the extent to which control of the forests is vested in the native administrations, should have considerable possibilities both in the external market and still more in the development of an internal market to which special attention is being devoted.

Since these budget estimates were passed, a very large increase in the revenue of Nigeria has taken place as the result of the war. This addition to their resources cannot be considered as permanent and much of it could not in any case be applied to development under existing conditions. It is, moreover, very desirable that as much revenue as possible should be raised at the present time, even if not required for immediate expenditure, both for the purpose of absorbing purchasing power, which might otherwise lead to serious inflation, and of accumulating reserves to finance development.

Apart from these partly temporary changes, and taking the resources of the territory as a whole, the only assured prospect of a substantial increase lies in the adoption of a long-term policy of economic development and of raising the general standard of living. On the basis of the present standard, there is little scope for increasing the receipts from native direct taxation by raising the basic rates, while the extension of graduation cannot yield any large sum. Under income tax a substantial advance has been made recently and further progress will largely depend on the share received by the Nigerian government of the tax paid by extra-territorial companies with their headquarters in Great Britain. The scope of indirect taxation has been considerably extended, but any further substantial increase in rates might involve an undue addition to an already heavy burden on the poorer sections of the community. Even a relatively small advance in the national income might, however, be expected to result in increased elasticity of tax receipts by producing a more than proportionately greater tax-yield. In direct taxation this would follow on any increase in the num-

ber of those in the higher tax grades, and the extent of graduation would be an important factor. The receipts from indirect taxation would be increased by the greater consumption of luxury goods subject to high taxation.

The adoption of a policy of long-term development involving considerable capital expenditure might, however, itself substantially increase government revenue in consequence of the stimulus which it would give to the expansion of money incomes. The increase in national income, it might be anticipated, would follow on continued external investment in Nigeria, and in theory it should also be possible to calculate the proportion of the money expended which would come back to the government in the shape of taxation, direct or indirect. The Nigerian material necessary for making such a calculation is probably not available but the proportion should be substantial. External assistance, moreover, though essential, would not be the only relevant factor. In the last resort it is only needed in so far as the new capital expenditure necessitates the importation of goods or services. When a considerable proportion of the new expenditure is purely local, external help may be needed only as a sort of catalyst to set wider processes in motion. It is, therefore, worth consideration whether, even taking into account the additional sums needed for servicing increased debt obligations, a modification of the traditionally cautious colonial financial policy in the direction of increased expenditure on development might not also result in an increase in tax revenue more adequate to meet the demands of government expenditure than could be assumed from any calculation of prospects under present conditions.

Considering next the revenues of the native administrations, they are even less elastic than those of the central government, but have the advantage of being much more stable as arising mainly from native direct taxes. The percentage of their income represented by these taxes is much higher in the northern than in the southern provinces. In the southern provinces the estimated income from native courts was £121,000 as compared with £31,000 in the northern provinces. Their receipts from miscellaneous sources were also much larger, and include £31,000 reimbursements from the central government for various works.¹

The possibilities for increasing the revenue of native administrations are even more limited than in the case of the central government. Their main source of income, the receipts from native direct taxes, cannot, for reasons already given, be expected to provide any large increase unless the government is prepared to surrender a larger proportion of the total income from this source to the native administrations. The question, how-

¹ In Table XXX the revenue and expenditure of Kano native administration have been given in full. They will throw much light upon the activities of the native treasuries. Kano is the richest of all the administrations, but may be regarded as the model.

ever, deserves consideration whether they should be empowered to increase their resources by levying additional rates. The exercise of these powers would, it may be contended, have important educational advantages, and the resources so obtained would not be affected by the necessities of the central government. On the other hand, these rates would represent an addition to an already relatively heavy burden of taxation, and it is very doubtful whether many native administrations are yet in a position to exercise such powers with an intelligent appreciation of the issues involved.¹ In 1938-39 the receipts from native direct taxation represented 26 per cent of the total declared value of Nigerian domestic exports, excluding minerals and timber of which only a small proportion of the value reaches the hands of the native population. The proportion to the return received by the actual producers would be much larger as, apart from the export duty, the incidence of which is doubtful, they would have to bear the bulk of the charges on account of the collecting, handling, and transport of the commodities. How heavy these charges are for some of the principal agricultural exports has been shown earlier and, as a result, in Northern Nigeria at any rate, direct taxation appears to represent well over 50 per cent of the return to the producers from their export crops.²

A possible alternative to the superimposition of rates to the existing direct taxes is suggested by the system introduced in one district of Tanganyika.³ There, in place of the return to the local native administration of one fourth of the general hut and poll tax, the tax payable to the central government will be only three-quarters of the previous total, but there will be no rebate. In place of this, the native authority will have to meet local needs from a rate assessed and collected by themselves. The advantages claimed for this system include not only the training of the native authorities in the exercise of responsibility, but also the flexibility which will make it possible to adjust the need for the various social services with the means of the taxpayers. The scheme is said to be under close observation with a view to its wider extension and its working will be worthy of careful study.

¹ The position has been changed by the new Proposals for the Revision of the Constitution of Nigeria (Cmd. 6599). Under those proposals the Regional Councils would have at their disposal the share of the direct tax at present payable to the central government. The local native authorities would be assisted by fixing their contributions to central revenue from the direct tax at the amounts paid in by them during the year 1943-44. They would also retain the whole of any additional proceeds from any increase in the direct tax. The position in Nigeria is not comparable with that in Kenya or in the Belgian Congo, where additional local rates are fixed by the native authorities, because in neither of these territories do those authorities receive any share of the central direct tax. Their resources and the scope of their activities are therefore much more restricted than in Nigeria.

² As shown in Volume I, p. 144, the estimated value of the ground-nut crop in the northern division of Kano province was in 1933 less than the general tax assessment of the division.

³ *The Times*, 12th December, 1942.

The remaining form of public revenue is that levied by the various local bodies and more especially by the township of Lagos. The Lagos town council is in an anomalous position. Much of the work which would ordinarily be largely the responsibility of a municipality is in Lagos carried on by the central government at an annual cost calculated at £189,000. This includes £6,000 on administration, £61,000 on medical services, £50,000 on education, £52,000 on police and fire brigade, £13,000 on slum clearing and town planning, and £7,000 on public works. The functions of the town council are limited to the social services of cleanliness, sanitation, roads and buildings. To carry out these duties they had in 1938 an income of £98,500 with an expenditure of £95,000.¹ Apart from the water rate, which is applied to a self-balancing service, their sources of income are a township rate on buildings of a certain standard, a variety of fees and licences, and a government grant-in-aid which has recently been converted into a grant in lieu of rates on government buildings and a contribution of half the cost of the health services. This change is intended to enhance the status of the town council in its relations with the central government, and to provide a stronger sense of local responsibility, a sense which has hitherto been conspicuous by its absence so far as the mass of the native population is concerned. It also establishes the council as a credit-worthy body capable of raising loans for development purposes. Loans, however, must be paid for, and the only major item of revenue which the council can increase at its discretion is the township rate, while the demands of the social services are incessant. That rate is being raised in two stages from 5 per cent to 7½ per cent, but the annual report for 1939 recognises that these low rates cannot continue indefinitely.² On the other hand, past history shows the great difficulty in applying or increasing any form of direct taxation in Lagos so long as the feeling of local responsibility and an appreciation of the advantages derived from the expenditure are as rudimentary as they have been in the past.

The other townships in Nigeria are of little importance. Their functions are in all cases limited to conservancy, lighting, and public health. Their income is derived from fees and licences, supplemented in most cases by rates on the annual—or, in two cases, the capital—value of tenements. Some receive subsidies from government. The total income of eleven townships in 1937–38 only amounted to £30,000 and the expenditure to £28,000.³ They are not likely to be of any importance in Nigerian public finance for a long time to come.

(f) EXTERNAL RECEIPTS

The internal resources of the public revenues have been considered. The external sources of public receipts remain and these include the

¹ *Blue Book, 1938*, Section 7.

² *Annual Reports for the Northern, Western, Eastern Provinces and Colony, 1939*, p. 87.

³ *Blue Book, 1938*, Section 7.

grants received from the Colonial Development Fund, the later Colonial Development and Welfare Act, and the proceeds of public loans. During the operation of the Colonial Development Act, 1929, Nigeria received grants aggregating £323,453. Of this sum £114,450 represented a grant of interest for seven years on the cost of the Minna-Kaduna railway, and £51,000 was for the organisation of ground facilities for the air services. £95,000 was given in connection with the scheme for the control of sleeping sickness, and £54,000 for other purposes connected with public health, including £3,750 for an enquiry into nutrition deficiencies. Agriculture was assisted by a grant of only £3,400 for the encouragement of mixed farming, and tsetse fly research received £1,500. So far as the economic and social services are concerned, therefore, Nigeria has received little from this source apart from the grant in connection with sleeping sickness. Under the Colonial Development and Welfare Act 1940 it had received £479,855 up to 31st March, 1944, including £230,000 for a dredger, £50,700 for veterinary training, £104,000 for labour housing at Enugu, £50,000 for an air port and roads, and £12,000 for a Geological Survey. The Return of Schemes made under the Act during the years 1944-45 and 1945-46 contains projects for much larger long-term expenditure on the extension of the main economic and social services. The schemes sanctioned in 1944-45 are estimated to cost £7,023,500 and those in 1945-46 £857,425 plus a loan of £25,000. Most of these projects will be merged in the ten year development plan referred to in the note on p. 246.

The essential task of opening up the interior for trading penetration and for administrative control was carried out with the aid of public loans, the allocation of which will be dealt with in connection with expenditure.

The funded public debt of Nigeria on 31st March, 1939, amounted to £26,764,000 or £1 4s. 2d. per head of population, this is substantially lower than the debt in 1931 when it amounted to £28,351,000 or £1 7s. 7d. per head of population. Against this debt may be set the statutory sinking funds totalling £3,196,000 and the supplementary sinking fund of £1,248,000. Of these liabilities £6,363,000 is subject to interest at 6 per cent, and £9,041,040 is at 5 per cent. Only £4,188,000, raised in 1935 for paying off parts of previous loans, is at 3 per cent. £5,700,000 was raised in 1923 at 4 per cent, but the loan was issued at 88 per cent, i.e. at an effective rate of 4.5 per cent. The general rate of interest on Nigerian loans is, therefore, high and they cannot be repaid until dates commencing between 1947 and 1963. The possibility of earlier redemption has been discussed in Parliament but no practical solution was suggested. The high rates of interest are the result of the loans having been raised during the period between 1919 and 1930 when market rates of interest were high for all borrowers. Even the British Treasury had to issue 3 per cent Local Loans Stock at 50 per cent in October, 1920. By the year 1931 a number of colonial dependencies were able to borrow at 4 per cent.

Surprise has been expressed that it was found necessary to issue long-term loans at so high a rate,¹ and that the alternative of short-term bonds was not adopted to a larger extent. It is largely a matter of balancing risks, and Nigeria's previous experience in that direction had not been fortunate. Short-term debentures issued in 1916 had to be redeemed in 1919 by a long-term loan at 6 per cent which is not redeemable until 1949-79. Loan policy is, however, not a question to be decided by each individual dependency; it is a part of the general policy of colonial loans which is managed under the control of the Secretary of State by the Crown Agents for the Colonies. So far as short-term facilities are concerned, a preferable alternative to the issue of debentures has been provided by the issue of treasury bills by a colony, as, for example, when it desires to begin the expenditure of part of a loan before it is necessary or desirable to issue the full amount. A more convenient method is, however, usually available by making advances from the Joint Colonial Fund—the pooled cash balances of the colonies controlled by the Crown Agents—at the favourable rate of 'bank rate varying'. For loans of small amounts, inter-colonial loans have been arranged to a considerable extent since 1925, more especially for minor dependencies.

Colonial loans are, in general, issued through the Crown Agents under the Colonial Stock Acts which give them the status of trustee securities. Colonial credit thus becomes a kind of consolidated or group credit, and investors do not pay much attention to the name of the colony issuing the loan unless recent special circumstances happen to have brought it into unfavourable prominence. They rely on the trustee status of loans, the fact that no colony has hitherto defaulted, and the belief that the British Government could not in the long run allow any colony to default, as well as on the existence of sinking fund provisions and the fact that the Crown Agents themselves hold a considerable proportion of the stocks and are able to support them by purchases. That the management of the loans has inspired confidence among investors is suggested by the results of a recent analysis of representative stocks. Accurate comparison is admittedly difficult, but this investigation seems to justify the conclusion that the credit of the colonies is not far below that of the United Kingdom public loans and much better than the average of certain international loans.²

Nigeria, however, is in a somewhat anomalous position as regards the issue of loans, including, as it does, a colony, a protectorate, and a mandated area. The Colonial Stock Acts giving trustee status to securities issued under them apply automatically to loans issued by all colonies; they do not apply to such issues by protectorates or mandated areas unless specially extended to these under section 3 of the Colonial Development Act, 1929, a limitation which still remains in force. Up to the present,

¹ Hailey, p. 1324.

² Cf. Hailey, Lord, *Britain and her Dependencies*, 1942, p. 14.

action under this section has only been taken in the cases of Northern Rhodesia, Uganda, Zanzibar, and the Federated Malay States. Similar difficulties in East Africa were met by the issue of a loan guaranteed by the British government. In Nigeria neither of these courses was adopted; the loans were issued in the name of the colony, and thus came under the Colonial Stock Acts, though the expenditure from the loans has been mainly in the protectorate.

Looking to the future, a policy has been announced of activity promoting the general development of the dependencies. If this policy is to be implemented in practice, it will involve the provision of a large amount of additional capital and much of this will be required for purposes yielding little or no dividend, direct or even indirect, for a long period. If this capital is to be raised by the methods followed up to the present, there is a danger of the resulting burden of interest becoming impossibly heavy in the case of many dependencies. Nigeria is at present in a favourable position as compared with many colonies, as its investments hitherto have been almost entirely in income-producing activities, such as the railways and self-balancing departments, while it receives a substantial income from its invested funds. The future capital requirements will, however, be very large for the development of its manifold resources both human and material, and such assistance as may be possible from the funds provided by the Colonial Development and Welfare Acts, 1940 and 1945, will only very partially meet this need.¹ Some source of cheap credit on a large scale will have to be provided for the whole colonial empire.

During the last ten years, issues on the capital market have been subjected to an increasing measure of control, including, in the case of colonial loans, the regulation of the time and conditions of issue so as to avoid overloading the market. It may probably be assumed that in the future the control will be maintained, or even extended, and that every effort will be made to avoid a repetition of the events succeeding the first world war, and to keep the rate of interest not higher, and possibly even lower, than it is at present. How additional capital will be provided will depend on how the future capital market is organised and this is only a small part of the general problem of the post-war economic and monetary structure. If the provision of additional capital for the colonies is approved in principle, and this is essential if progress is to be stimulated and continuity assured, some means can be found of making it available. As regards the actual procedure, various alternatives are possible—individual colonial loans, direct loans from the Imperial Government, a general guarantee of

¹ The recently announced ten-year development plan for Nigeria contemplates an expenditure of over £55,000,000, of which £23,000,000 would be allocated from the Colonial Development and Welfare Vote and £8,000,000 of the balance required during the first five years would be met from a loan, part of which would be offered for subscription in Nigeria.

colonial loans, or the issue of block loans to be allotted between the various colonies. A choice between the various procedures will depend mainly on the general financial structure of the time, and under any method the crucial question for the colonies will be the terms on which the capital will be made available to them. Whatever the method adopted it will probably involve the acceptance of some additional burden by the British taxpayer if the anticipated raising of the standards of living in the dependencies is not to be unduly delayed. At the same time it has to be recognized that there are fairly definite, even if flexible, limits to the amount of capital which can be usefully employed in this direction at any time, limits set not only by the nature and extent of the material resources of the dependencies but also by the number and character of their populations.

The question would become even more complicated if the policy was adopted of developing material resources, and minerals in particular, by direct State action or by the formation of Public Utility Companies. A difficulty which would have to be faced in the interest of the Dependencies would be the very speculative character of such undertakings.

The complexity and the universal character of the problem are recognised in the various proposals which have been made for dealing with the general question of colonial development on international lines. This study of Nigeria is not the place for examining proposals of such a comprehensive character, but it may be said that there is no large colonial area in which the necessity of considering development on a broader basis than that provided by an individual territory is more apparent than in West Africa.

2. EXPENDITURE

(a) RECENT FINANCIAL HISTORY

Before analysing the budgeted expenditure for the year 1938-39 a general picture may be given of the course of Nigerian finances for the ten year period from 1929-30 to 1938-39 which includes an economic crisis and a substantial recovery. After the year 1938-39 all local issues were overshadowed by the prospect of war. The following statement summarises the financial history for that period of the central government, and of the Nigerian railways up to the period of the complete separation of their finances in 1936. It also includes the native administrations of the northern and southern provinces. The figures for the central government and for the railways are taken from the *Annual Reports on the Accounts and Finances*, those for the native administrations either from their reports, or, where they are not available, from the revised budget estimates which correspond more closely with actuals than in the case of the central government. The figures are given in thousands.

The figures in this statement show the strenuous efforts which were

TABLE XXVII
PUBLIC REVENUE AND EXPENDITURE, 1929-39
(Thousand £)

Year	Nigeria			Railways		Native Treasuries					
	Revenue (excluding net Railway income)	Expenditure (excluding net Railway deficit)	Surplus at close of year	Gross income	Expenditure	Northern Provinces			Southern Provinces		
						Revenue	Expenditure	Surplus at close of year	Revenue	Expenditure	Surplus at close of year
1929-30	5,974	6,290	4,444	2,729	2,658	1,084	1,137	1,410	671	602	395
1930-31	5,622	6,225	3,737	2,225	2,330	1,070	1,133	1,346	596	602	391
1931-32	4,858	5,872	2,406	1,875	2,191	1,063	1,044	1,365	506	491	405
1932-33	4,985	4,746	2,407	1,915	2,153	1,041	947	1,459	485	436	454
1933-34	4,887	4,785	2,258	1,863	2,114	879 ¹	913	1,419	429 ¹	408	468
1934-35	4,961	4,775	2,383	2,040	2,101	868	894	1,397	426	411	484
1935-36	5,996 ²	5,304 ²	2,621	1,934	2,387	869	904	1,357	473	441	516
1936-37	6,260	6,061	2,820	—	—	914 ²	986	1,286	540 ²	492	564
1937-38	7,342 ⁴	7,376 ⁴	2,786	—	—	896	1,094	1,088	591	568	586
1938-39	5,811	6,867	1,622 ⁵	—	—	922	1,018	993	658	705	539

¹ In this year the financial difficulties of the central government compelled them to reduce the share of the native direct taxes retained by the fully organised native treasuries from 70 to 60 per cent.

² In connection with the separation of the railway accounts, £445,000 was recovered from the railway on account of capital works, £600,000 was paid into a reserve fund.

³ The share of native direct taxes retained by some native treasuries was increased.

⁴ Both revenue and expenditure in this year was swollen by a change in the method of dealing with reimbursements in the accounts. There had been earlier similar changes of system but their effect on the total figures was small. In this year the revenue included £123,000 for reimbursements and £150,000 for refunds for railway capital works.

⁵ A new system of accounting was introduced in 1938-39 under which the 'general revenue balance' superseded the 'surplus of assets over liabilities'. The purpose of the change of system was to secure that the annual accounts should disclose separately the total liquid resources available to meet voted expenditure and to fulfil the purpose of preserving to the legislature the fullest control over appropriation. The charges to the new account included the depreciation in the value of the securities held on behalf of the 'surplus funds' and the 'rescue fund' account amounting to £108,000. Another element to be eliminated was the 'frozen assets'; this was carried into effect for 1937-38 when they represented £207,000.

For revenue and expenditure as set out for 1938-39 by the government in the *Blue Book* see Table XXIX at the end of this chapter.

made to reduce expenditure during the economic crisis of 1931-34. Apart from the railway deficits the difficulties were indeed considerably greater than would appear from the figures of revenue and expenditure. The revenues shown were only realised by drawing on various temporary or fortuitous sources. These included a transfer of £385,000 from the supplementary non-statutory sinking fund in 1931-32, similar transfers of interest receipts from this and other funds in 1932-33, and a reduction by half of the stock transfer debts fund—which had been over-appropriated—in the same year. Appreciation in the value of investments also represented substantial receipts in that and in the succeeding year, while a temporary levy on the salaries of government servants yielded £70,000 in 1933-34 and £76,000 in 1934-35. When relative prosperity returned from 1935-36 to 1937-38, the depleted funds were restored and additional contributions of £600,000 and £200,000 were made to the general reserve and to the supplementary sinking fund respectively.

The apparent relative stability of the surplus was, therefore, artificial in the same sense that during the depression non-normal items were included in the revenue and normal expenditure on replacements, etc., was postponed, with a reversed process in the years of recovery.

Up to the year 1936-37 the net railway profit or loss was included in the general accounts of the territory, though for convenience they are shown separately in the foregoing statement. A more accurate picture of the financial history of the railway is given in the annual report for 1938-39, in which the railway receipts (excluding road transport) over the ten years 1929-30 to 1938-39 are compared with the working costs and the charges on account of interest on capital. The total income for the period from 1929-30 to 1935-36 amounted to £14,376,000 and the expenditure to £15,251,000, showing a net loss of £875,000. From 1936-37, when the railway accounts were completely separated from those of the central government, to 1938-39, the total income was £7,640,000 and the expenditure £6,132,000, showing a net profit of £1,508,000. Of this, however, about £600,000 represented the readjustment of interest charges resulting from the transfer to the central government of the liability on account of the Enugu-Kafanchan section of the railway. Taking this into account and some related capital readjustments, the net loss on the work of the railways over the period of ten years was about £33,000. To complete the picture of the financial relations between the railways and the central government it would be necessary to examine the history of the many transactions in connection with railway capital works and advances and recoveries, also those relating to renewals and other funds, but the figures in the statement seem to justify the conclusion that even from the purely financial point of view the investment of £23,000,000 in the railways has not been a bad one for the territory, this notwithstanding the high rates of interest paid on the loans contracted for its construction,

As regards the main heads of the expenditure of the central government, the relatively constant or increasing elements are provided by administration, debt charges and pensions. The expenditure shown under the administrative heads fell from the £1,075,000 of 1929-30 and £1,105,000 of 1930-31 to £942,000 in 1935-36, rising again to £1,067,000 in 1938-39. The net expenditure on pensions and gratuities has risen from £325,000 in 1929-30 to £531,000 in 1938-39 and cannot be expected to have yet reached its peak. The actual expenditure from year to year has been considerably affected by the variable amount of gratuities mainly representing commutations of pensions. In 1932-33 and 1933-34 £152,000 and £78,000 were spent on gratuities, against a normal expenditure of about £50,000, as the result of the reductions in staff made during that period. Defence required £337,000 in 1929-30, falling to £270,000 in 1935-36, and rising to £310,000 in 1938-39. Other main heads were more variable. The social services (education and public health) received £710,000 in 1929-30, falling to £610,000 in 1935-36, and rising to £752,000 in 1937-38, of which £56,000 represented special expenditure in connection with sleeping sickness. The economic services (including agriculture, veterinary, and forests) received £427,000 in 1929-30, falling to £277,000 in 1932-33, and rising to £388,000 in 1937-38. Communications were allotted £161,000 in 1929-30, only £90,000 in 1934-35, and £139,000 in 1938-39. The gross expenditure on the self-balancing¹ departments other than railways represented £935,000 in 1929-30, £564,000 in 1935-36, and £851,000 in 1938-39. General public works reflect the financial position even more clearly. They were allotted £1,141,000 in 1929-30, £220,000 in 1935-36, and £603,000 in 1938-39. Taken as a whole the figures show the severity of the check to progress caused by the economic depression of 1930-33.

The figures for the native treasuries of the northern and southern provinces show on the other hand the relative stability of the incomes of the native administrations, derived almost entirely from direct taxes, so long as the central government does not feel itself compelled by financial difficulties to increase its share of the native direct taxation. The financial position of the native administrations is favourable, more especially in the northern provinces where the treasuries are of much longer standing. An examination of the detailed figures shows, however, wide differences in the proportion between surpluses and revenues. In the northern provinces in 1937-38 the accumulated surpluses of all the native treasuries, except Hadeija, were greater than their annual revenues, and for some of the smaller administrations the surplus exceeded the annual revenue by more than 50 per cent. In the southern provinces the variations are greater, the surplus in the Egba treasury was £17,000 against an

¹ Apart from railways the chief self-balancing departments are collieries, electricity and water supplies, posts and telegraph, and marine and harbour.

income of £62,000, and in Ijebu it was £13,000 against an income of £42,000, while in Ibadan it was £44,000 against an income of £64,000, and in Owerri it was £26,000 against an income of £15,000.¹ In framing the budget estimates for 1940-41 and 1941-42 the central government included in its revenue estimates contributions of £215,000 by the native administrations. In fact, however, the central revenue for 1941-42 exceeded the estimates to such an extent that an anticipated deficit of £134,000 was replaced by a surplus of £1½ million. No contribution was, therefore, required in that year from the native administrations, nor do the estimates for 1942-43 include any such levy.² In any case the annual report for the provinces in 1939 states that any sums contributed by the native treasuries will be made good to them when the financial position of the central government permits.³

(b) ANALYSIS OF NET PUBLIC EXPENDITURE

The figures so far considered are those of gross expenditure under the various heads apart from reimbursements from various sources. A more accurate picture of the extent to which the main branches of activity draw on the general resources of the territory will be given by an analysis of the net expenditure after the deduction of departmental receipts, taking that term in a fairly wide sense. Railway finances will not be included. As in the case of the public revenues, this analysis will be on the basis of the estimates for 1938-39. Over a short period the estimates probably reflect government policy with greater accuracy than the figures of actual expenditure, which are more directly governed by hard necessity. The expenditure on public works and the charges on account of the public debt have been allocated to the various heads so far as is possible on the materials available. The unallocated public works charges have been divided proportionately, and the receipts from interest on investments have been deducted from the unallocated charges on account of the public debt.

The following statement summarises the position on these lines as regards the main types of net public expenditure, including both that of the central government and of the native administrations.

A recent analysis on similar lines of the net central government expenditures for 1938 of six colonies has shown the following rates per head of population: Ceylon, £1 2s. 4d., Kenya, 11s., Uganda, 9s. 3d., Nyasaland, 5s. 10½d., Jamaica £1 12s. 5d., and Fiji £3 5s. 6d.

While under the administrative head the departmental receipts to be set against the total expenditure are relatively small at £60,000, and for the social services amount to £50,000, the differences between gross and

¹ *Native Treasury Estimates, 1937-38.*

² *Legislative Council Debates, 16th March, 1942.*

³ *Annual Reports for the Northern, Western, Eastern Provinces and Colony, 1939, p. 70.*

TABLE XXVIII
ANALYSIS ON A FUNCTIONAL BASIS OF THE NET EXPENDITURE, BASED ON THE ESTIMATES
FOR 1938-39
(Thousand £)

<i>Type of Expenditure</i>	<i>Central Government</i>		<i>Native Administration</i>				<i>Combined Totals</i>	
			<i>Northern Provinces</i>		<i>Southern Provinces</i>			
	<i>Amount £</i>	<i>Percentage of total Expenditure</i>	<i>Amount £</i>	<i>Percentage of total Expenditure</i>	<i>Amount £</i>	<i>Percentage of total Expenditure</i>	<i>Amount £</i>	<i>Percentage of total Expenditure</i>
Administrative - - -	1,467	30.9	555	55.9	182	45.5	2,204	35.8
Economic services - - -	685	14.4	181	18.4	87	21.8	953	15.6
Social services - - -	829	17.3	228	22.9	103	25.7	1,160	18.8
Commercial and self-balancing - - - -	451	9.5	28	2.8	28	7.0	507	8.2
Defence - - - -	367	7.7	—	—	—	—	367	6.0
Public debt (unallocated) -	360	7.6	—	—	—	—	360	5.9
Pensions and similar charges (Pensions, etc.) - - -	599	12.6	—	—	—	—	599	9.7
Total net expenditure -	4,758	100	992	100	400	100	6,150	100
Expenditure per head of population - - -	s. 4.8		s. 1.7		s. 0.9		s. 6.2	

net expenditure are large for the economic services, the self-balancing accounts, and the public debt. The most important of the economic services are lands and surveys, agriculture and veterinary, forests, and transport and communications; in their case receipts of £98,000 have to be set against an expenditure of £783,000. For the self-balancing accounts the corresponding figures are receipts: £970,000 and expenditure: £1,421,000. Collieries, electricity and water supply undertakings, the widows' and orphans' pensions fund, and the produce inspection scheme, show a credit balance, but marine and harbour, posts and telegraphs, and printing and stationery, show deficits, though that under marine and harbours is small. The credit balance under the widows' and orphans' pensions fund probably reflects the great improvement in health conditions in West Africa since the rates of contribution were originally laid down. The main factor in the net expenditure of £451,000 is, however, the allocation to these heads of £338,000 as their share of the charges on account of the public debt, and of £17,000 on account of the general charges of the public works. Under public debt (unallocated), receipts of £260,000 have to be set against an expenditure of £620,000. Pensions and gratuities represent £471,000, the United Africa Company's share of mining royalties £100,000, and subventions £28,000. The net expenditure of the central government on the economic services is at the rate of .70s. per head of population and on the social services at .80s. per head.

(c) EXPENDITURE OF NATIVE ADMINISTRATIONS

As regards the native administrations there has been a similar allocation to the main heads of the expenditure under public works and of that shown as special or extraordinary. Under the administrative head, receipts of £31,000 in the northern provinces have to be set against an expenditure of £586,000, with corresponding figures for the southern provinces of £162,000 and £344,000. The differences in their position is due to the much larger receipts from litigation in the southern provinces. Similarly under the head of economic services the departmental receipts are £31,000 in the southern provinces as compared with £8,000 in the northern, the former figures including recoupments from the central government on account of work carried out on their behalf. The self-balancing accounts are those connected with the supply of water and of electricity, which in the northern provinces gave an income of £17,000 against an expenditure of £46,000, and in the southern provinces of £19,000 against £47,000. Several of the schemes, including the joint electricity and water supply scheme in Ibadan, were still in their initial stages, and the receipts were therefore relatively small. The deficits were partly recouped by a grant of £10,000 from the central government.

The gross expenditure per head of population was 1.85s. in the northern provinces and 1.47s. for the southern provinces. The differences between

the rates of expenditure in the various sections of the territory corresponding to the differences in the incidence of taxation considered earlier are, however, shown more clearly by dividing the southern provinces into their eastern and western components. This can be done on the estimates for 1939-40, when these two sections were separated in the public accounts. On these estimates the expenditure per head of population was 1·80s. in the northern provinces, 2·14s. in the western provinces and 1·08s. in the eastern provinces. The rate in the eastern provinces was not materially affected by the inclusion of a part of the Cameroons. The low rate in the eastern provinces reflects not only their lower incidence of taxation but also the less advanced stage of development of the native administrations in that part of the territory.

An examination of the individual budgets leads to similar conclusions. Administrative expenditure in its various branches and the upkeep of buildings and communications absorb the greater part of the available funds in all cases, while health and education have had the next claim on resources. In the more advanced administrations of the northern and western provinces many other forms of activity have been undertaken, including the organisation of public works departments, surveys and printing, agriculture and veterinary, and forestry. Up to the present, however, few native administrations have been able to spend any substantial sums to supplement the expenditure of the central government on agricultural or veterinary work, still less on forestry, except in a very few cases such as Sokoto in the northern provinces and Benin, Ibadan, and Oyo, in the western provinces. In the eastern provinces the very small resources of the administrations have practically confined their activities to administrative necessities including communications, and to meeting health requirements to a very limited extent. The more advanced administrations of the north and west have been ready to extend the scope of their operations, and there has been a tendency to transfer to them some of the liabilities of the central government, sometimes, as in the period of the economic depression after 1930, as an alternative to closing down some branches of valuable work. Such transfers can, however, only be on a very limited scale unless the revenues of the native administrations can be substantially increased, and there are obvious dangers of a decrease in efficiency owing to the difficulty of organizing adequate supervision and of training the necessary staff. Efficiency is also liable to be affected by the limited opportunities for promotion open to small localized staffs.

(d) EXPENDITURE FROM LOAN FUNDS

The expenditure so far considered has been that financed from the current revenues; it remains to deal with the expenditure from loan funds.

¹ For a specimen of a native administration in full see that for Kano in Table XXX at the end of this chapter.

Financial Return No. 7, of 1938-39, appended to the *Report on the Accounts and Finances* for that year, shows that the total amount realised from all Nigerian loans was £43,069,000, of which £15,725,000 had been applied to the redemption of previous loans and £294,000 was still unexpended at the close of the year. Of the £25,842,000 spent, £18,326,000 had been applied to railway purposes including the Benue bridge. Of the remaining £7,516,000, roads, bridges and tramways absorbed £626,000, ports and harbours £4,922,000, electricity and water supplies £1,383,000, sanitation and town planning £221,000, telephones and cables £16,000. The remaining £348,000 had been applied to meeting sinking fund and interest liabilities on the loan contracted in 1927. The loan expenditure may then be classified as follows in thousands of pounds:

	£	Per cent
Railways - - - -	18,326	70·9
Commercial and self-balancing departments - - -	6,321	24·4
Economic services - - -	626	2·4
Social services - - -	221	0·9
Non-effective charges - -	348	1·4
Total - - - -	25,842	100

The total debt charges in 1938-39 amounted to £1,648,000, of which the supplementary sinking fund contribution and management expenses represented £263,000. Interest and statutory sinking fund payments amounted to £1,385,000. Dividing the latter sum proportionately on the basis of the percentages given above, the shares would be as follows in thousands of pounds: railways 982, self-balancing departments 338, economic services 33, social services 13, non-effective charges 19. Actually the railways paid only 644 on the redeemed and unredeemed loans, thus raising the unallocated gross debt payments taken into account in the table of net public expenditure to 620. The shares for the self-balancing departments and for the economic and social services have been included in the table for the net expenditure (Table XXVIII). It appears, therefore, that 95·3 per cent of the loan expenditure of Nigeria has been devoted to directly income-yielding purposes, and more than half of the remaining 4·7 per cent has been spent on communications. The other economic services, including agriculture and forestry, have not been assisted from loan funds, and the social services have received very little. Under the administrative head there are no loan liabilities. In this respect the position is, therefore, very different from that in some other dependencies. In Kenya, up to 31st August, 1935, £3,704,000 was spent from loan funds, apart from the expenditure on railways and harbours. Of this £1,310,000 was spent on public buildings yielding no direct return, and £327,000 on communications. Similarly, in Northern Rhodesia, out of the loan expenditure of £2,190,000 up to the end of 1936, £400,000 was spent on the new capital

and £569,000 on other civil buildings. From the financial point of view, therefore, the loan expenditure of Nigeria has been of a more productive character than in Kenya or Northern Rhodesia.

(e) COMPARISON OF NIGERIAN EXPENDITURE WITH THAT IN OTHER DEPENDENCIES

Table XXVIII distributes the net expenditure under seven main heads. It will be useful to make a closer analysis of the expenditure under the first three of these heads—administrative, economic services, and social services—and to compare the figures for Nigeria with the results of a recent analysis on a functional basis of the expenditures of the central governments of Ceylon, Kenya, Uganda, Jamaica, Fiji, and Nyasaland in 1938. The analysis was on lines generally similar to those followed in this study and the only difference in method affecting the figures for these three heads is that certain expenditure classed as miscellaneous in those dependencies would have been included in Table XXVIII under the head of administrative and would have raised the percentage under that heading in Kenya by 1.5 per cent, in Uganda by 2 per cent, and in Nyasaland by about 1 per cent. Making allowance for this difference in method, the 30.9 per cent of the administrative share of the total net expenditures for Nigeria may be compared with 19.2 per cent for Ceylon, 36.8 per cent for Kenya, 33.4 per cent for Uganda, and 30.8 per cent for Nyasaland. The percentage for Nigeria is, therefore, normal for African territories, but higher than in other groups of colonies more especially in the older ones. The Ceylon percentage is unusually low, but in Jamaica the percentage is 27.3, and in Fiji 29.5, including 2.0 per cent transferred from the miscellaneous head.

Much the largest item under the head of administration is £738,000 representing the net expenditure on the government services, including the Governor, the Secretariat, the Accountant General, audit, customs and inland revenue, and provincial administration, with a few minor items. Including expenditure from the public works extraordinary account these represent 15.5 per cent of the total net expenditure, as compared with 11.8 per cent in Ceylon, 11.0 per cent in Jamaica, 16.0 per cent in Kenya, 19.0 per cent in Uganda and 16.8 per cent in Nyasaland. Similarly, police and prisons represent 7.2 per cent in Nigeria, as compared with 4.9 per cent in Ceylon, 10.5 per cent in Kenya, 8.5 per cent in Uganda, and 6.3 per cent in Nyasaland. In Jamaica the percentage is unusually high at 14.4 per cent. The judicial services represent 1.2 per cent, but the receipts are relatively large amounting to one-third of the gross expenditure. The corresponding figures are 1.5 for Ceylon, 1.4 for Kenya and Nyasaland, and 2.2 for Jamaica. The total net expenditure on administration is at the rate 1s. 6d. per head of population as compared with 4s. 3½d. in Ceylon, 8s. 10½d. in Jamaica, 3s. 10d. in Kenya, 2s. 10½d. in Uganda, and 1s. 9d.

in Nyasaland. If the expenditure under the administrative head by the native administrations is included the rates would be: Nigeria 2s. 3d. and Uganda 3s. 11½d. In the other dependencies there are no comparable native administrations.

Comparisons on such a general basis are necessarily very rough and subject to many qualifications; but the figures certainly suggest that the administrative machinery in Nigeria is on a modest scale.

Turning to the economic services the most important are agriculture and veterinary, lands and surveys, forests, and communications and transport. Nigeria spent 14·4 per cent of its net expenditure on economic services—or 15·6 per cent if the native administrations are included—as compared with 18·3 per cent in Ceylon, 15·8 per cent in Kenya, 24·8 per cent in Uganda—or 24·0 per cent including the native administrations—and 25·3 per cent in Nyasaland. The distribution of this expenditure over the various heads was, however, very different. In Nyasaland 4·2 per cent is represented by charges on account of the public debt, and 4·8 per cent on account of the administrative charges of the Public Works Department, as compared with ·7 and 2·4 per cent under these sub-heads for Nigeria. Similarly, Ceylon spends 4·3 per cent on lands and surveys compared with 1 per cent for Nigeria, because of the connection of its Survey Department with the assessment of taxation. Under agriculture, Nigeria spends 2·1 per cent as compared with 4·6 per cent in Ceylon, 2·5 per cent in Jamaica, 4·3 per cent in Kenya, 4·0 per cent in Uganda, and 4·2 per cent in Nyasaland. Under veterinary services, Nigeria spends 1 per cent against 2·7 per cent in Kenya, 1·4 per cent in Uganda and 1·8 per cent in Nyasaland. Under forests, Nigeria spends ·97 per cent as compared with no net expenditure in Ceylon, Kenya, and Uganda, and 1·9 per cent in Nyasaland. Under communications, the percentage is 4·5 per cent in Nigeria as compared with 6·4 per cent in Ceylon, 17·4 per cent in Jamaica, 3·5 per cent in Kenya, 12·7 per cent in Uganda, and 2·6 per cent in Nyasaland. Taking into account debt charges on account of road buildings and the overhead expenses of the Public Works Department, the percentage for Nyasaland would be about 10·6. It has to be remembered that all these figures are for net expenditure and this is of special importance in comparing the figures for agriculture and veterinary, and even more for forests, which are paying propositions in some dependencies.

Taking next the social services, these represent 17·6 per cent of the net expenditure in Nigeria—or 19·0 per cent if the native administrations are included—as compared with 35·1 per cent in Ceylon, 21·3 per cent in Kenya, 18·6 per cent in Uganda—or 17·0 per cent if the native administrations are included—and 17·2 per cent in Nyasaland. Education receives 5·9 per cent in Nigeria as compared with 20·9 per cent in Ceylon, 9·9 per cent in Kenya (of which, however, about half is spent on Europeans, Indians and Arabs), 6·7 per cent in Uganda, and 4·7 per cent in Nyasa-

land. Under medical and sanitation, Nigeria spends 10·6 per cent, Ceylon 13·1 per cent, Kenya 10·9 per cent, Uganda 10·8 per cent, and Nyasaland 10·7 per cent. The proportion of expenditure under the medical head is, therefore, remarkably uniform. The comparison of the expenditure under education is liable to be misleading because of the differences in system, more particularly with regard to the part played in education by the missionary organisations. It is noticeable that there has been very little loan expenditure on the social services of Nigeria; the charges on this account only represent ·3 per cent of the total net expenditure and the position is similar in the other dependencies. Both as regards the economic and social services, comparative percentages are of limited value in gauging the adequacy of their services, because of the great disparities in the total available revenue. Ten per cent of expenditure in Malaya, for instance, would provide health services of a very different type from the same proportion of expenditure in Nigeria. The net expenditure per head of population provides a more significant test, and applying it, the net expenditure in Nigeria is at the rate of 11½d. for the economic services and 1s. 1d. for the social services, these—including the expenditure by the native administrations—may be compared with the corresponding figures: 4s. 1d. and 7s. 10d. for Ceylon, 1s. 9d. and 2s. 4d. for Kenya, 2s. 3d. and 1s. 8½d. for Uganda and 1s. 6d. and 1s. for Nyasaland. In Jamaica the rates are 8s. and 8s. 9d. per head and Fiji has the high rates of £1 1s. 7½d. and 16s. 10½d. Another test which may be applied to the public expenditure of Nigeria is the proportion which it bears to the national income. On the figures of actual expenditure for 1938–39, given in the statement on page 248, the combined total expenditure of the central government and of the native administration is approximately £8,590,000. Adding £95,000 for Lagos and £99,000 for other townships the total sum passing through the public accounts is in the neighbourhood of £8,714,000. This is at the rate of 8s. 9d. per head of population, not in itself a high figure. Compared, however, with some preliminary estimates of the national income, it would represent between one-quarter and one-fifth of that income. Considering the very low level of *per caput* real income and the large part played by subsistence cultivation, this proportion, approximating to that of Great Britain in peace-time, would be surprisingly heavy.

The small proportion of the expenditure directed to defence provides a useful commentary on the recent criticism of the military unpreparedness of some of our colonies. In Nigeria the proportion is 7·7 per cent, Ceylon 4·7, Kenya 9·3, Uganda 8·7, Nyasaland 6·3, including charges in connection with military buildings. The *Nigeria Estimates for 1939–40* showed a small decrease under this head and even for 1940–41 the estimates only provided for an increase of £69,000 over the previous year, apart from expenditure on buildings. Countries in the early colonial stage can, in fact, seldom make any substantial financial contribution to their

defence unless their development is to be stunted in every other direction. This was recognized in the French and in the former German colonies in which the military expenditure was for the most part the responsibility of the home government, and the main burden on the French colonies was that represented by conscription. The defence of colonies under modern conditions is, moreover, no longer a merely local problem, as was illustrated in Malaya and is also clear in Africa, though the local organisation of both man-power and of resources may be an essential supplement. This is, however, a question of general imperial policy and up to the present the dependencies—other than those held for predominantly strategic reasons—have only been required to do little more than to provide for internal security, nor indeed would their financial resources enable them to do more. A sound local organisation, administrative, social, and economic, accompanied by the political advance necessary to the development of the feeling of solidarity, is the best contribution which a weak dependency can make to the solution of the problem of defence.

(f) EXPENDITURE ON PARTICULAR COMMUNITIES OR AREAS

Two questions, which have been the subject of much discussion in connection with African dependencies, are whether an undue proportion of the local public expenditure has been in the interest of particular communities—more particularly of the European community—or of special areas, and the high cost to the territory of maintaining the European services. So far as the first question is concerned the position in Nigeria is a comparatively simple one, except that it is not practicable to provide a real balance sheet of benefits received and contributions paid by particular communities or special areas. Expenditure primarily directed to assisting a particular interest may be fully justified by considerations of the resulting general public advantage, and much depends on the ultimate incidence of taxation. In any territory the bulk of the expenditure must be on what the Moyne Report on Kenya has called 'indivisible general services'.¹ The Nigerian estimates do not contain a single item definitely allocated to European purposes, and those items, which do, in fact, chiefly benefit Europeans, are nearly all connected with the maintenance of the general services. Nigeria has no settler community requiring special assistance, direct or indirect, nor has it any large number of European families for whom education has to be provided. There is no European agriculture requiring subsidies. The scale of import customs duties is not specially favourable to them. The advantages which they enjoy lie in two directions. The first has been considered already in connection with the Income Tax Ordinance which predominantly affects Europeans and extra-territorial companies. The scale of income tax has been considerably changed since

¹ *Report by the Financial Commissioner (Lord Moyne) on certain Questions in Kenya*, Cmd. 4093 (May 1932).

1939, and in fixing the rates of taxation regard has to be paid to the unavoidably heavy overhead charges on European businesses in West Africa and the possibility of discouraging the inflow of much needed capital. The second direction in which they enjoy certain advantages is connected with the fact that most of the Europeans live in the larger centres of population and of trade. It is probable that their presence has led to the earlier provision of such amenities as the supplies of water and electricity which make such a difference in a tropical climate, and to a more expensive standard of administration than might have obtained without their presence. The amenities of water and electricity are, however, paid for on commercial terms, and these benefits are equally available to Africans who can afford them, or, in the case of water supplies, to the whole population. Away from the main centres, the European residents are mainly officials, and the amenities which they enjoy in matters of housing, etc., are necessary to the maintenance of health as is equally recognized by the large commercial firms. In so far as extra public expenditure and the external transfer of resources are involved, these are a small part of the general problem of the burden imposed on the economy of Nigeria by the almost exclusively European character of the higher grades of the public services. The weight of that burden will be dealt with in connection with the balance of payments,¹ but it remains to give some consideration to the possibility of reducing it.

Small advances have been made in that direction by the appointment of Africans to higher posts in the administration. So far these have been chiefly on the judicial side, but similar steps have been announced in regard to the technical services, including the railways, and even to the administrative service. It is unlikely that any substantial economies will be obtainable by a reduction in the cadres of the various services. With the contemplated programme of more intensive development the number of technical and specialist officers is fairly certain to increase. So far as the administrative service is concerned two tendencies are likely to be operative. With the growing strength of technical and specialist departments, the functions of administrative officers as the direct agents for carrying out the policy of government in all its aspects, both material and social, will probably be encroached on to some extent. Judging by what has happened in India and in the Netherlands East Indies, they will have a less direct share in what have hitherto been their most interesting activities, and will be more occupied in such thankless occupations as supervising tax collecting and enforcing departmental regulations. If native administrations develop, as is hoped, they, too, may be able to take over some of the functions of District Officers, though that stage is still distant in Nigeria so far as the large majority of the native administrations is concerned. On the other hand, even under

¹ See Chapter VI, pp. 306-7.

these conditions administrative officers would play an increasingly important part as liaison officers between the technical and specialist services and the native administrations; while the large area of the districts and the relatively sparse population in the greater part of the territory make it impossible to reduce the administrative staff below a certain minimum without running the risk of losing touch with the people and impairing the efficiency of the administration.

It is, then, in the increasing appointment of Africans in the higher grades of the various services that the chief possibility of economies in the public expenditure and of a reduction in the external transfer of resources must be sought. Such an advance forms an essential part of the accepted future policy, and it raises a financial issue of great importance, that of the terms on which African recruits to the higher branches of the services should be employed. In Nigeria, and in West Africa generally, this is a purely African problem; there can be no question of introducing any new foreign element, and with the progress of education the supply of African candidates will steadily increase. It may also probably be assumed that the advance will be on the line of unified services following the precedents of other British territories, not on that of parallel British and African services as exemplified in the Netherlands East Indies, except in so far as the native administrations may become qualified to take over some of the functions of the central government.¹ There would not be sufficient scope for imperial and provincial services, such as have been evolved in India, nor would they be welcomed by African opinion. Up to the present the salaries of such appointments as have been made have been based in some cases on the principle of equal pay for equal work, though in others special terms have been fixed, as for example, for some African secretariat appointments. The emoluments of the higher grades in the services are, however, based on the necessity of attracting candidates of a suitable type from Great Britain and are entirely out of proportion to the local standards of income. If African members of the services are to receive salaries based on such extraneous considerations, increasing Africanisation would not lead to any economy in public expenditure and might well lead to an increase as larger numbers might be required. On the other hand, it would be impossible in a country in which the average income per head of population appears to be in the neighbourhood of £1 10s. or £2 per annum to aim at a standard of pay for the public services bearing a relation to the average private income approximating to that obtaining in advanced European countries. Some compromise will have to be arrived at. An early decision is, moreover, important, both to prevent the establishment of vested interests and because, somewhat paradoxically, constitutional advances may make the problem more difficult of solution. Judging by what has

¹ Under the new constitution regional councils will take over a share of the responsibilities of the central government.

happened elsewhere, it is improbable that many African members of legislative councils will, for a long time to come, be able to take a broad view of financial issues and to give due weight to the long-term effects of proposals likely to be supported by local popular opinion. Their interest will be mainly concentrated on individual cases, and none will appeal to them more strongly than the emoluments to be received by African candidates for the services. They are likely to resent any form of discrimination which would in effect be on racial lines. A logical course, which also has precedent to support it, would be to divide the present emoluments into basic pay and overseas allowances, though this too might be viewed with suspicion unless the imperial government was prepared to pay the overseas proportion of the emoluments. Even passage allowances to Great Britain might be reasonably advocated on the ground of the advantages of wider experience to Africans. Subsidiary, but important, questions would be what elements of the emoluments should be taken as the basis of pensions, and whether pensions should not be on a contributory basis. The separate provisions in the budget estimates for basic pay and overseas allowances should assist in the development among African members of the legislative councils of a fuller appreciation of the wider financial issues involved, though, on the other hand, the focussing of attention on the cost of overseas services might on occasion be a cause of embarrassment to a government anxious to maintain the efficiency of the services at the highest possible level. In any case, it is essential to lay down the general principles to be followed, and these would presumably be the same for all colonial dependencies, though their application might differ to some extent according to the circumstances in different territories. The longer a decision is deferred the more difficult the problem is likely to become. The proposals, which are under consideration, for equalizing the conditions of employment of European officers in all colonial dependencies would appear to suggest as much uniformity as possible in the terms of appointment of local members of the services. On the other hand, one of the purposes of the proposals is to facilitate the transfer of officers from one dependency to another should this be considered to be in the best interests of the territories concerned. The objections to such transfers have been stressed in several recent reports such as that of the Bledisloe Commission,¹ and the objections would apply with greater force to such transfers of African members of the services whose intimate acquaintance with local conditions and at least one local language would be one of their main assets. On the other hand, as experience elsewhere has shown, local ties and family pressure may have a very hampering effect on the activities of an African officer, and make his task much more difficult than it would be in another territory or even in a different part of his own country.

¹ *Rhodesia-Nyasaland Royal Commission Report*, Cmd. 5949 (1939), p. 161.

(g) PRESENT POSITION AND PROSPECTS

It remains to summarise the present position as regards the directions and the adequacy of Nigerian public expenditure. Measured by the standards of the old conceptions of the duties of a colonial government, Nigeria has made great advances. The essential framework of administration and of communications has been established, with the internal security to which they are essential. This has been effected without incurring any dead-weight capital debt, as the liabilities on account of the railways (including the Benue bridge), marine and harbour and, to a small extent, other communications, cannot fairly be considered as coming under this head, and are not unduly heavy considering the great economic benefits resulting from them. It may, indeed, be said that if the loan expenditure on railways, ports, and harbours, had not been incurred the income of the country would have been a mere fraction of what it now is. It was the railway, for example, which created the ground-nut export industry in an extraordinarily short time, and the expenditure on the harbour at Lagos has been repaid many times over. There seems to be no reason to expect any substantial increase in expenditure under the head of administration, as the employment of African officers should offset the increase of staff which might be required to carry out a policy of planned development. Some further increase is, however, probable under pensions before that item becomes stabilised. The net public debt is not heavy at 7.6 per cent of the total expenditure. Even if it increases as the result of a reduction in the balances invested with the Crown Agents and of possible difficulties in railway finances, the percentage of total net expenditure will compare favourably with the corresponding figures for many other territories. Measured, however, by modern standards, which expect governments to take an active part in nation-building activities, the position is much less satisfactory, though a good deal has been done in many directions. Even as regards essential communications, including the railways, capital expenditure was drastically curtailed during the economic depression, and renewals and replacements were similarly restricted, though these deficiencies were as far as possible made good when relative prosperity returned. This curtailment of expenditure in a time of depression, though in accordance with the traditional policy, both British and colonial, is in striking contrast with the newer policy, which has received strong support, of increasing government expenditure in such a period in order to create employment. As shown on page 250, the expenditure on the economic and social services shows little increase in 1938-39 over the expenditure of ten years earlier, though the figures are not always strictly comparable owing to changes in the methods of accounting. During the economic slump the expenditure under these heads, in which continuity of policy is of special importance, was substantially reduced. 14.4 per cent of the total net expenditure in 1938-39 devoted to the economic services—

or 15·8 per cent including the native administrations—cannot be considered an adequate figure, nor can 17·6 per cent spent on the social services—or 19·0 per cent including the native administrations. The net expenditure per head of population of 11½d. for the economic services and 1s. 2d. for the social services is very low even as compared with other colonial dependencies, though the departmental expenditure on the economic services is an inadequate measure of the expenditure on developing the economic resources of the country. In a dependency, more especially a large one such as Nigeria, in the early stages of development a large proportion of the charges on account of the interest on loans must be regarded as contributing to the economic services.

General comparison of this kind are, it is true, a very imperfect test as they take no account of the many other agencies active in these directions and of the differing parts played by governments in connection with the various types of activity. A more adequate appreciation of the tasks to be accomplished can only be arrived at by a detailed survey, social, economic, ecological, and agricultural, such as has not yet been undertaken in any colony. So far as social services are concerned, an enquiry on these lines carried out in 1937 into the adequacy of the health services in Northern Rhodesia gave a more accurate picture of the position than could have been gathered from any general figures.¹ It showed that, including every government medical post and every missionary medical post aided by government, no matter how small, how primitive, and how few and ill-trained its staff, there were some 70 posts where government makes provision for medical aid to natives. On the generous assumption that each of these covered an area of 25 miles radius or about 2,000 square miles, more than half the territory remained unprovided for. The position in Nigeria may, or may not, be a good deal better, though the recent discovery that sleeping sickness was much more widespread than had been suspected suggests that knowledge of the actual situation is still very inadequate. Even in an advanced country like England a detailed inquiry into the local provision of social amenities produces some surprising results, as the recent Scott Report has brought out.² The need is certainly urgent and, as in other colonial territories, it can only be met within the limits of financial possibility by a great expansion of the native auxiliary medical services under the supervision of medical officers, who would presumably include a steadily increasing proportion of Africans. As regards education, the figures of enrolments in the different types of schools, including technical schools, speak for themselves, even if the government, including native administration, activities are supplemented by outside agencies, more especially by the missionary organisations. A recent survey of education in

¹ *Report of the Commission appointed to Enquire into the Financial and Economic Position of Northern Rhodesia*, Colonial No. 145, 1938, para. 537.

² *Report of the Committee on Land Utilisation in Rural Areas*, Cmd. 6378 (1942).

Nigeria stated that out of 7,750,000 children under sixteen about 350,000, approximately one in twenty, are attending school, and only about 30,000 of them are from the northern provinces which include more than half the total population. Children in the indigenous Koran schools are, however, not included in these figures.

On the economic side, the general question to be answered is how far government expenditure is contributing to economic advance by raising the general standard of living and of real income; and in this process improvements in health and in education play an essential part. Like most other colonial dependencies, Nigeria has hitherto depended almost entirely on primary productive activities confined, apart from subsistence cultivation, to a very limited number of export products; the figures given on page 250 show how relatively small the financial provision has been for agriculture, veterinary services, and forests. Competition in the world market with the main agricultural products of Nigeria has greatly increased during the last fifteen years, and may increase further when the dislocations due to war have been adjusted. The directions in which future efforts can be exerted with the maximum prospects of success will be greatly influenced by world economic policies, but in any case a large expansion of the scientific and technical services connected with agriculture and the related primary industries will be essential both to taking advantage of the openings for exports and to the equally important task of raising the local standards of nutrition. In these tasks the co-operation of the leading commercial organisations will be of great importance, and they have shown themselves ready to assist in such matters as the supply of improved varieties of oil-palms and in other pioneer activities. The mineral industries, other than coal, are likely to continue to be a sphere for private effort, but the question whether they should not make a larger contribution to the public finances requires consideration. The proposed economic survey should include an investigation of the important problem of the probable length of life of the mines, so that provision may be made, if necessary, to meet the effects on the economy of the country and on the public finances of a future gradual reduction in income from that source.¹ On the other hand, it is on government that the responsibility will rest for dealing with a question fundamental to the future agricultural progress of the country, that of the conservation of its resources in land and in water. On the constructive side this will involve an investigation into the possibilities of irrigation, of water power, and river control; on the protective side it will include the universal African problem of countering the dangers arising from erosion and soil deterioration caused by unscientific methods of cultivation under conditions of tropical rainfall.

Secondary industries have hitherto played a very small part in the economy of Nigeria, except in the form of the traditional arts and crafts

¹ See Chapter I, pp. 39-42.

which seem in general to be on the decline.¹ The provisions in the budget estimates which can be considered as connected with such industries are almost negligible, but a very large number of Africans are now being trained in various industries in the technical departments of the army. The development of secondary industries is an accepted policy, which has been greatly stimulated by the war restrictions on imports, but the lines on which development should proceed, either by the introduction of new industries or by transformation of the older industries, are still uncertain. Progress will be largely tentative and will depend as much on the systematic study and encouragement of many small possibilities as on the provision of large additional capital. Processing industries are an obvious line of advance and may involve substantial investments, but for them capital should be obtainable from private sources. On the other hand, such industries may raise very difficult problems by their relation to world markets and to established industries and business practices in Great Britain.

Tertiary production in its many forms has in the shape of trade and commerce been the basis of the modern West African economy, but in other respects it is the result of general economic advance and of the resulting diversification of society. Except in regard to transport, government financial participation has, in the main, been confined to securing the conditions which made such an advance possible; private capital and enterprise have played the major part. Frankel estimates the private listed capital invested in Nigeria between 1870 and 1936 at £36,790,000.² This, however, includes capital invested in mining, as well as a proportion invested in other West African territories by the great trading corporations; capital invested is, moreover, not the same as capital made actually operative in Africa. According to evidence submitted to the Nowell commission the capital invested in Nigeria by produce-buying and merchandising firms amount to £7,834,498 in merchandising trade and £5,245,638 in produce-buying trade, giving a total investment of £13,080,135. An additional £9,547,801 is invested in the Gold Coast.³ As regards transport, the development of its most modern form, aviation, will require a considerable measure of government assistance, but, apart from this, the direct part played by government has tended to diminish with the growth of the private industry of motor transport. The competition of private road transport with the railways is becoming a serious factor in the railway finances of Nigeria as in most other countries, and, therefore, indirectly in the government finances. If a solution of this problem is sought on the lines followed in South Africa and in other countries by an extension of the railway monopoly with the provision of ancillary motor services, additional capital will be required.

¹ See Volume I, Chapter III.

² *Capital Investment in Africa*, p. 158.

³ Hancock, p. 220, footnote 1.

Looking to the future there seems to be no reason to suppose that those forms of tertiary activities which have hitherto been predominantly a sphere of private enterprise will not continue to be so, though government agencies are likely to play a larger part in other branches of work. War necessities have, however, resulted in great development in some directions, and the most important of these is the growth of the conception of the West African territories, British, French, and Belgian, as one great unit, both from the economic point of view and from that of communications. The translation of the conception into the sphere of practical operation would involve the provision of large amounts of additional capital, which private investors could not be expected to supply without government guarantees, and possibly of new methods for making it available. The operations of private capital are also likely to be subjected to an increasing measure of control, apart from the effects on all colonial and other primary producing countries of whatever policies may ultimately be adopted as regards world trade and international control of raw materials. It has, moreover, to be remembered that the introduction of new industries, and the application of modern methods to old industries, cannot be regarded solely from the economic point of view, as they may have very important social implications. *The Clash of Progress and Security* has several illustrations of this type of problem in Nigeria and may have considerable importance in restricting the application of European capital.¹ On the other hand, the return of large numbers of men with war experience, particularly of those employed in the technical departments of the army, may have far-reaching effects.

In any case the scope for private external capital is limited by the necessity of being able to expect a commercial return, while many of the forms of expenditure most required in the long-term interests of Nigeria do not fall within that category. The financial position in the post-war period cannot be foreseen, though at present it is much better than had been anticipated. There will, however, be heavy arrears to be made up, more especially in the renewal and replacement of transport and communications made necessary by the heavy war traffic and the difficulty in obtaining essential requirements. The general revenue balance of £1,622,000 at the end of 1938-39 was not large, considering the great variations in the public income, and its investment was restricted by the necessity of holding securities which were easily realisable. Nigeria is, in fact, still confronted by the problem of the vicious circle, which is a feature of nearly all colonial territories. The public income cannot be adequate to their expanding needs unless steady progress can be assured towards a substantially higher standard of real income. This can only be secured by the investment of sums much exceeding their available resources, not only in enterprises yielding a commercial return but also in a much increased expenditure,

¹ Fisher, Professor A. G. B., *The Clash of Progress and Security*, 1935.

both capital and recurring, on their social and economic services, while most of this expenditure will yield little or a long delayed return. Such return as they may yield will probably be more than counterbalanced by the increased cost of maintenance and repairs. The self-balancing services will also require substantial further investments, the return of which may be long deferred. Almost alone among the dependencies, the Federated Malay States were able to solve this problem thanks to tin and rubber, and the result has been the development of the medical and other social services to a standard unequalled in any other tropical dependency. While the old principle that colonies could only have the services that they could pay for from their own resources is no longer insisted on, the financial position of a dependency, and of Nigeria in particular, can only be regarded as assured if its resources, both human and material, have been so developed that the public income is able to meet the cost of maintaining the essential services on an adequate scale. So far as appears at present this will only be possible within a reasonable period by the help of substantial financial contributions from outside in the shape not only of loans at low rates of interest but of grants to meet the expenditure on which little or no return can be expected. The assistance which is to be given under the new Colonial Development and Welfare Act will be very valuable, but it will certainly be entirely inadequate to meet the manifold needs of a great territory with twenty million inhabitants. The first necessity is increased knowledge of the character of the problem and of the possibilities of the country, so as to permit of the framing of a long-term policy and scheme of operations. This knowledge can only be obtained by a systematic economic and social survey such as has not yet been attempted in any dependency. In applying it to the formulation of a policy of economic and social advance, it should not be forgotten that, for the reasons suggested earlier, a bolder policy of expenditure on development may in itself result in an increase in the resources available to meet that expenditure greater than could be assumed from any calculation of the prospects under present conditions.

The recent *Proposals for the Revision of the Constitution of Nigeria*¹ involve substantial changes in the organisation of the public finances. The purpose of the proposals is to secure that the natural division of the country into three sets of provinces should be reflected not only in the administrative arrangements but also in the constitutional and financial spheres. On the one hand, the whole range of Nigerian affairs is to be open for debate in the central Legislative Council, more especially on the second reading of the budget. On the other hand, the new regional councils are to have their separate administrative organisations and their own regional budgets financed from taxes hitherto entirely under the control of the central government. They will thus have a large measure of financial responsi-

¹ Cmd. 6599 (1945).

bility. On the regional budgets will be borne the cost of all government services in the region, including the salaries of government servants. The only exception would be the cost within the region of services declared to be central services, such as the railway, posts and telegraphs, income tax, and audit, which would continue to be carried on the central estimates, together with the central organisation of government and such charges as interest on public debt and pensions.

Regional revenues would consist, in the first place, of the share of the direct tax at present payable to the central government, together with any receipts from fees and licences which might be added to the regional councils, and, in the second place, of annual block grants from central revenue. The central government would continue to receive all the proceeds of indirect taxation.

Separate budget estimates would be framed for each region and, after consideration by the regional councils, would, on being approved by the Governor, appear in the central estimates as block votes. Full details would be given in the form of appendices, but the Legislative Council would be discouraged from discussing the details of regional expenditure. Regional councils would thus have considerable liberty of action in determining their financial policies, but they would not at first be given legislative powers for the appropriation of regional expenditure, as these powers would remain with the central Legislative Council.

Colonial Development and Welfare expenditure would be shown in the central estimates divided up into central expenditure and expenditure in three regions. The regional expenditure would be shown in the regional estimate with a corresponding entry on the revenue side.

The new constitution makes no substantial changes in the position of the native authorities, or in their responsibility for operating their own local services and financing them from their own resources. In order, however, to simplify the system, and to encourage native authorities to adopt progressive policies, their contribution to central revenue from the direct tax has been frozen at the amount paid by them in the year 1943-44. The remainder, and the whole of the proceeds from any increase in the tax, is to be retained by the native authorities. They will thus be in a position to play an increasing part in the development of their own areas, while the recent correlation of native authority and government salaries will make it easier for them to secure the necessary trained staff.

Under these proposals the receipts from the direct tax would thus be shared between the native authorities and the regional councils, while the presence of native authority representatives in the regional house of assembly should, it is considered, assure proper co-ordination between regional and purely local expenditure.

TABLE XXIX
STATEMENT SHOWING TOTAL RECEIPTS AND PAYMENTS
IN THE FINANCIAL YEAR, APRIL 1938-MARCH 1939
FINANCIAL RETURN NO. 1 OF 1938-39

Heads and Sub-Heads	Estimated		Actual		Receipts under each head expressed as percentage of Total
	£	s.	£	s.	
SUMMARY					
1. Licences and Internal Revenue -	127,950		138,734	14 10	2.4
2. Fees of Court or Office, etc. -	194,270		195,877	7 1	3.4
3. Mining -	204,960		111,590	9 7	1.9
4. Customs -	3,149,100		2,472,293	8 3	42.5
5. Posts and Telegraphs -	170,100		157,891	12 5	2.7
6. Marine and Harbour -	327,400		305,879	7 9	5.3
7. Electricity and Water Supply Undertakings -	193,760		189,406	2 0	3.3
8. Earnings of Government Departments and Sales of Government Property -	46,000		113,228	2 6	2.0
9. Colliery -	126,000		128,865	17 3	2.0
10. Interest -	903,742		893,664	17 11	15.4
11. Rent of Government Property -	52,620		59,835	9 2	1.0
12. Direct Taxes -	870,180		853,179	19 5	14.7
13. West African Currency Board -	80,000		—		—
14. Reimbursements -	97,006		95,737	3 6	1.7
15. Miscellaneous -	7,606		23,299	2 8	.4
16. Colonial Development Fund -	25,121		18,087	16 10	.3
	6,575,815		5,757,571	11 2	
17. Land Sales -	1,020		1,674	9 8	
18. Contribution towards reconstruction of Kaduna College -	—		1,990	19 4	.1
19. Railway Capital Account Redemption -	—		44,816	0 0	.8
20. Recovery from Loan Funds -	—		5,035	10 10	.1
Total Receipts -	£6,576,835		£5,811,088	11 0	100

Heads and Sub-Heads	Estimated		Actual	
	£	s.	£	s.
SUMMARY				
1. Public Debt -	1,648,224		1,648,205	16 11
2. Governor -	13,143		12,929	19 9
3. Accountant-General -	44,825		42,664	7 3
" (Special) -	325		123	15 3
4. Administrator-General -	2,172		1,774	3 4
5. Agriculture -	144,790		135,976	14 3
" (Special) -	2,200		1,505	4 4
6. Analyst -	3,382		3,464	19 2
" (Special) -	40		37	19 3
7. Audit -	25,840		23,979	15 0
8. Aviation -	6,515		4,658	13 3
" (Special) -	27,827		18,899	7 0
9. Colliery -	86,486		103,014	10 2
" (Special) -	17,000		16,556	14 10
10. Customs -	87,680		81,412	18 3
" (Special) -	—		3,497	2 0
11. Education -	282,820		269,152	3 6

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Heads and Sub-Heads	Estimated	Actual		
	£	£	s.	d.
12. Forestry	71,991	73,200	6	0
" (Special)	1,230	827	6	5
13. Geological Survey	16,877	15,304	1	9
14. Inland Revenue	4,041	3,888	1	0
15. Judicial	63,755	55,689	16	3
16. Land and Survey	68,133	61,517	0	3
" (Special)	7,270	16,679	10	7
17. Legal	12,597	12,263	6	6
" (Special)	175	83	13	9
18. Legislature	1,450	2,053	6	9
19. Marine	325,077	297,277	10	1
" (Special)	24,130	11,323	7	10
20. Medical Services	446,632	413,274	4	6
" (Special)	66,979	45,110	7	1
21. Meteorological Service	5,070	2,564	19	8
" (Special)	116	110	4	6
22. Military				
(1) The Nigeria Regiment, R.W.A.F.F.	300,224	283,764	16	10
" (Special)	40,140	23,588	15	6
(2) Imperial Defence	320	144	3	7
(3) Local Auxiliary Defence	2,300	2,205	16	11
23. Mines	12,902	10,339	11	6
24. Miscellaneous	265,894	296,483	5	10
" (Special)	22,800	35,049	16	10
25. Pensions and Gratuities	506,837	531,125	4	7
26. Police	240,702	228,047	17	7
" (Special)	746	2,081	15	6
27. Post	38,871	37,167	5	6
" (Special)	10,300	4,963	9	0
28. Posts and Telegraphs	220,178	192,843	13	1
" (Special)	51,840	39,600	7	7
29. Printing with Central Stationery Depot	36,797	37,812	15	3
" (Special)	14,600	10,624	3	5
30. Prisons	103,314	106,561	19	8
" (Special)	500	313	11	0
31. Provincial Administration	475,002	457,650	12	11
" (Special)	900	2,716	5	0
32. Public Works	194,166	256,464	18	4
33. Public Works Electricity Branch	97,521	96,801	11	5
" (Special)	5,230	8,512	11	4
34. " " " (Recurrent)	351,980	320,559	13	7
35. " " " (Extraordinary)	254,579	244,887	14	3
36. Secretariat, Nigerian	32,039	29,652	12	2
37. Subventions	26,549	36,109	15	5
" (Special)	11,822	12,373	16	10
38. Transport Directorate	4,443	4,468	13	6
39. Veterinary	43,419	40,039	14	8
" (Special)	200	—	—	—
40. Colonial Development Fund—Assisted Schemes	5,611	6,397	16	10
41. Railway Capital Works	198,683	129,032	19	9
Total Expenditure	£7,080,291	£6,867,408	11	7

Notes: The figures in this table do not coincide with those in Tables XXVI and XXVIII since both these tables were based on the estimates. In addition, Table XXVI excludes the self-balancing departments and Table XXVIII excludes departmental receipts and railway finances.

TABLE XXX
KANO NATIVE TREASURY REVENUE AND EXPENDITURE

REVENUE		1938-39
		£
I. Tribute Tax (55 per cent) - - - - -		150,150
II. Jangali (Cattle Tax: 55 per cent) - - - - -		23,430
III. NATIVE COURTS		
1. Fines and Confiscations - - - - -		600
2. Fees, etc. - - - - -		2,500
IV. INTEREST ON INVESTMENTS		
1. Interest on Investments - - - - -		5,000
2. Interest on Electricity and Water Supply Renewal Fund		500
3. Profits on Capital Transaction - - - - -		100
V. OTHER RECEIPTS		
1. Market Dues - - - - -		1,000
2. School Fees - - - - -		500
3. Printing - - - - -		2,100
4. Hire of Motor Transport - - - - -		8,500
5. Water Supply - - - - -		7,000
6. Electricity Supply - - - - -		7,250
7. Electricity and Water Supply Sundry Sales and Repairs - - - - -		500
8. Medical Fees - - - - -		200
9. <i>Mixed Farming</i> - - - - -		—
10. Scale Fees, Cotton Markets - - - - -		300
11. Overhead Charges, Works for Government and Town- ship - - - - -		820
12. Sale of Quarry Stone - - - - -		500
13. Book Depot Receipts - - - - -		30
14. Miscellaneous - - - - -		2,500
15. Engineering Works - - - - -		1,000
VI. GRANTS FROM EXTERNAL SOURCES - - - - -		—
Total - - - - -		214,480

EXPENDITURE		1938-39
		£
I. CENTRAL		
(a) <i>Personal Emoluments</i>		
1. Emir - - - - -		6,000
2. Establishment charge - - - - -		2,500
3. Waziri (senior minister) - - - - -		1,200
4. Madaki (minister for the districts) - - - - -		1,200
5. Galadima (minister for Kano city administration)		1,000
6. Liman (religious official) - - - - -		120
7. Subordinate staff - - - - -		5,208
(b) <i>Other charges</i>		
8. Extra Services - - - - -		150

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£

II. DISTRICT ADMINISTRATION

(a) Personal Emoluments

1. 26 District Heads - - - - -	12,620
2. Subordinate Staff - - - - -	6,804

(b) Other Charges

3. Ex-District Heads, Compassionate Allowances -	72
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III. VILLAGE ADMINISTRATION

(a) Personal Emoluments

1. Salaried Village Heads - - - - -	23,400
2. Subordinate Staff - - - - -	5,500

IV. JUDICIAL

(a) Personal Emoluments

A. Central and Appeal Court:

1. Alkalin Kano (judge) - - - - -	720
2. Subordinate Staff - - - - -	882

B. Records and Inspectorate:

3. Subordinate Staff - - - - -	312
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C. Minor Courts, Kano City:

4. 2 Alkali - - - - -	192
5. Subordinate Staff - - - - -	174

D. Kano Mixed Court:

6. President - - - - -	240
7. Subordinate Staff - - - - -	420

E. District Courts:

8. District Alkali - - - - -	2,388
9. Subordinate Staff - - - - -	1,932

F. Judicial Classes:

10. 2 Teachers - - - - -	110
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(b) Other Charges

11. Maintenance of Witnesses - - - - -	20
12. Subsistence of Pupils (Judicial Classes) - - - - -	290
13. Contribution to Northern Provinces Law School - - - - -	400

V. TREASURY

(a) Personal Emoluments

1. Treasurer - - - - -	720
2. Subordinate Staff - - - - -	1,173

(b) Other Charges

3. Audit Fees - - - - -	700
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VI. POLICE

(a) Personal Emoluments

1. Superintendent of Police - - - - -	120
2. Yan Gadi (special police) - - - - -	7,554
3. Recruits - - - - -	120
4. 112 Dogarai (ordinary police) - - - - -	3,225

(b) Other Charges

5. Police Officer - - - - -	—
6. Yan Gadi Equipment - - - - -	700
7. Dogarai Uniforms - - - - -	90
8. Compassionate Allowance for Ex-Dogarai and Ex-Yangadi - - - - -	300

VII. PRISONS

(a) *Personal Emoluments*

1. Warden - - - - -	144
2. 150 Warders - - - - -	3,528
3. Juvenile Reformatory Staff - - - - -	150

(b) *Other Charges*

4. Rations - - - - -	2,800
5. Warders' Uniforms - - - - -	200
6. Clothing and Necessaries - - - - -	1,200
7. Sanitation - - - - -	75

VIII. MISCELLANEOUS

(a) *Personal Emoluments*

1. Market Headman - - - - -	60
2. Subordinate Market Staff - - - - -	120
3. 14 Gate-keepers - - - - -	252
4. Rest Houses—Caretakers - - - - -	124

(b) *Other Charges*

5. Maintenance of Horses - - - - -	500
6. Compassionate Allowances for Ex-Native Administration Officials and others - - - - -	120
7. Contribution to salary of Clerk to Northern Provinces Advisory Council - - - - -	—
8. Contribution to salary of Scribe for Northern Provinces News Sheet - - - - -	15
9. Stationery - - - - -	750
10. Repatriation of Destitute Pilgrims - - - - -	100
11. Railway Transport - - - - -	150
12. Regalia - - - - -	80
13. Telephones - - - - -	1,100
14. Library - - - - -	175
15. Contingencies - - - - -	400
16. Bank Charges - - - - -	250
17. Coronation Expenses - - - - -	—
18. Grant-in-aid to Kano Township - - - - -	—
19. Contributions to Games - - - - -	130
20. Crown Agents' Commission, etc. - - - - -	200
21. Licences for Native Administration Officials' Cars - - - - -	200

IX. WORKS RECURRENT

(b) *Other Charges*

A. General:

1. Repairs to Permanent Buildings - - - - -	1,000
2. Repairs to Buildings of Local Construction - - - - -	3,800
3. Repairs and Maintenance of Furniture in Quarters and Public Buildings - - - - -	200
4. Maintenance of Motors - - - - -	7,400
5. Hire of Motor Transport - - - - -	8,000
6. Maintenance of Rollers and Road Maintainers - - - - -	300
7. Replacement of Motors - - - - -	1,000
8. Maintenance of Ox-Carts and Donkeys - - - - -	500

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£

9. Major Roads - - - - -	4,000 ¹
10. Minor Roads - - - - -	3,000
11. Upkeep of Quarry - - - - -	500
B. Workshops:	
12. Apprentice Artisans' Clothing - - -	100
13. Depot Watchman and Labour - - -	250
14. Maintenance of Fixed Tools and Plant -	150
15. Tools for Apprentices - - - - -	200
16. Workshop Materials for Apprentices' Training - - - - -	100
17. Drawing Office Materials and Stationery -	200
C. Waterworks:	
18. Maintenance and Operation of Water Distribution - - - - -	1,000
19. Renewals Fund - - - - -	3,194
D. Electricity Supply:	
20. Maintenance and Operation - - - - -	8,320
21. Renewals Fund - - - - -	3,030
22. Maintenance of Pumping Plant - - -	1,350
23. Maintenance and Operation—Distribution	1,850
24. Headquarters Charges—Technical - -	555
25. Postage, Stationery, Contingencies - -	40
X. WORKS STAFF	
<i>(a) Personal Emoluments</i>	
A. European:	
1. Engineer, Salary, Leave and Voyage Salary, Pension, Passages, etc. - - - - -	1,100
<i>(a) Duty Pay</i> - - - - -	—
2. 3 <i>Executive Engineers: Salary, Leave and Voyage Salary, Pensions, Passages, etc.</i> - - -	—
<i>(a) Seniority Pay</i> - - - - -	—
3. Inspector of Works, Salary, Leave and Voyage Salary, Pension, Passages, etc.-	900
B. African Depot:	
4. Supervisor of Works - - - - -	96
5. <i>Assistant Chief Clerk, Seconded, Salary, Leave and Voyage Salary, Pension, Passages, etc.</i> -	—
6. Subordinate Staff - - - - -	2,714
C. African, Local Works' Section:	
7. Subordinate Staff - - - - -	600
D. European Electricity Supply:	
8. Electrical Engineer, Salary, Leave and Voyage Salary, Pension, Passages, etc.	1,560
<i>(a) Seniority Allowance</i> - - - - -	—
<i>(b) Charge Allowance</i> - - - - -	—
9. 2 Station Engineers, Salary, Leave and Voyage Salary, Pensions, Passages, etc.	1,560
<i>(a) Charge Allowance</i> - - - - -	—
10. 1 Wireman, Salary, Leave and Voyage Salary, Pension, Passages, etc. - - -	450

¹ Not to be spent without special sanction.

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	£
11. <i>Engineer Development, Salary and Allowance</i> -	—
12. <i>1st Class Clerk, Seconded, Salary</i> - - -	—
E. African Electricity Supply:	
13. Technical Staff - - - -	865
(b) <i>Other Charges</i>	
F. Depot:	
14. <i>Contribution to Salary of Superintendent of Native Administration Works</i> - - - -	—
15. <i>Contribution to Expenses of A.D.P.W.'s Office</i> - - - -	84
16. Rail Transport - - - -	950
17. Allowances (Transport, etc.) - - -	850
18. Ocean Passages, Officers' Wives - -	150
G. Electricity Supply:	
19. Allowances (Transport, etc.) - - -	118
20. Railway Transport - - - -	815
21. <i>Contribution to Government Provident Fund</i> -	—
22. Ocean Passages, Officers' Wives - -	170
XI. EDUCATION	
(a) <i>Personal Emoluments</i>	
1. Provincial Education Office Staff - -	325
2. Middle School Staff - - - -	1,013
3. Elementary Schools' Staff - - - -	1,450
4. Adult Education Staff - - - -	240
5. Female Education Staff - - - -	128
(b) <i>Other Charges</i>	
6. Contingencies - - - -	10
7. Transport - - - -	33
8. Free Scholars' Subsistence - - - -	1,050
9. Apparatus, Middle School - - - -	525
10. Apparatus, Elementary Schools - - -	550
11. Upkeep of School Grounds - - - -	100
12. Clothing, Elementary Schools - - -	30
13. Elementary Training Centre, Subsistence and Transport of Pupils - - - -	132
14. Adult Education Apparatus - - - -	40
15. Book Department - - - -	100
(c) <i>Female Education</i>	
16. Labour - - - -	50
17. Maintenance and Equipment - - - -	150
18. <i>Contribution to Salaries of European Teachers</i> -	—
19. <i>Contribution to Law School, Northern Provinces</i> -	—
XII. SURVEY AND PRINTING	
(a) <i>Personal Emoluments</i>	
A. Survey:	
1. Chief Surveyor - - - -	160
(a) Charge Allowance - - - -	60
2. Subordinate Staff - - - -	4,195
B. Printing:	
3. Chief Printer - - - -	120
4. Subordinate Staff - - - -	1,059

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£

(b) Other Charges

A. Survey:

5. Instrument and Stores	-	-	-	-	200
6. Materials	-	-	-	-	500
7. Contribution to Pension of Assistant Surveyor-General (retired)	-	-	-	-	243

B. Printing:

8. Equipment	-	-	-	-	350
9. Paper	-	-	-	-	1,000
10. Extra Services	-	-	-	-	100
11. Postage and Packing	-	-	-	-	350

C. Special:

12. New Machinery	-	-	-	-	400
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XIII. MEDICAL AND SANITARY

(a) Personal Emoluments

A. City Hospital:

1. Warden	-	-	-	-	72
2. Subordinate Staff	-	-	-	-	2,203

B. Fage Dispensary:

3. Dispenser	-	-	-	-	—
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C. Sleeping Sickness:

4. Staff	-	-	-	-	256
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D. Leper Colony:

5. Clerk-Dispenser	-	-	-	-	—
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E. Bush Dispensaries:

6. Staff	-	-	-	-	234
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F. Health:

7. 2 Sanitary Superintendents: Salary, Leave and Voyage Salary, Pensions, Passages, etc.	-	-	-	-	—
8. Inspector	-	-	-	-	84
9. Subordinate Staff	-	-	-	-	1,755

G. Infectious Diseases Hospital:

10. Subordinate Staff	-	-	-	-	51
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(b) Other Charges

A. City Hospital:

11. Allowances	-	-	-	-	—
12. Transport	-	-	-	-	—
13. Equipment and Uniforms	-	-	-	-	1,800
14. Drugs	-	-	-	-	500
15. Maintenance of Pauper Patients	-	-	-	-	700
16. Labour	-	-	-	-	450
17. Contingencies	-	-	-	-	5
18. Upkeep of X-Ray Plant	-	-	-	-	100
19. 2 Medical Officers	-	-	-	-	—
20. Nursing Sister	-	-	-	-	—
21. Government Clerk	-	-	-	-	72

B. Fage Dispensary:

22. Nursing Staff Reimbursement	-	-	-	-	—
23. Drugs and Dressings	-	-	-	-	—
24. Fuel and Light	-	-	-	-	—
25. Labour	-	-	-	-	—

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£

C. Sleeping Sickness:					
26.	General Measures	-	-	-	400
27.	Tsetse Campaign	-	-	-	2,962
D. Leper Colony:					
28.	Maintenance	-	-	-	1,000
29.	Drugs and Equipment	-	-	-	300
30.	Contingencies	-	-	-	—
31.	Upkeep of Buildings and Expansion	-	-	-	200
32.	Medical Officer	-	-	-	—
33.	Lay Worker, contribution to salary	-	-	-	—
34.	Transport	-	-	-	—
35.	Allowances	-	-	-	—
E. Bush Dispensaries:					
36.	Drugs and Equipment	-	-	-	400
37.	Uniforms and Necessaries	-	-	-	40
38.	Contingencies	-	-	-	10
39.	Learners' Fees and Subsistence	-	-	-	—
F. Health:					
40.	Labour	-	-	-	2,315
41.	Equipment and Disinfectant	-	-	-	500
42.	Medical Officer of Health	-	-	-	—
43.	Allowances	-	-	-	—
44.	Transport	-	-	-	—
45.	Vaccination Lymph	-	-	-	536
G. Infectious Diseases Hospital:					
46.	Maintenance	-	-	-	100
XIV. AGRICULTURE AND VETERINARY					
(a) Personal Emoluments					
A. Agriculture:					
1.	Superintendent	-	-	-	120
2.	Subordinate Staff	-	-	-	759
B. Veterinary:					
3.	Stockman, Salary, Leave and Voyage Salary, Pension, Passages, etc.	-	-	-	—
4.	Superintendent	-	-	-	60
5.	Subordinate Staff	-	-	-	900
C. Veterinary Hospital:					
6.	Staff	-	-	-	84
(b) Other Charges					
A. Agriculture:					
7.	Agricultural Extension Work	-	-	-	670
8.	Cotton Seed	-	-	-	400
9.	Cotton Markets	-	-	-	40
10.	Reimbursement, Agricultural Extension Staff (European)	-	-	-	—
11.	Locust Control and Famine Relief	-	-	-	500
B. Veterinary:					
12.	Allowances, Stockman	-	-	-	—
C. Veterinary Hospital:					
13.	Maintenance and Equipment	-	-	-	250
14.	Labour	-	-	-	80

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£

15. Fodder - - - - -	150
16. Vaccine Cattle - - - - -	250
<i>D. Livestock Farm:</i>	
17. Labour - - - - -	100
18. Maintenance and Equipment - - - - -	25
19. Fodder - - - - -	30
<i>C. Special:</i>	
20. Veterinary Development - - - - -	700

XV. FORESTRY

(a) *Personal Emoluments*

1. Chief Ranger - - - - -	—
2. 4 Rangers - - - - -	—
3. Plantation Staff - - - - -	75
4. Amenity Plantations Staff - - - - -	180

(b) *Other Charges*

5. Labour - - - - -	—
6. Plantations - - - - -	—
7. Seeds and Tools - - - - -	—
8. Forestry Plantations - - - - -	250
9. Amenity Plantations - - - - -	150
10. Special Anti-Desiccation Work - - - - -	100

XVI. GRANTS FROM EXTERNAL SOURCES - - - - -

TOTAL RECURRENT AND SPECIAL - - - - - 201,981

SUMMARY:

A. Recurrent - - - - -	200,881
B. Special - - - - -	1,100
C. Extraordinary - - - - -	60,400

TOTAL FOR 1938-39 - - - - - 262,381

TOTAL FOR 1937-38 - - - - - £275,371

Chapter VI

THE BALANCE OF PAYMENTS IN 1936¹

BY P. A. BOWER

1. THE UNDERLYING PRINCIPLES

(a) THE PURPOSES OF THE CALCULATION

Historically, the economic relations between the territory now known as Nigeria and other parts of the world have arisen as the result of the demand of peoples in the temperate zone for natural products of the tropical belt and the reciprocal demand on the part of the inhabitants of the tropical area for manufactured goods. Exchange of goods for goods between distant areas profiting by natural and acquired advantages is still the dominant motive, although central government imposed mainly to safeguard that exchange, and the mounting investment of European capital that accompanied political unification, have led to the growth of more complex bonds of service and finance between the colony and other countries especially, of course, the metropolitan country. More recently, the veil has begun to be lifted from Nigeria's trade with her immediate neighbours: a trade most of whose participants understand little of frontiers but something of the advantages of such markets as Kano and Garua whose rail and river communications enable the produce of the remote hinterlands to be exchanged for European goods or such local luxuries as kola nuts.

All these economic relations between Nigeria—or any other country—and the outside world give rise to transfers of goods and payments of various kinds across the frontiers of the area. The balance of payments calculation is an attempt to evaluate all the inward and outward transfers which cross the frontier during a stated period. This laborious task might seem to be of as little practical value as counting imaginary sheep and certainly less soothing. But the transfers that enter the balance of payments calculation, though all expressed in the same monetary terms, lack the homogeneity of sheep: they are of various types and sizes, and are controlled by different forces. If these characteristics of the transfers

¹ This chapter is a short version of a 200-page manuscript with 42 tables written for Nuffield College. Full details of the methods used in the calculation are given in the manuscript, copies of which are deposited at Nuffield College Library and the Colonial Office Library. The calculation owes a great deal throughout to pioneer work done by Mr. J. Mars in his unpublished study on *The Balance of Payments of the Gold Coast, 1935-36 to 1937-38*.

can be determined much light is thrown upon the nature of the economy which they enter or leave.

Dr. Leubuscher has already analysed the economic forces and policies which determine the volume and value of Nigeria's overseas trade in merchandise; Sir Alan Pim has explained the financial system and overseas loan policy of the colony; and Mr. Mars has expounded the relations between the West African currency system and the balance of payments.¹ The task of this calculation is to measure as exactly as possible the balance of payments items mentioned in other chapters and to investigate and assess the many other more obscure transfers which take place between Nigeria and the outside world, such as transfers of profits and capital payments by extra-territorial companies, the outward remittances of Europeans occupied in Nigeria, the remarkably heavy contributions of foreign missionary societies to Nigerian social services, the external income derived by the colony from the sale of various services to foreigners and the effects of African trade and migration across the land frontiers of the colony. Once the pieces have been measured they can be fitted into a strict logical scheme which will be described below.

Ideally, the balance of payments calculation of a country should be made annually to enable the trends of the component items to be observed, but if the peculiar Nigerian pattern of the scheme is known for a single normal year such as 1936 (which was still unaffected by the expectation of war) it becomes possible to envisage fairly accurately the effects on the whole system when certain items are changed. Dr. Leubuscher has referred to the fact that in the case of colonies the total value of exports determines the point up to which goods may be imported. The balance of payments calculation shows that, although it is a factor of great importance, the total value of exports is but one determinant of the total value of imports. In certain circumstances, i.e. when there are heavy capital imports,² the total value of imports may exceed the value of exports, but, ordinarily, the value of exports is a hypothetical upper limit which the value of imports is prevented from reaching by other more or less rigid claims upon Nigeria's foreign gross income from the sale of exports. The balance of payments calculation investigates the nature and size of these claims, so that it becomes possible to say roughly in what circumstances the value of Nigeria's imports might be increased given the total value of exports.

A fairly accurate knowledge of its balance of payments situation is of great assistance to a colonial or, indeed, any other government in formulating its external loan policy, especially if the calculations cover a number of years, since if it knows to what extent it can add to its external reserves out of the high revenue of prosperous years, it need give less regard to the difficulty of meeting the charges on a prospective external loan out of

¹ See Chapters III, IV and V.

² See p. 95.

current revenue in depression years as a limiting factor determining the size of the loan to be raised. In addition it is an advantage to a borrowing country if possible foreign lenders can be convinced of the country's ability to meet its liabilities in times of stringency.¹

It has been contended that there is no need to reassure possible overseas subscribers to a British colonial loan by calculating the balance of payments since it is known that the imperial government would find it very difficult to escape its moral obligation if the colony should default. The doctrine of self-sufficiency for colonial finance is, however, still more widely known, and it does not seem that the imperial government's ultimate responsibility for colonial finance has ever been the watchword of those responsible for Nigeria's financial policy, for they appear to have been fairly cautious. Knowledge of the balance of payments situation might have been the foundation of a more venturesome financial policy.

Recently the old rule that both ends must be made to meet within the financial framework of the colony has given way to the recognition of the responsibility of the imperial government for colonial development. In the *Preliminary Statement on Development Planning in Nigeria*² it is even suggested that assistance should be given out of the Colonial Development Fund towards the 'cost of servicing charges (of loans for development purposes) in the earlier years in those cases appropriate for such help'. Far from supporting the contention that it is unnecessary to know the balance of payments situation in the case of Nigeria, the assumption of this liability underlines the need for detailed knowledge of Nigeria's external financial relations.

The first calculation in a series of annual balance of payments studies also has an exploratory value. The relevant published statistics of the country must be examined to assess their suitability for the purpose. Methods of estimating figures which are lacking must be evolved and the underlying logic of the calculation must be clarified. Lack of space in this volume makes it impossible to give a detailed account of the sources of material and methods used in this calculation, but, since this is a pioneer attempt, it is considered worth while to examine as fully as possible the theoretical and practical considerations which determined the choice and arrangement of the items shown in the detailed final tables, as well as the more important lines of approach to the estimates.

(b) THE CONSTITUENT BALANCES

However they may be effected, all the transfers which take place as

¹ Cf. Canada Dominion Bureau of Statistics, *The Canadian Balance of International Payments* (Ottawa), 1939, p. 18. 'In connection with Canadian borrowings in the United States, the Securities and Exchange Commission requires the balance of international payments statements as part of the information to be contained in the prospectuses covering the loan.'

² Sessional Paper No. 6 of 1945.

the result of the country's relations with the outside world can be expressed in monetary terms, and in the case of Nigeria they may be classified into the following five groups, in which the positive and negative items form constituent balances.¹

(i) *Transfers of commodities*

The movements of goods across the frontiers of an area are the simplest and most fundamental of the items entering into its balance of payments. The volume and value at the sea frontier of exports and imports can in the case of Nigeria be derived without much difficulty from the *Trade Reports* of the colony. The total value of Nigeria's exports during a period signifies a claim to payment on the part of the colony against the outside world arising during the period, and is entered as a positive item in the balance of payments. This total sum does not necessarily measure the total receipts of persons engaged in the export trade during the period, since exports from Nigeria are pre-paid in respect of the moment of export and there may be a net increase or decrease in the total value of stocks of produce for export held in the colony between the beginning and end of the period. If there is a net increase in the value of stocks of exports, the actual receipts of persons engaged in the export trade in Nigeria will exceed the total value of produce actually exported during the period by that amount and vice versa. In the first case, the difference between the two totals constitutes a loan to Nigeria, since the goods have been paid for but not delivered across the frontier of the colony, and, in the second case, a loan from Nigeria. Similarly, the total value at the frontier of imports into Nigeria must be regarded as a claim on the part of the outside world against Nigeria arising during the period in question and not as a measure of actual payments for imports², since a large portion of imports (corresponding roughly with consumers' goods) are post-paid and the total value of stocks may, as in the case of export goods, change during the period. This point is stressed because the title 'balance of payments' and the fact that the first items in these calculations are invariably the values of physical exports and imports during the period in question may lead to the false impression that these values represent actual inward and outward payments during that period. They should be regarded merely as claims arising which may be larger or smaller than the actual payments on income account made during the period. The net discrepancies between the values of goods passing outward or inward across the frontier and payments entering and leaving the Nigerian economy are loans between

¹ The system of grouping items in this calculation is similar to that used in the recent *Balances of Payments, 1938*. The main differences, which should be kept in mind when making comparisons, will be pointed out as they occur.

² Receipts for exports and expenditure on imported 'traded' goods are estimated on page 305 below.

Nigeria and the outside world and must be accounted for in a later section of the balance of payments.

Exports of gold and silver mined in Nigeria are included as exports of commodities. The common practice of including gold and silver bullion and specie under the same heading in balance of payments calculations¹ is confusing, since although transfers of bullion and specie are similar in effect they may differ in cause. Thus, all the considerations in this section apply to exports of raw gold from Nigeria, but a reduction in the amount of silver coin circulating in Nigeria has a totally different rationale.²

(ii) *Transfers of payments for services*

The services, charges for which enter the balance of payments, are either rendered by factors of production domiciled in Nigeria and paid for out of foreign incomes, or rendered by foreign factors of production domiciled outside Nigeria and paid for out of Nigerian incomes. In this calculation, however, a distinction is made between the services rendered by capital, the payments for which are known as interest and profits, and services rendered by other factors, the former being shown under a separate heading below. In some balance of payments calculations,³ migrants' remittances are included under the heading 'payments for services', which amounts to regarding all migrants as foreign factors of production in the areas into which they have moved for the purpose of working. This is formally correct, but not very realistic where the migrants are an integral part of the economy in which they earn their incomes as in the cases of British government officials, Levantines and many African immigrants in Nigeria. In addition, their remittances are only a portion of their total incomes and consequently no measure of the value of services rendered by migrants into a foreign area. This last defect might be remedied by showing their total earnings as an outward payment for services, and their expenditure on maintenance in Nigeria as an inward payment, but this procedure is somewhat roundabout. In this calculation, therefore, migrants' remittances are regarded not from the point of view of the sending country as the earnings of foreign factors, but from the point of view of the receiving country as gifts. They are thus excluded from the lists of inward and outward payments for services.

The main items included under this heading are various types of transport services rendered by the Nigerian government and other agents, postal services, administrative and scientific services purchased by the Nigerian government, and certain commercial services such as insurance.

Just as in the case of transfers of commodities payments to the factors

¹ This practice is followed in *Balances of Payments, 1938*, p. 9.

² See Chapter IV, pp. 178-9.

³ In *Balances of Payments, 1938*, migrants' remittances are included under the heading: 'Other services', p. 8.

of production are not synchronised with the physical movement of goods across boundaries, so payments for services are not necessarily made at the time when the services are rendered, so that payments calculated on the basis of actual traffic movements during a period may not correspond with actual payments during the same period; but the discrepancy is not likely to be so great as in the case of commodities which can be stored, so giving rise to large loan payments. In the case of Nigeria, payments for services, as defined above, amount to so little compared with other types of payments that the error caused by disregarding any such discrepancy must be very small indeed.

It is stated above that the value of imports at the frontier of Nigeria measures the claim arising on the part of the outside world against Nigeria in respect of imports during the period. The value of imports at the frontier includes the cost of ocean transport and insurance which are really service items. It is, however, customary to include these items in the value of transfers of imported commodities, and not under the heading 'payments for services'.

(iii) *Transfers of currency*

The currency system of Nigeria is a hundred per cent sterling exchange standard. This means that West African coins and notes can always be changed on demand into equivalent sterling balances in London at par and vice versa, all exchange transactions passing ultimately through the hands of the West African Currency Board which is responsible for the currency of the four West African colonies, in which it has branches. The Currency Board has in itself no power to influence the quantity of money circulating in the four colonies concerned. Any increment of West African currency passes into circulation in Nigeria in return for exported goods and services purchased by firms and individuals, or as the result of externally financed investment in fixed assets by firms, individuals or government. Any decrement of West African currency leaves circulation in Nigeria as the result of purchases of imported goods and services or as the result of taxation the proceeds of which are transferred abroad. Currency is virtually out of circulation when it is in the hands of the West African Currency Board whether it actually leaves Nigeria or not. As there is no short-term capital market in Nigeria, and surplus funds must be transferred to London for investment,¹ both seasonal and cyclical fluctuations in the amount of currency in circulation as defined are considerable. It is obvious from the above brief discussion that changes in the quantity of money circulating in Nigeria are entirely determined by the colony's relations with the outside world. Currency may enter Nigeria in the guise of working capital; it may be loosed into circulation by the Currency

¹ This information was kindly supplied by a member of a firm of chartered accountants dealing with many Nigerian firms of various types.

Board via individuals and institutions making payments either on current or capital account; but in itself it is a commodity, valued as a means of exchange, as a means of storing value and, especially in the case of a colony like Nigeria, as a title to imported goods. A net increment of currency circulating in Nigeria is thus treated in the balance of payments in the same way as a commodity import by a negative entry signifying a claim against Nigeria, while a net decrement of currency is treated as a commodity export or a positive entry.¹ There is no need to distinguish between silver coins and the other types of West African currency in this context.

(iv) *Transfers of investment income*

Investment income is the name given in this calculation to payments for the services of capital: namely, interest and profits.

The Nigerian government and native administrations receive interest on various funds invested abroad, and the Nigerian government pays interest on public loans raised mainly in other countries. Trade in domestic produce and imported goods and the mining industry depend largely on foreign capital and enterprise so that the profits of these so-called 'extra-territorial' concerns which accrue in Nigeria must leave the colony.

(v) *Transfers on capital account*

Transfers on capital account cover all payments which, from the point of view of their destination, cannot be regarded as factor incomes. Some of these payments are bilateral in that they give rise to obligations to repayment and payment of interest or dividends and others are unilateral giving rise to no claim against the recipient. In dealing with capital transfers of the first type it is customary to distinguish between long-term and short-term investments. In connection with a balance of payments calculation for a year, it is permissible to say that long-term investments are those which do not, while short-term investments do, have to be repaid in full within the year. Long-term bilateral capital movements cover transfers of funds to purchase securities, transfers in money and/or in kind for the purpose of creating or adding to fixed assets abroad and the amortisation (capital repayment) and depreciation (capital maintenance) payments which arise as the result of long-term investments. Short-term bilateral capital movements cover transfers of funds for the acquisition of liquid assets, i.e. bank deposits, Treasury Bills, bills of exchange or easily market-

¹ Cf. Chapter IV, which contains a detailed treatment of the West African Currency system. If the above remarks appear to conflict with Mr. Mars's analysis, it should be remembered that short-term changes in the total currency in circulation are being dealt with here, and not long-term changes in the 'localised circulation'. A small part of an increment of the total currency in circulation during a short period, such as one year, may easily be the result of an inward capital movement, i.e. it does not have to be paid for by exports within the current period.

able securities. Unilateral capital movements include remittances by European officials and all migrants, interest-free grants such as grants from the Colonial Development Fund and gifts to the British government towards the cost of imperial defence, and remittances to pay for missionary work.

(c) THE WHOLE BALANCE OF PAYMENTS

The positive and negative entries denoting inward and outward transfers of claims which fall into each of these five classes can be balanced separately. Some of the balances will have positive and some negative signs. It is impossible for all to have the same sign. The sum of the first four balances are together sometimes known as the 'balance of payments on income account', while the fifth is known as the 'balance of payments on capital account'.¹ If it were possible to estimate each item in the whole balance of payments accurately the sum of the five balances would equal 0. For example, if the balance of all payments on income account equals $+x$, the balance of payments on capital account would equal $-x$. This is so because, if inward and outward payments on income account do not exactly offset each other, it can only be because a loan or gifts equal to the discrepancy has been made. It can also be shown that even if the initiative comes from the capital sphere, which would be the case if, for example, Nigeria wished to make a large gift out of revenue to the British government, adjustments would automatically take place, so that the resulting disequilibrium in the capital balance would be offset by equivalent changes in other balances. To put the whole matter briefly, a net outward transfer on capital account can only be made effective by the establishment of an equivalent claim to the currency of the receiving country, and this can only be attained by an equivalent positive balance of payments on current account.²

In practice a perfect calculation of the balance of payments in which the sum of the five balances equals 0 has never been attained, and there is invariably a residual balance caused by errors and omissions.

(d) WHY THE YEAR 1936 WAS CHOSEN

The year 1936 was chosen for the calculation because it was a normal, prosperous peace-time year, when the Nigerian economy was still unaffected by the expectation of war. Owing to lack of information, the whole picture of the Nigerian war-time economy cannot yet be drawn, but there is reason to believe that the war in itself has not caused any long-

¹ Haberler, G., *Theory of International Trade*, 1937, p. 18.

² The repercussions of unilateral transfers on the economic system of a country and its balance of payments are in reality complex and various and should be studied in works dealing specifically with this problem, e.g. Haberler, *op. cit.*, pp. 3-117; Robinson, J., *Essays in the Theory of Employment*, 1927, pp. 182-209.

term changes in the factors affecting the balance of payments. It is, of course, known that the war years have been characterised by large export balances and large increases of currency in circulation,¹ but these are short-term effects which will disappear with the removal of restrictions on imports and easing of the shipping shortage.

The total value of exports of Nigerian produce was the most fundamental item in the colony's pre-war balance of payments, for, roughly speaking, it sets a limit to the total sum of imports plus the net outward transfer on capital account which Nigeria as a debtor country must make. This situation appears to be fundamentally unchanged. Like other debtor countries which helped to supply the allies during the war and consequently accumulated sterling balances,² Nigeria has, to some extent, taken the opportunity to improve her external financial situation by increasing her reserves.³ Her position as a debtor country has, however, apparently changed little, as public debt charges during 1943/44 were £1,391,057 (excluding a contribution of £500,000 to the supplementary sinking fund) compared with £944,087 in 1936/37. By 1943/44, however, a larger amount of the external debt may have been purchased by the Nigerian Government than in the earlier year, so that the net outward transfer of interest might be commensurately less in the later year.

Although exports of tin have temporarily increased during the war, the tonnages of exports of the four main agricultural products (palm-oil, palm-kernels, ground-nuts and cocoa) during the years 1940 to 1944 averaged less than for the years 1935 to 1939.⁴ Although this may be attributed to low controlled prices, shortage of shipping and consequent scarcity of imported goods which act as an incentive to production, there is no reason to expect any fundamental departure from the inter-war trend of exports during the next few years; however, the removal of these obstacles may cause a temporary increase in exports like that which followed the last war.⁵

¹ Between 30th June, 1936, and 30th June, 1945, the total amount of West African currency in circulation in all four colonies increased from £12,540,159 to £29,692,788, an increase of 137 per cent.

² 'Middle Eastern Inflation', *The Economist*, 3rd March, 1945, p. 285.

³ The following figures taken from *Reports on the Accounts and Finances, 1936-37, and 1943-44*, give an idea of the changes in Nigeria's financial situation between 31st March, 1937, and 31st March, 1944. Between these dates the total public debt outstanding remained at £24,764,599 (not counting an interest-free loan of £30,000 from the Colonial Development Fund which was made in 1943), while effective reserves rose from £3,932,415 to £5,665,165.

⁴ The averages for the war years expressed as percentages of the averages for the pre-war years were as follows: Palm-oil, 94 per cent; palm-kernels, 98 per cent; ground-nuts, 72 per cent; cocoa, 98 per cent. The figures for war years are confidential and cannot be published here.

⁵ See Table XXXIII.

2. THE RESULTS OF THE CALCULATION

(a) A SUMMARY OF THE FINAL TABLES

It may facilitate the reader's passage through the ensuing pages which deal in greater detail with each of the five constituent balances if a synopsis of the results is furnished to act as a chart through the welter of facts, figures and deductions which follow. Table XXXI gives the results of the balance of payments calculation for 1936 in summarised form. The total of the items composing each of the five constituent balances are shown in large numerals, and the minor items in smaller numerals. All the items for which Nigeria receives payment or establishes claims against the outside world are shown in the three columns on the left under the heading 'positive items', and all the items for which Nigeria has to pay, or for which claims for payment are established against her, are shown on the right hand side under the heading 'negative items'. The balancing items—the difference between the totals in columns 3 and 6—are shown in columns 9 and 10.

While calculating the individual or grouped items shown in columns 3 and 6, an idea was formed of the correctness of the estimates depending on the reliability of the available statistical material and the extent of knowledge upon which various assumptions and deductions depended. The various degrees of confidence in the accuracy of each estimate are expressed by percentage margins of error about the estimated values within which the true values are expected to lie. These percentages are shown in columns 4 and 7.¹

It is clear that the least reliable estimates are comprised in the balance of transfers on capital account, since very little information exists about any type of capital movement apart from governmental capital transfers and investments in fixed and semi-fixed assets by mining companies. The existence of a residual balance of £687,000 leads to the expectation that inward capital movements, also possibly the value of commodity exports, have been underestimated, while outward capital payments and transfers of profit may have been over-estimated. The three most notable omissions in the calculation are the outward transfers of profits and depreciation

¹ For example, this means that in the case of the inward transfer of government investment income the true value is thought to lie between £209,000 plus or minus 10 per cent, i.e. between £178,000 and £230,000. Incorrect estimates can be either larger or smaller than the correct values, so that when a large number of incorrect estimates are added, the errors tend to offset each other. This tendency can be allowed for, when the margins of error are aggregated, by squaring the numerical margins, adding them and then taking the square root. The margins of error for the total positive and negative items in each balance, and also the margins of error of items in Table XXXI which are the result of adding several items from Table XXXII, were calculated in this way.

payments by extra-territorial transport companies, inward transfers of remittances to junior officials and interest payments on foreign investments held by officials and other persons resident in Nigeria. These omissions tend, of course, to offset each other.

Leaving aside considerations of accuracy, we can see from column 9 that Nigeria earned, or established a claim, to overseas income as the result of sales of goods and services to foreigners over and above purchases of goods and services from foreigners in 1936 amounting to about £5·4 million, mainly derived from exports of merchandise. A very large part of this claim to sterling on the part of Nigerians was absorbed by counter-claims on the part of overseas lenders to interest and dividends on capital invested in Nigeria, for the net outward transfer of investment income amounted to about £3 million. This characteristic of the Nigerian balance of payments is to be expected in the case of any comparatively backward country which owes the development of its existing communications, commerce and industries to overseas investment.

The large increment in the circulation of West African currency, amounting to about £2 million, is largely due to the fact that African exporters preferred to renew their cash balances, which had been depleted during the foregoing depression years,¹ rather than purchase imported goods with money earned from the sale of exports. Had they purchased more imports, both the positive balance of transfers of commodities and the increment in the circulation of currency would have been smaller.

The final negative balance offsetting the sum of the positive balances is a fairly small net outward transfer on capital account. A glance at the detailed figures given in columns 3 and 6 reveals that it was the large outward transfers on capital account by the government and the heavy outward remittances by foreigners occupied in Nigeria that turned Nigeria into a capital exporting country, for if the capital transfers due to commerce, industry and missions are added up, positive or inward transfers predominate by nearly £2 million. (The missing negative figure for depreciation on fixed assets of transport firms would not affect this sum appreciably.)

The total estimated investment in fixed and semi-fixed assets by all extra-territorial firms and banks amounted to £937,000. This amounts to 38 per cent of the estimated total gross profits (net profits plus depreciation on fixed and semi-fixed assets) earned by these firms during the year, namely £2,486,000. A comparison of this relation with corresponding relations for other colonies may be interesting but must be taken cautiously owing to the unreliability of estimates of capital transfers and profits. In 1925, a prosperous year, reinvestments out of profits earned in the

¹ Cf. *Trade Report, 1936*, p. 27, 'there can be no doubt that, following a period of adversity, the people of Nigeria are replenishing their depleted reserves and will spend freely when they are satisfied with these reserves.'

Netherlands East Indies were said to 'have reached some 30 per cent of the amounts entered as dividends paid abroad in the account for goods and services'.¹ Dividends paid abroad, of course, exclude contributions to reserve funds as well as depreciation allowances, so that in the year 1925 reinvestments by extra-territorial firms in the Dutch colony must have been a much smaller proportion of gross profits than was the case in Nigeria in 1936, assuming in both cases that the estimates were fairly accurate. In the balance of payments for French Indo-China for 1936,² 'new private capital investments' were 33 per cent of the 'transfer of commercial profits'.

The main characteristics which distinguish the balance of payments of Nigeria and other colonies from those of advanced creditor countries, such as Great Britain or France, in the inter-war period are the large positive balance of commodity transfers and the heavy net outward transfers of investment income. Minor differences are the relative smallness of Nigeria's positive balance of payments for services in comparison with the western European maritime countries, which usually derive a much heavier overseas income from the sale of shipping services or the revenue from a larger transit traffic than Nigeria's communications can attract, and the burden of remittances, leave salaries and pensions of European officials that the colony must transfer abroad as long as Nigeria is at a cultural stage at which it requires the administrative and technical services of experts from overseas. This burden is disproportionately heavy in comparison with the revenue of the colony because the standard of living of European administrators is very much above that of the population in general.

It now becomes possible to enumerate some of the conditions under which, *ceteris paribus* and with a given total value of exports, Nigeria's imports might be increased. In 1936 imports might have been larger had Nigerian exporters simply decided to purchase more imports instead of holding cash, if the ownership of capital invested in Nigeria had been wholly or partly domesticated so that the claims of foreign investors against Nigeria were reduced, or if the government service had been wholly or partly Africanised so that the portion of the export balance ear-marked for the transfer of officials' remittances might have been smaller.

(b) THE RESULTS IN DETAIL

The results of the calculation which were summarised in Table XXXI are set out in greater detail in Table XXXII.

(i) *The balance of transfers of commodities*

The values of commodities transferred across the sea frontiers of Nigeria during the year are the largest items in the balance of payments of the colony. The values of exports and imports shown as items A₁ and B₁

¹ *Balances of Payments, 1938*, p. 93.

² *Ibid.*, pp. 55-56.

in Table XXXIIA exclude re-exports and imports in bond respectively, the values of these goods being shown separately below as items A7 and B8. It will be noticed that there is a very substantial difference between the adjusted value of exports of merchandise shown as item A1 and the value of exports of merchandise as stated in the *Trade Report* and shown at the head of Table XXXIIA. The latter figure was found to be unreliable, so that the value of exports of Nigerian produce had to be re-calculated for inclusion in the balance of payments calculation. This alteration is important since it shows that in 1936 the claims established by Nigeria against the outside world in respect of exports of domestic produce were undervalued in the *Trade Report* to the extent of roughly £1 million.¹

Prior to 1940, exports by parcel post, unlike imports by parcel post, were not included in the *Trade Report* but stated in the *Report on the Department of Posts and Telegraphs*. This value is shown in row 2 of Table XXXIIA.

The value of imports stated in the *Trade Report* was taken to be correct, except in so far as it included harbour dues and charges for marine and harbour services rendered to ships, which amounted in 1936 to £82,000. This sum had to be deducted from the value of imports of merchandise

¹ The plan of this calculation as outlined in Part 1 of this chapter demands that the value of exported produce stated in the balance of transfers of commodities should contain the following items: (1) all costs which become incomes of persons resident in Nigeria or of the government—this includes prime costs, the whole salaries and travelling expenses of Europeans engaged in the export trade, African salaries and wages, rents, local office expenses and maintenance costs, local port handling charges and export duty: (2) the cost of imported packing materials and containers: (3) profits and depreciation payments. For if these two items were omitted from the value of exports they would also have to be omitted as negative entries in the balances of transfers of investment income and capital. More light is thrown upon the Nigerian economy and its external relations if these items are included on both sides of the balance of payments, for these fictitious *per contra* entries illuminate the effects of foreign ownership of capital and foreign enterprise upon the balance of payments. It is believed that values of exports are now recorded in the *Trade Reports* in accordance with the requirements of this balance of payments calculation, except that they include harbour dues, which should really be entered as payment for exported services, and exclude profits. These variations are of no importance as harbour dues can be easily deducted and profits can be estimated independently and added (cf. *Trade Report, 1940*, Explanatory Notes, para. 3). The figures for values of exports given in the *Trade Report, 1936*, are, however, officially acknowledged to be far from reliable. Corroborative evidence as to the unreliability of produce values was given by representatives of two important trading firms operating in Nigeria. The adjustments of values of produce exported were effected by making reasonable additions to the more reliable average monthly market prices of agricultural produce in Nigeria. Scrutiny of tonnage and value statistics for exports of tin in 1936 revealed that the quantity stated was considerably less than that given in other reliable sources, while those in the *Trade Report* were London values, including—in addition to the items required for the balance of payments—ocean freight, smelting charges and London office expenses. These errors in the value of tin exported in 1936 were also corrected.

since it merely involves transfers of incomes among Nigerians which do not enter the balance of payments.¹

The adjusted balance of transfers of commodities across sea frontiers in 1936 was, therefore, £4,662,624, a figure which can be appreciated better if placed in its historical perspective. This is done in Table XXXIII, which shows the values of imports and exports of merchandise from 1900 to 1939. It appears that the positive balance of transfers of commodities in 1936 was the third largest over the whole period, although a little less than that of 1937. This was the result of the rising trend of produce prices which called forth in 1936 an export tonnage which was the highest recorded until that year. Imports which were higher than in 1935 did not, however, increase to the same extent as exports, although purchases of import goods rose enough to cause a depletion of stocks.² This depletion was made up by very heavy imports in 1937, which caused the proportion of the positive balance to exports to fall in relation to that of 1936.

Table XXXIII also shows that the balances have tended to grow both absolutely and as a proportion of total exports. The former trend is merely a consequence of the growth in the volume of trade, while the second reflects the growing complexity of the colony's relations with the outside world. In the early days, when little investment had taken place and government was rudimentary, the figures reflected little beyond the simple exchange of goods for goods, so that the values of imports and exports tended to equality. Outward remittances of government employees in the early years of the century must have been low, for the national debt was just coming into being so that the burden of its services cannot have been heavy. It is not known how exports were valued in the early years, but as payments in Nigeria were still often made in goods it is quite probable that London values of produce rather than local market prices were used as a basis for estimation and that the values stated in the *Trade Reports* included profits (if not transport costs). The positive balances of early years might thus be deemed to have been caused mainly by fictitious transfers of profits and, possibly, transport costs.

Although the full amounts of government loans are not transferred into

¹ For the purpose of this calculation imports into Nigeria should be valued at true c.i.f. prices, i.e. they should contain all costs incurred in the country of origin (including export duty) and all costs for transport incurred between the country of origin and the Nigerian wharf. They should, in particular, contain the buying commission charged by the head offices of extra-territorial companies. These costs might be considered to represent an import of services by the Nigerian branches of the firms, but are included in the c.i.f. value of imports in this calculation for the sake of comparability with the balances of payments of other economies in which extra-territorial companies play a smaller part or are absent. As a large number of imports into Nigeria are subject to an *ad valorem* duty, it is probable that the entries in the *Trade Reports* were based on carefully estimated values. Evidence for this probability is given in the MS. p. 24.

² See below, p. 305.

the colony in the year in which they are raised but trickle in by small instalments,¹ the negative balances in early years reflect government investment in railways and the development of other communications and private investment in the mining industries, particularly in 1908 and 1909. The outstanding negative balance of nearly £4 million in 1920 is of special interest. Government expenditure out of loan funds amounted to only £16,072 during the year.² A glance at the detailed import figures reveals that there was no exceptional private investment in fixed assets during the year. A large outflow of currency might be expected, but the circulation actually rose during the year by £242,421.³ However, the import statistics reveal vast increases in imports of consumers' goods in 1920 as compared with 1919. Export prices suddenly failed towards the end of 1930 so that traders must have been left with enormous stocks of trade goods on their hands. Thus, this mysterious negative balance of commodity transfers must have been largely offset by a huge inward short-term capital movement. This optimistic *faux pas* on the part of the traders inaugurated a period of extreme caution. Imports remained almost stationary for the next four years despite considerable fluctuations in exports.

The heavy outward balances of the inter-war years indicate the large remittances of pensions and salaries, earnings of profits and depreciation payments, and interest and sinking fund payments—barely offset by the inward trickle of public and private investment and replacement that mark Nigeria's evolution from a primitive barter economy to a partially capitalised community.

Of Nigeria's vast land frontiers only a fraction, a mere 380 miles,⁴ is controlled by the Customs Preventive Service. Consequently there is little precise information about the traffic which crosses the borders by various well-established trade routes.

In pre-war days the most important movement across the land frontiers was from French Niger territory into northern Nigeria. Before the railway reached Kano, there was a considerable traffic in the opposite direction toward the Mediterranean ports. In fact 'Morocco leather' had often passed through the Kano market on its way to Algiers or Tripoli. Now this traffic flows southward, and the French colony also depends on Nigeria as an outlet for live cattle and, to a limited extent, ground-nuts, salt from the Taodeni mines and potash. Produce is brought into Nigeria on the hoof and by camel or lorry, the camels being sometimes sold off also. Goods are brought to Kano between October and April, and the traders return from about April onwards.

¹ See Table XXXVI, column 15.

² *Financial Returns for the year ended 31st December, 1921.*

³ *Ibid.*, p. 5.

⁴ *Trade Report, 1938*, pp. 23-24.

There is also a minor movement to Sokoto and another to Katsina from over the frontier. The traffic ultimately reaches the Kaura Namoda branch of the railway, but is very small compared with the Kano trade.

A small amount of produce, mainly ground-nuts, hides and skins, and cotton, is brought to Garua and Yola on the Benue near the eastern frontier and carried to the coast by river; and small quantities of cocoa, the value of which in 1936 was £18,526, move from the French Cameroons across country to Ikom and down the Cross River to Calabar and overland along the motor road via Kumba to Tiko. On the western frontier, the Idolgo branch of the Lagos line brings foodstuff produced in Dahomey to the Lagos market.

Until 1930 large quantities of produce from eastern Dahomey moved via the lagoon from Porto Novo to Lagos for export, the highest value being £273,000 in 1923. In 1930 the French rail link across the lagoon to the port of Cotonou was completed and the traffic to Lagos began to diminish, until in 1936 it consisted of palm-oil and palm-kernels worth only £62,000.

Traffic consisting mainly of imported foods moves outward to French territory through Nigeria along the following routes: by rail, lorry and camel through Lagos and Port Harcourt to Zinder and Maradi, by river and inland waterways from Warri and Burutu to Garua and from Lagos to Porto Novo.¹

The trade across Nigeria's land-frontier is of two types, transit traffic and traffic in goods and produce marketed in Nigeria. The former simply passes through Nigeria, the colony receiving payment for transport facilities from the French sender.² Here we are concerned with trade of the second type which passes through Nigerian markets. Quantitative information is available only for the inward movement of certain products to Kano. In 1936 some 123,000 live cattle entered Nigeria, and their value has been estimated at £492,000. Imports of cattle hides and goatskins across the northern frontier amounted to approximately 977,000 lbs. and 904,000 lbs. respectively, while about 567,000 sheep entered Nigeria on the hoof to be slaughtered for their meat and skins. The value of these animal products at the frontier was estimated to be about £286,000. The major part of these hides and skins was carried by rail to the coast and exported as Nigerian produce. It is very unlikely that any French ground-nuts were marketed in Kano and exported as Nigerian produce in 1936, since in 1934 the French government initiated a quota system which gave preference to imports of ground-nuts produced in French colonies.³ In

¹ This account of the trade passing across Nigeria's land frontiers was pieced together from information kindly supplied by Dr. R. J. Church, who collected material in Paris for a study of West African transport, and Mr. J. Rawlings, and from information contained in the *Trade Reports*.

² Cf. p. 299 below.

³ *Oils and Fats*, Vol. II, p. 284; and Chapter III, p. 142.

addition, the price of ground-nuts in the French colony is said to have been £1 higher than the Nigerian price in 1936.

As the trade across the northern boundary of Nigeria appears to be carried on by African traders using simple methods, it is legitimate to assume that it is self-balancing and quite separate from the balance of transfers of commodities across the sea frontier. For example, it is very unlikely that any French trader from Zinder has a branch in the French Cameroons and uses his balances of West African currency (acquired by sales of leather in Kano) to finance exports of Nigerian palm-oil from Lagos to Kotonou, accounts of which would be included in the *Trade Reports*. In fact, it may be assumed that the negative entry, amounting to £778,000, for imports across the northern frontier is offset by positive entries for transfers of various kinds across the northern boundary. It has been estimated, using arbitrary assumptions for the proportions of expenditure, that the negative entry of £778,000 for imports from French West Africa was offset by the following positive items.

Exports of traded goods and Nigerian produce	-	400,888
Exports of services (maintenance expenditure of traders in Nigeria)	- - - - -	155,600
Net loan to Nigeria	- - - - -	164,242
Export of West African currency	- - - - -	57,270
Total	- - - - -	£778,000

The total omission from the balance of payments of the value of other unrecorded exports and imports across Nigeria's land frontiers cannot be assessed, but, as the positive and negative omissions can be assumed to offset each other exactly, the actual *balance* of payments is not affected.

French traders in the Kano market are not the only travellers or migrants across the boundaries of Nigeria who take goods or personal effects which are entirely or partially unrecorded in the *Trade Reports*. Europeans enter the colony with costly equipment and African migrants return to their home countries with clothing, utensils, etc., purchased out of their earnings in the foreign country. These items, which have been estimated and added to the values of exports and imports, are shown in Table XXXIIA. The exports of personal effects do not give rise to any claim on the part of Nigeria against the countries of destination, for they have been paid for out of incomes earned in Nigeria. This effect is allowed for by *per contra* entries in the balance capital transfers (Table XXXIIF) under the heading 'remittances in kind'. The same applies to imports of personal effects.

Other items which must be included in the balance of transfers of commodities are exports of Nigerian postage stamps for philatelic purposes and smuggled imports of tobacco and other goods from French territory which have been detected by the Customs Preventive Service.

Nigeria has no entrepôt trade in the true sense. Imports entered in bond are often released from bonded warehouses for home-consumption while a large part of the re-exports come from ordinary warehouses.¹ Consequently *merchandise in bonded warehouses* must be treated in the same way as ordinary merchandise. Re-exports are thus entered with positive items in the balance of commodity transfers at their f.o.b. value, i.e. excluding the value of various services rendered to them, which are included in the balance of payments for services. Imports in bond are similarly entered at their c.i.f. value with the negative items.

After all corrections have been made, the value of the balance of transfers of commodities amounts to £5,067,796. This figure is remarkably close to the corresponding figure calculated by Mr. Mars for the Gold Coast for the fiscal year 1936-37 which is £5,499,279. In the case of the Gold Coast, the values of total outward and total inward transfers of commodities were £15,233,369 and £9,734,090 respectively, i.e. from £1½ to £2 million less than the Nigerian values. The Gold Coast, however, has an area of 91,843 square miles, while that of Nigeria is 372,599 square miles. The difference in the population of the two colonies provides an equally remarkable contrast to the similarity of their external trade balances, for in 1938 the population of Nigeria was estimated to number 20.6 million against 3.8 million for the Gold Coast.

(ii) *The balance of payments for services*

The total payments for services shown in Tables XXXII_B and c are small compared with the totals for other types of payments. But it must be remembered that freight payments on imported goods, which should logically be included in the balance of payments for services, have actually been included in the value of imports in the balance of transfers of commodities. Had this not been the case the balance of payments for services would have been negative instead of positive to the extent of about £300,000.²

This positive balance largely accrues in return for various kinds of exported transport services rendered by government departments and private concerns. It will be remembered that harbour dues on exports were excluded from the recalculated value of exports, since harbour dues are generally understood to be levied on vessels for shelter at the port,³

¹ Between 1922 and 1938 the total net imports in bond (exclusive of imports in bond released for home consumption) amounted to £429,000 while re-exports (excluding currency) for the same period amounted to £2,721,000.

² It has been estimated, on the basis of a list of freight rates (per measurement ton) charged on imports by the West African Merchants' Freight Association and Conference Lines, that the freight charged on imports of cement in 1936 was at least £47,000 or 45 per cent of the c.i.f. value, while the freight charged on imports of cotton textiles was at least £75,000 or 1.7 per cent of the c.i.f. value.

³ Cunningham, Brysson, *Port Administration and Operation*, 1925, p. 88.

and are more properly treated as payments for services rendered after the goods have been placed on board the ship, instead of being included in the f.o.b. value of the goods. Harbour dues on imports do not enter the balance of payments at all as they are merely payments by Nigerians for the services of Nigerian factors of production.

The map of West Africa shows that Nigeria has better inland communications by rail, river and creek than any of her immediate neighbours. In consequence, the neighbouring French colonies make use of Nigerian communications as a channel for their external trade; Nigeria benefits from this transit traffic by the revenue for transport services rendered to the French colonies. In 1936 the total values of imports and exports in transit amounted to £465,742.¹ The estimated charges for transporting this traffic, shown in Table XXXIIB, amounted to £78,217 or 17 per cent of the value of the goods given in the *Trade Report*.

Items 7 and 8 are fairly large compared with others in this table. The Marine and Harbour Departments of Nigeria render various services to ships, the charges for which are known as lighthouse and buoyage, pilotage, towage, berthage, mooring buoy dues and berthing dues,² and are paid by the shipping firms.³

The charges are presumably included in the freight rates charged to shippers, which are paid by the European head offices of the firms in respect of both imports and exports. They are thus included in the c.i.f. value of imports stated in the *Trade Report*. Like harbour dues on imports they do not enter the balance of payments and have, therefore, been deducted from the reported value of imports. The marine and harbour services, the charges for which are allocatable to exports, do enter the balance of payments and have been estimated to cost £52,000 in 1936. A lighterage charge is levied by the Conference Shipping Lines on all exports from Lagos, although only exports from Lagos island (i.e. not from Apapa) are actually lightered. The total sum involved also represents an export of services.

The imports and exports of various other services by the Nigerian government, shown in Table XXXIIB and C, are not of any great size or importance apart from the travelling expenses of officials and their wives, which are among the heavy costs of European administration. Maintenance expenditure of traders from French West Africa has already been mentioned above.⁴ The item entitled 'imports of services by the Nigerian Electricity Supply Corporation', although small, is interesting.

This company receives its revenue from power sales entirely from the

¹ *Trade Report, 1936*, p. 256.

² These charges are explained in the *Nigeria Handbook, 1936*, pp. 299-304.

³ The fact that the charges are paid by the shipping lines and not directly by the shippers was stated by Mr. Rawlings.

⁴ Cf. p. 297.

Nigerian government and tin-mining companies. The latter probably pay for their consumption of electricity in London via their head offices, but charges for electricity are a mining cost and are, consequently, included in the f.o.b. value of tin exported as computed for item A1 of Table XXXIIA. Nigeria is thus credited in the balance of payments with the total wholesale value of electricity consumed by tin-mining companies. Whether the payments for electricity are made in London or in Nigeria, this amount is more than Nigeria actually receives, for, on current account, only operating expenses become Nigerian incomes. The whole difference between receipts for power sales and operating expenses must be regarded as an outward transfer. Part of the difference represents London office expenses, directors' fees and United Kingdom income tax. These charges cannot legitimately be regarded as investment income, but should be treated as payments for imported services. The remainder of the difference can then be entered in the balance of payments as an export of investment income.

It is not necessary to include the London office expenses and directors' fees of mining concerns as payments, for imports of services as mineral exports are valued f.o.b. in the balance of payments. London office expenses of extra-territorial transport firms should be treated in the same way as those of the electricity concern, but no attempt has been made to deal with these firms in the balance of payments.

Items which should enter the balance of payments for services but which could not be estimated owing to lack of information include the following : imports of services by extra-territorial transport firms, charges to foreign firms for advertisement in Nigeria, stockbrokers' commissions, personal insurance remittances and payments of royalties and licence fees.

(iii) *The change in the circulation of West African Currency*

It will be noticed that the figure showing the increment of West African currency in circulation during 1936 in Table XXXIIc differs from the corresponding figure given in column 16 of Table XXV. The reason for this discrepancy is that the latter figure is an estimate based on figures published in the *Reports of the West African Currency Board* for years from 1st July to 30th June, while the figure given in Table XXXIIc is based on the correct figure for the net increment of currency released into circulation by the Board during the calendar year 1936;¹ this was £2,501,643. A correction had to be made to allow for West African currency taken out of the colony by returning immigrants and the smaller amount brought in by Nigerian emigrants.²

The theoretical significance of this item in the balance of payments and

¹ This figure was kindly supplied by the West African Currency Board.

² These sums are shown in Table XXXIIF as items S1, T1 and T3.

its repercussions on the various price levels in Nigeria are fully explained in Chapter IV.

(iv) *The balance of transfers of investment income*

Nigeria's balance of transfers of investment income is typical of an economically backward debtor country. The calculable inward transfers of investment income are limited to the small amount of interest on governmental investments which is credited to revenue, and to the interest on foreign investments of banks operating in Nigeria. These payments are heavily outweighed by the outward transfers of interest on the national debt and by transfers of profits on the external capital invested in Nigeria's industries.

The transfers of governmental investment income are explained by Table XXXIV. Interest on external assets credited to government revenue and to native treasuries is shown in columns 11 and 12, and the estimated interest on external investments, which is not credited to revenue but accrues to the funds from which it arises, is shown in column 17.¹

The estimated total issued foreign share capital invested in the Nigerian tin-mining industry in 1936 was about £4,635,000, so that £889,000 represents a return of about 19 per cent. This is a high figure compared with the low rate of earnings during slump years.

The outward transfer of profits on gold mining, which was about £38,000 in 1936, shows the small scale of industry in Nigeria compared with that in the neighbouring colony of the Gold Coast, on which the estimated outward transfer of profits in the fiscal year 1936-37 has been estimated at £1,433,630.²

The largest item among the estimated outward transfers of investment income consists of profits on external trade, which, taking profits on the import and export trade together, amounted to about £1,268,000 in 1936.

The banking system of Nigeria has been fully described above.³ The total net profit of the two banks accruing from transactions in Nigeria and from interest on overseas investments was found to be approximately £49,000 in the calendar year 1936. The gross interest accruing from over-

¹ Nigeria's external assets, all of which are administered by the Crown Agents in London can be divided into three types: (1) reserve funds comprising the Surplus, of which part is deposited in the Joint Colonial Fund and part invested in securities, the Reserve Fund and the Supplementary Sinking Fund: (2) appropriated funds such as the Disabled Soldiers' Fund or the Marine Renewals Fund: (3) Sinking Funds on the public debt. The interest on the investments composing the sinking funds is never credited to revenue but always reinvested. Interest on the reserve funds is usually credited to revenue and interest on certain of the appropriated funds is credited to revenue only in times of financial stringency, as Table XXXIV reveals.

² This figure was calculated by Mr. Mars in his unpublished MS. on the *Balance of Payments of the Gold Coast*.

³ See Chapter IV.

seas investments allocatable to the Nigerian branches of the two banks amounted, however, to the larger sum of about £57,000. Of this, presumably £49,000 was distributed to shareholders or credited to reserves by the head offices of the banks, while £8,000 must have been remitted to Nigeria to meet expenses. This accounts for the rather unexpected positive entry against transfers of investment income by extra-territorial banks.

(v) *The balance of transfers on capital account*

The balance of transfers on capital account is next in quantitative importance to the balance of commodity transfers, the total inward transfers amounting to £3,841,000 and the outward transfers to £4,633,000. It is thus nearer to being self-balancing than the balance of transfers of investment income, the balance on capital account amounting to £792,000.

The capital transfers to and from the Nigerian government which head the list are explained by the series of Tables XXXV to XXXVIII. Table XXXV is merely a tabulation of descriptive data concerning the loans raised by Nigeria up to March, 1938. Columns 2 to 14 of Table XXXVI show how the various loan funds outstanding during the period from April, 1926, to March, 1938, were expended, the total expenditure out of loan funds involving inward capital transfers being shown in column 15. During the depression years, the Treasury was obliged to dip into various appropriated funds for investment purposes. The resulting transfers are shown in columns 16 to 23. Column 24 shows the total non-revenue government expenditure on public works. The figures in this column demonstrate the fallacy of regarding public loans raised abroad as capital imports into a country at the time when they are raised. Table XXXVII gives details of other inward transfers on capital account by the government. Columns 8 to 12 show that the government was obliged to resort to external assets to supplement the revenue in depression years. It is surprising to find that there were revenue deficits in the prosperous years from April, 1927, to March, 1930 (see column 13 of Table XXXVII), but this was due to heavy expenditure debited to revenue on capital and extraordinary works.¹

Table XXXVIII shows all the outward transfers on capital account made by the government over the trade cycle period. This table is self-explanatory except perhaps for columns 10 to 15, which refer to the appropriated funds. The appropriated funds mentioned in the table are fed by contributions from Nigeria, though not usually from revenue, and may be diminished by remittances to Nigeria. Increments in the value of investments belonging to these funds are taken to signify outward capital transfers and decrements inward capital transfers. Column 22 shows the surplus on revenue transferred abroad during prosperous years. These figures do not, of course, show the true surplus of revenue over expenditure,

¹ Cf. *Treasurer's Report, 1929-30*, pp. 6-7.

but merely the unappropriated surplus. For example, in 1936-37 there was an unappropriated surplus of £198,199 after a handsome contribution of £600,000 had been made to the reserve fund.

Column 25 shows the balance of governmental capital transfers. The balances were positive up to 1934. Broadly speaking, this was due to the fact that comparatively heavy development investments were made up to 1932, while in the lean years 1933 and 1934 outward transfers were kept down to a cautious level. During the fat years, from 1935 to 1937, externally financed development expenditure was rather meagre, but the colony made strenuous efforts to replenish her depleted reserves abroad.

Capital invested in Nigeria by extra-territorial firms engaged in production, commerce or the service industries takes the following forms:

1. Fixed assets such as land, buildings and plant and semi-fixed assets such as lorries and boats.
2. Stocks. These may be classified as follows:
 - A. Output of firm (a) for local consumption.
(b) for export.
 - B. Purchased local produce (a) for local consumption.
(b) for export.
 - C. Imported goods (a) for local consumption.
(b) for re-export.
(c) for use of firm (i.e. 'stores' or producers' capital goods).
3. Business cash balances.
4. Trade credits outstanding. These include loans to subsidiary or other companies, unpaid instalments in the hire purchase business and money advances against crops.

Since extra-territorial companies keep their reserve and replacement funds abroad and raise short-term capital abroad, changes in the values of these assets in Nigeria usually involve external capital transfers. There are a number of exceptions and qualifications to this rule, which cannot be discussed here.¹ Lack of space makes it necessary to beg the question by saying that it has been attempted to estimate the capital transfers due to the activities of extra-territorial companies by measuring the changes in the values of the first three types of assets in so far as they affect the balance of payments.²

The task was simplest in the case of mining companies, most of which

¹ This problem is discussed more fully in the MS., pp. 49-56.

² The reader will find no further reference to the fourth type of asset because loans to subsidiary companies are usually made between head offices in London, and thus do not in themselves affect the balance of payments, and because no data exist upon which to base estimates of hire-purchase credits and cash advances to farmers. The latter item was probably negligible in the case of Nigeria; see *Cocoa Commission Report*, p. 86, para. 255.

operate in Nigeria only and publish full financial reports. Mining companies in Nigeria are not permitted to purchase land freehold ; leases and rights are sometimes purchased from prospectors or from other companies, but these transactions usually take place outside the colony. The figures for investments in the mining industries do not, therefore, include the capitalised value of newly acquired leases and rights. They include other fixed and semi-fixed assets, stores at cost and stocks of tin at cost price, but they exclude cash balances; the net increment of cash balances resulting from external transfers is calculated for all extra-territorial firms together under heading 5 G of Table XXXIIe. The total estimated investment in fixed and semi-fixed assets by the mining industries of Nigeria amounted to the low figure of £156,000¹ and was less than the estimated total transfers of depreciation which were £185,000. This was probably because, although the depression years were over, the Tin Control Scheme was still in force, and the tin-mining companies still looked on expansion with caution and were glad to take the opportunity offered by fairly high tin prices to make heavy depreciation transfers. In the words of one expert in the Nigerian tin industry, mining companies 'depreciate when they can'. In the following year, 1937, this attitude was reversed by realisation of the need to expand for war-time production and also, perhaps, because it was understood that if the continuation of the Tin Control Scheme were assured mechanisation would pay, since it is easier for a mechanised concern to adapt itself to sudden changes in output than one depending on hand labourers, who, once discharged, tend to melt away into the bush beyond recall.² The change is indicated by the increase in the annual value of imports of mining machinery from £14,043 in 1936 to £205,783 in 1937.

The calculation of capital transfers due to all other extra-territorial companies was more difficult except in the case of the Nigerian Electricity Supply Corporation, a public company operating only in Nigeria, the published accounts of which afforded the necessary material. The remaining companies were all either private companies, such as John Holt & Co., for which accounts are not published, or very large public concerns, like Elder Dempster Lines Ltd. or the British American Tobacco Company, operating in several areas besides Nigeria, the accounts of which are not subdivided in respect of activities in different countries. Consequently, the capital transfers caused by these concerns had to be calculated indirectly and in some respects incompletely.

The differences between the values of opening and closing stocks of

¹ The investment in the gold-mining industry of the Gold Coast (including changes in cash balances as well as the items included above) in the fiscal year 1936-37 was estimated at £2,700,000 by Mr. Mars in his unpublished *Balance of Payments of the Gold Coast*.

² The third agreement under the International Tin Control Scheme was in force from 1st January, 1937, to 31st December, 1941. International Tin Research and Development Council, *Statistical Yearbook, 1938* (The Hague), p. 9.

extra-territorial trading firms and the depreciation payments on their fixed assets are shown under heading 5 D of Table XXXIID.

The estimated total payments to Nigerian factors of production engaged in the export trade (in the widest sense) consists of the sum of the value of actual exports of produce plus the increment in the value of stocks held in Nigeria, i.e.

$$£14,565,400^1 + £1,270,325 = £15,835,725.$$

The calculation of the depletion of stocks of traded goods held by importing firms during 1936 involved dividing the total imports into two groups, traded and non-traded goods, the first being imported by the firms for subsequent sale to the public and the second being imported by the Nigerian government and the firms for their own use. The results of this division were approximately as follows:

	£
1. Commercial traded import goods - -	8,803,000
Commercial non-traded import goods - -	1,540,000
2. Government imports - - - -	472,000
	£10,815,000

The total estimated consumption of imported traded goods in Nigeria during 1936 was

$$£8,803,000 + £769,000 - £143,000 = £9,429,000.^2$$

Commercial non-traded imports are paid for partly out of revenue and partly out of depreciation or reserve funds depending on whether they belong to the category 'stores' (e.g. petrol and cement), which are not depreciated, or are destined for the replacement or expansion of fixed or semi-fixed assets. The same applies to government imports.

The estimated depreciation allowance on fixed and semi-fixed assets owned by these trading firms (item 5 D 3) is a surprisingly small sum. Their investment in fixed and semi-fixed assets during the year could not be calculated separately, but a global figure for such investment on the part of all extra-territorial firms, including banks and transport firms, could be based on the import statistics for raw materials assumed to be used for this purpose. This figure, amounting to approximately £761,000, is shown under item H of Table XXXIIE. No estimate could be made for the changes in stocks of material (stores) for the firms' own use except in the case of mines. Judging by the balance sheets of mining companies, this is not a very important omission.

¹ This figure is the corrected value of exported produce excluding profits and depreciation payments.

² £769,000 is the estimated total disinvestment from stocks owned by intra-territorial as well as extra-territorial companies. £143,000 is the disinvestment due to re-exports from stocks.

The net increment of business cash imported from abroad (item 5 G), which amounted to approximately £630,000, was calculated for all firms and banks together. In 1936 there were 70 mining firms¹ and 80 European extra-territorial firms engaged in other activities. The estimated average increment of business cash per firm from external sources was thus about £4,200.

The estimated loan arising from trade across the northern frontier of Nigeria (item 5 I), which amounts to £164,242, results from the fact that the traders from French territory enter Nigeria in the autumn with their wares and return with the proceeds in the following spring.

Item 5 J comprises the contents of many missionary boxes, amounting to about £244,000, which were remitted to missionary societies to pay for their work in Nigeria in 1936. There were 24 non-African missionary societies of various nationalities functioning in Nigeria in 1936, employing approximately 1,072 male and female European missionaries, who were engaged on valuable religious, medical and educational work. Apart from salaries, their medical work was apparently financed from Nigerian sources. This is not unlikely, as Africans are notoriously willing to pay generously for medical treatment. Table XXXIX gives some idea of the very important part played by missionaries in the Nigerian educational system. The majority of the assisted private schools are run by religious bodies, a few of which are African Christian or Moslem. The various types of unassisted schools are shown in the table. It can be seen at a glance that in 1936 the majority of pupils attended schools run by European missionary societies.

The remaining items, which have been calculated in the balance of capital transfers, belong to the category of personal remittances. First and foremost among these are the estimated remittances of European government officers to their dependants abroad. Together with pensions remitted by the Nigerian government to retired officers, these remittances amount to the very large sum of £1,156,000.² The total revenue of Nigeria during the fiscal year 1936-37 amounted to £6,259,547, so that if these remittances and pensions had amounted to only £1,000,000, that figure would still be as much as 16 per cent of the total revenue. The total emoluments paid to Europeans employed by the Nigerian government and native administrations during 1936-37 amounted to £2,428,987. In addition, approximately £462,000 was remitted to pensioners in that year. The cost of European staff to Nigeria in 1936-37 was thus approximately half the revenue in that year.

¹ Of these 39 were engaged in the production of tin, columbite and wolfram, and 31 in the production of gold.

² The figure shown as item K1 in Table XXXIIE was estimated by a method which takes the following factors into consideration: emolument classes, varying costs of living at different stations, marital status and official status of all officials on the *Staff List* in April, 1937.

The remaining negative items in the balance of transfers on capital account are the estimated remittances of other Europeans occupied in Nigeria to dependants abroad and remittances in cash and in kind by Levantines and African immigrants returning home from Nigeria. The estimated total outward remittances by these Europeans amounted to £723,000, while Africans and Levantines were estimated to have remitted sums amounting to £567,000. Inward remittances to Europeans in money and 'personal' capital imports, consisting of kit and goods received by parcel post, amounted to about £329,000. Imports of cash and personal capital by African emigrants returning to Nigeria were estimated at about £82,000.

During the war, owing both to the difficulty of travel and to hygienic improvements in Nigeria, it became more usual for wives and even young children to stay with officers on service in Nigeria. This change of behaviour must have caused some diminution of the proportion of total emoluments which is remitted abroad for the support of dependants. This tendency will increase in future as the service becomes Africanised in accordance with the stated policy of the government. The final summing up is aided by a last glance at Table XXXI which leaves an impression of great stability and prosperity. The adjusted export balance amounted to as much as £5,000,000, enabling the Nigerian public to add about £1,500,000¹ to its holdings of West African currency, while gross profits on private investment flowed out, reaching the high figure of £2,000,000; and the government not merely met its interest liability on the external public debt without drawing on its reserves abroad,² but even added over £1,000,000 to various funds invested in London.³ Despite the heavy outward balance of capital transfers by the government, which was an almost unprecedented item in the Nigerian balance of payments,⁴ and the large and rigid outward remittances by or on behalf of government officials, the capital account in 1936 was almost self-balancing, mainly as a result of the investments of the extra-territorial companies in fixed and semi-fixed assets, stocks of produce for export and increased cash balances.

It is unfortunate that this sketch of glowing prosperity given in Table XXXI cannot be put into proper perspective by the juxtaposition of figures for a depression year. However, without embarking on a complete balance of payments calculation for another year, some idea of the position in the slump can be derived from existing tables and general knowledge. In 1934, when the index of Nigerian export prices reached its lowest ebb,⁵ the unadjusted export balance was £3,500,000. The amount of currency in circulation is estimated to have declined slightly by some £30,000 during the calendar year. Between 30th June, 1933, and 30th June, 1934,

¹ £2,079,000 - £630,000 = £1,449,000.

² See Table XXXVIII.

³ See Table XXV, column 3.

⁴ See Table XXXVII.

⁵ *Ibid.*, column 25.

the decline had, however, been greater, amounting to £711,000. This is reflected in the estimated fall of 10 per cent between 1933 and 1934 in the retail price level of domestic goods at Lagos.¹

The outward balance of transfers of governmental investment income in 1934 was the largest during the eleven years reviewed, amounting to £1,174,000.² The tin industry was already recovering and gross profits amounted to £394,000.³ Profits on the import trade were probably very low; on the average a loss may even have been incurred.

Turning to the capital account, we find a small net inward governmental transfer of £239,000 due to unusually heavy expenditure on public works out of loan funds and transfers from various external funds which were credited to revenue. Of the other items in the capital account, the only one which can be guessed with any degree of reliability is 'outward remittances by or on behalf of European government servants', which was probably not much below its 1936 level of approximately £1,000,000.

Taking all these roughly estimated transfers into consideration, there remains a positive balance of about £1,000,000 unaccounted for. A possible off-setting item might be a net decrement of traders' stocks. It is unlikely that stocks of export produce increased; tin stocks definitely declined by a small amount, while there are indications that stocks of imports, particularly textiles and motor fuel, were allowed to decline.⁴ Outward remittances by African immigrants may also have been a considerable item.

This comparison reinforces Mr. Mars' conclusion in Chapter IV that the working of the 100 per cent sterling exchange standard is detrimental to the stability of internal prices and the level of prosperity in the West African colonies, but it also demonstrates one of the main advantages for which the sacrifice of strict deflation is made in times of depression, namely the continued ability of the colony to meet the liabilities on its sterling debt. For had the West African currency been allowed to depreciate in terms of sterling during the depression, the cost of servicing the public debt would have become heavier in terms of West African pounds, as would the cost of administration if European emoluments were fixed in sterling, which would probably have been the case. A Nigerian monetary authority about to make a decision to let the currency depreciate would be faced with the prospect of an appreciation of one, if not two, of the largest items of expenditure. Whether this could easily be met from revenue would depend on the response of prices and incomes in Nigeria to the fall in the value of West African currency. Under the existing system the problem, though difficult, is fraught with less uncertainty; it is a question of finding a fixed amount of West African currency at the level of prices and incomes determined by the world market for Nigerian produce.

¹ *Ibid.*, column 6.

² See Table II.

³ See Table XXXIV, column 20.

⁴ *Trade Report, 1934*, pp. 5-7.

So far this has always been done in the manner described above;¹ the maintenance of heavy outward transfers during slump years takes place at the expense of the domestic price level, which falls with every attempt of Nigerian consumers to maintain their consumption of imports—despite low receipts for exports and heavy import duties—by dishoarding. The social effects of this process, which may increase under-employment in Nigeria or may even cause people to work harder in order to gain the same income at lower prices for their output, are probably less serious than they would be in an advanced industrial country with a relatively rigid wage structure where increasing unemployment would ensue. The advantage of financial stability may outweigh the social costs of deflation.

¹ See Chapter IV, p. 201.

**THE BALANCE OF PAYMENTS
OF NIGERIA IN 1936**

TABLES

TABLE
SUMMARY OF THE BALANCE OF PA

1	2				
1	Balance of Transfers of Commodities (adjusted)	-	-	-	-
2	Balance of Payments for Services	-	-	-	-
	Exports of transport services	-	-	-	-
	Exports and imports of services by Nigerian Government	-	-	-	-
	Exports and imports of other services	-	-	-	-
3	Change in circulation of West African currency	-	-	-	-
4	Balance of Transfers of Investment Income	-	-	-	-
	Transfers of governmental investment income	-	-	-	-
	Transfers of profits on mining and the production of electricity	-	-	-	-
	Transfers of profits on trade and banking	-	-	-	-
	Transfers of profits on transport industry	-	-	-	-
5	Balance of Transfers on Capital Account	-	-	-	-
	Transfers on capital account by Nigerian Government	-	-	-	-
	Transfers on capital account by mining and electricity concerns (excluding cash)	-	-	-	-
	Change in stocks of produce for export	-	-	-	-
	Change in stocks of imported goods	-	-	-	-
	Depreciation on fixed assets of trading firms	-	-	-	-
	Depreciation on fixed assets of transport firms	-	-	-	-
	Net external transfer of cash balances by all extra-territorial firms	-	-	-	-
	Investments in fixed assets by trading and transport firms and banks	-	-	-	-
	Net loan arising from trade across northern frontier	-	-	-	-
	Inward remittances to missionary societies	-	-	-	-
	Outward remittances by or on behalf of European government servants	-	-	-	-
	Inward and outward remittances by other Europeans	-	-	-	-
	Inward and outward remittances by Levantines and Africans	-	-	-	-
	Totals	-	-	-	-
	Residual Balance of Errors and Omissions	-	-	-	-
	Balance of Trade stated in Trade Report	-	-	-	-

XXXI

MENTS FOR THE CALENDAR YEAR 1936

<i>Positive Items (Exports)</i>			<i>Negative Items (Imports)</i>			<i>Balance of Payments</i>	
<i>Margin of Error</i>		<i>Value £'000</i>	<i>Margin of Error</i>		<i>Value £'000</i>	<i>Positive £'000</i>	<i>Negative £'000</i>
<i>Value £'000</i>	<i>Percentage %</i>		<i>Value £'000</i>	<i>Percentage %</i>			
3	4	5	6	7	8	9	10
16,847	±3	±439	11,779	±1	±124	5,068	—
486	±13	±63	163	±3	±5	323	—
323	±6	±10	—	—	—	—	—
8	—	—	154	±3	±5	—	—
155	±40	±62	9	0	—	—	—
—	—	—	2,079	±10	±208	—	2,079
217	±10	±21	3,425	±9	±313	—	3,207
209	±10	±21	1,161	0	—	—	—
—	—	—	996	±14	±134	—	—
8	±50	±4	1,268	±22	±283	—	—
—	—	—	?	—	—	—	—
3,841	±16	±627	4,633	±9	±410	—	792
186	±5	±9	1,264	±5	±63	—	—
176	±17	±30	184	±2	±36	—	—
1,270	±40	±508	—	—	—	—	—
—	—	—	692	±40	±277	—	—
—	—	—	46	±20	±9	—	—
—	—	—	?	—	—	—	—
630	±50	±315	—	—	—	—	—
761	±20	±152	—	—	—	—	—
164	±40	±74	—	—	—	—	—
243	±14	±35	—	—	—	—	—
—	—	—	1,156	±14	±167	—	—
329	±18	±60	723	±25	±181	—	—
82	±17	±14	567	±28	±159	—	—
—	—	—	—	—	—	5,391	6,078
—	—	—	—	—	—	—	687
14,929,770	—	—	10,815,435	—	—	4,114,335	—

TABLE

THE BALANCE OF PAYMENTS

I. BALANCE OF TRANSFERS OF COMMODITIES

A. Exports of merchandise (including gold bullion and excluding re-exports from bonded warehouses and currency) f.o.b. Nigerian harbours including export duty and harbour dues as stated in Trade Report - - - -

-
1. Adjusted value of exports of merchandise as defined above but excluding harbour dues - - - - -
 2. Plus exports by parcel post (not recorded in trade statistics) - - - -
 3. Plus estimated value of exports across northern boundary by African traders
 4. Plus value of further unrecorded exports across land frontiers - - - -
 5. Plus estimated value of exports of trade goods by other emigrating alien Africans (outward remittances in kind as *per contra*) - - - -
 6. Plus value of exports of Nigerian stamps (not recorded in trade statistics) -
 7. Plus re-exports of foreign merchandise c.i.f. Nigerian harbours - - - -

B. 1. Imports of merchandise (including silver bullion) for home consumption c.i.f. Nigerian harbours, excluding landing charges as stated in Trade Report - - - - -

- Less* harbour dues and value of services rendered to ships - - - - -
2. Plus estimated value of cattle imported across northern frontier - - - -
 3. Plus estimated value of hides and skins imported across northern frontier -
 4. Plus value of further unrecorded exports across land frontiers - - - -
 5. Plus estimated value of personal baggage of Europeans not entered in trade statistics (inward remittances in kind as *per contra*) - - - - -
 6. Plus estimated value of personal baggage of Nigerians not entered in trade statistics (inward remittances in kind as *per contra*) - - - - -
 7. Plus value of seized portion of smuggled imports across land frontiers -
 8. Plus imports of merchandise in bond - - - - -

TOTALS - - - - -

XXXII A

FOR THE CALENDAR YEAR 1936

Positive Items			Negative Items			Balance of Payments	
Value	Margin of Error		Value	Margin of Error		Positive	Negative
£	%	£	£	%	£	£	£
14,929,770	—	—					
16,150,819	±2·5	±403,770					
19,778	0	—					
400,888	±40	±160,356					
?	—	—					
119,901	±50	±59,951					
12,652	0	—					
142,894	0	—					
			10,815,435	0	—		
			-82,271	0	—		
			492,000	±20	±98,400		
			286,060	±20	±57,212		
			?	—	—		
			235,920	±20	±47,184		
			17,133	±50	±8,567		
			685	0	—		
			14,174	0	—		
16,846,932	$\sqrt{\Sigma(E)^2}$	±438,564	11,779,136	$\sqrt{\Sigma(E)^2}$	= 123,510	5,067,796	

2. BALANCE OF PAYMENTS FOR SERVICES

A. Exports of transport services rendered by Nigerian Government and other agents:									
1.	Exports of Nigerian produce								
	Harbour dues at Lagos and Port Harcourt	-	-	-	-	-	-	-	-
2.	Goods entered in transit to French territory via Nigeria								
	Harbour dues at Lagos and Port Harcourt	-	-	-	-	-	-	-	-
	Charges for shore handling	-	-	-	-	-	-	-	-
	Charges for warehousing	-	-	-	-	-	-	-	-
	Charges for inland transport	-	-	-	-	-	-	-	-
3.	Goods entered in transit from French territory via Nigeria								
	Charges for inland transport	-	-	-	-	-	-	-	-
	Charges for warehousing	-	-	-	-	-	-	-	-
	Charges for shore handling	-	-	-	-	-	-	-	-
	Harbour dues at Lagos and Port Harcourt	-	-	-	-	-	-	-	-
4.	Re-exports								
	Harbour dues (inwards) at Lagos and Port Harcourt	-	-	-	-	-	-	-	-
	Charges for shore handling inwards and outwards	-	-	-	-	-	-	-	-
	Charges for warehousing	-	-	-	-	-	-	-	-
	Harbour dues (outwards) at Lagos and Port Harcourt	-	-	-	-	-	-	-	-
5.	Transshipments								
	Charges for handling between ships	-	-	-	-	-	-	-	-
6.	Passengers								
	Harbour dues at Lagos on persons not occupied in Nigeria previous to arrival or departure	-	-	-	-	-	-	-	-
	Railway fares of French officials passing through Nigeria	-	-	-	-	-	-	-	-
	Charges for transport of European tourists in Nigeria	-	-	-	-	-	-	-	-
7.	Other marine and harbour services rendered to ships								
	Allocation to imports (not included in balance of payments)	-	-	-	-	-	-	-	-
	Allocation to exports	-	-	-	-	-	-	-	-
8.	Ligherage charge on all exports through Lagos-	-	-	-	-	-	-	-	-
B. Imports and exports of various services by Nigerian Government									
1.	Balance of external postal revenue and expenditure	-	-	-	-	-	-	-	-
2.	Travelling expenses to and from Nigeria of officials and wives	-	-	-	-	-	-	-	-
3.	Conveyance of specie and cost of remittances to Crown Agents	-	-	-	-	-	-	-	-
4.	Other services purchased from Crown Agents	-	-	-	-	-	-	-	-
5.	Miscellaneous services imported by Nigerian Government	-	-	-	-	-	-	-	-
<hr/>									
TOTALS -									

XXXII B

Positive Items			Negative Items			Balance of Payments	
Value	Margin of Error		Value	Margin of Error		Positive	Negative
£	Percentage	Amount	£	Percentage	Amount	£	£
£	%	£	£	%	£		
138,166	±5	±6,908					
632	±5	±32					
835	±10	±84					
?	—	—					
43,963	±10	±4,396					
29,906	±10	±2,991					
?	—	—					
1,168	±10	±117					
1,713	±5	±86					
293	±5	±15					
1,647	±10	±165					
?	—	—					
2,342	±5	±117					
512	±10	±51					
492	±5	±25					
1,074	±30	±322					
?	—	—					
24,994	} 0	—					
51,775							
48,217	±10	±4,822					
7,719	±5	±386					
			103,051	±5	±5,153		
			18,939	±5	±947		
			7,317	±5	±366		
			24,993	±5	±1,250		
330,454			154,300				

XXXII c

Positive Items			Negative Items			Balance of Payments	
Value	Margin of Error		Value	Margin of Error		Positive	Negative
£	%	£	£	%	£	£	£
155,600	±40	±62,240	8,923	0	—		
155,600			8,923				
330,454			154,300				
486,054	$\sqrt{\epsilon(E)^2} = \pm 63,035$		163,223	$\sqrt{\epsilon(E)^2} = \pm 5,399$		322,831	
			2,079,101	±10	±207,910		2,079,101
208,655	±10	±20,866	1,161,103	0	—		
			889,360	±15	±133,404		
			37,712	±15	±5,657		
			nil	—	—		
			nil	—	—		
			nil	—	—		
			68,650	±2	±1,373		
			427,417	±30	±128,225		
			839,953	±30	±251,986		
8,288	±50	±4,144					
			?	—	—		
			?	—	—		
?	—	—					
216,943	$\sqrt{\Sigma(E)^2} = \pm 21,275$		3,424,195	$\sqrt{\Sigma(E)^2} = \pm 312,679$		3,207,252	

XXXII D

<i>Positive Items</i>			<i>Negative Items</i>			<i>Balance of Payments</i>	
<i>Value</i>	<i>Margin of Error</i>	<i>Percentage Amount</i>	<i>Value</i>	<i>Margin of Error</i>	<i>Percentage Amount</i>	<i>Positive</i>	<i>Negative</i>
£	%	£	£	%	£	£	£
185,460	±5	±9,273	1,263,923	±5	±63,196		
150,036	±20	±30,007	180,527	±20	±36,105		
5,279	±20	±1,056	3,625	±20	±725		
454	±20	±91	1,034	±20	±217		
?	—	—	?	—	—		
?	—	—	?	—	—		
19,920	±2	±398	<i>nil</i>	—	—		
1,270,325	±40	±508,130	692,149	±40	±276,860		
			45,744	±20	±9,149		
1,631,474			2,187,002				555,528

XXXII E

<i>Positive Items</i>			<i>Negative Items</i>			<i>Balance of Payments</i>	
<i>Value</i>	<i>Margin of Error</i>	<i>Percentage Amount</i>	<i>Value</i>	<i>Margin of Error</i>	<i>Percentage Amount</i>	<i>Positive</i>	<i>Negative</i>
£	%	£	£	%	£	£	£
?	—	—	?	—	—		
?	—	—	?	—	—		
630,000	±50	±315,000					
760,599	±20	±152,120					
164,242	±40	±73,697					
135,871	±10	±13,587					
107,854	±30	±32,356					
			696,854	±20	±139,371		
			459,313	±20	±91,863		
			269,116	±50	±134,558		
			180,950	±50	±90,475		
			47,250	±30	±14,175		
			31,800	±30	±9,540		
			27,300	±30	±8,190		
			10,800	±30	±3,240		
1,798,500			1,723,383				
1,631,474			2,187,002				
3,430,040			3,910,385				480,345

XXXII F

<i>Positive Items</i>			<i>Negative Items</i>			<i>Balance of Payments</i>	
<i>Value</i>	<i>Margin of Error</i>		<i>Value</i>	<i>Margin of Error</i>		<i>Positive</i>	<i>Negative</i>
	<i>Percentage</i>	<i>Amount</i>		<i>Percentage</i>	<i>Amount</i>		
£	%	£	£	%	£	£	£
21,400	±50	±10,700	155,595	±50	±77,797		
294,900	±20	±58,980					
12,927	±20	±2,585	21,100	±50	±10,550		
60,702	±50	±30,351					
21,416	±50	±10,708					
			247,524	±50	±123,762		
			67,518	±50	±33,759		
			178,450	±50	±89,075		
			52,383	±50	±26,192		
411,345			722,570				
430,040			3,910,385				
841,385	$\sqrt{\Sigma(E)^2} = \pm 626,775$		4,032,955	$\sqrt{\Sigma(E)^2} = \pm 409,631$			791,570

TABLE XXXIII
BALANCE OF COMMODITY TRANSFERS

Year	Imports of Merchandise ¹	Exports of Merchandise ²	Balances as Percentage of Value of Exports		
			Imports —	Exports +	%
1	2	3	4	5	6
	£	£	£	£	%
1900	1,735,244	1,886,883	—	151,639	+ 8.0
1901	1,812,132	2,018,775	—	206,643	+ 10.2
1902	1,977,615	2,512,379	—	534,764	+ 21.3
1903	2,128,146	2,356,617	—	228,471	+ 9.7
1904 ³	2,422,715	2,781,113	—	358,398	+ 12.7
1905	2,592,405	2,552,711	39,694	—	- 1.6
1906	2,847,316	2,950,892	—	103,076	+ 3.5
1907	3,839,340	3,863,331	—	23,991	+ 0.6
1908	4,046,572	3,335,911	710,661	—	- 21.3
1909	4,529,604	4,114,237	415,367	—	- 10.1
1910	5,122,370	5,258,452	—	136,082	+ 2.6
1911	5,234,874	5,354,101	—	119,227	+ 2.2
1912	5,951,883	5,773,488	178,395	—	- 3.1
1913	6,331,751	7,097,646	—	765,895	+ 10.8
1914	6,276,956	6,420,461	—	143,505	+ 2.2
1915	4,983,729	4,946,228	37,501	—	- 0.8
1916	5,174,474	6,029,546	—	855,072	+ 14.2
1917	5,808,592	8,602,486	—	2,793,894	+ 32.5
1918	7,423,158	9,511,971	—	2,088,813	+ 22.0
1919	10,798,571	14,675,789	—	3,877,118	+ 26.4
1920	20,763,382	16,956,270	3,807,112	—	- 22.5
1921	10,237,117	8,258,500	1,978,617	—	- 24.0
1922	10,303,688	8,936,302	1,367,386	—	- 15.3
1923	10,271,066	10,885,136	—	614,070	+ 5.6
1924	10,948,309	14,460,930	—	3,512,621	+ 24.3
1925	14,783,209	16,962,995	—	2,179,786	+ 12.9
1926	12,761,129	16,681,310	—	3,920,181	+ 23.5
1927	14,437,993	15,674,440	—	1,236,447	+ 7.9
1928	15,765,238	17,075,165	—	1,309,927	+ 7.7
1929	13,219,165	17,756,945	—	4,537,780	+ 25.6
1930	12,616,941	15,028,624	—	2,411,683	+ 16.0
1931	6,510,515	8,771,713	—	2,261,198	+ 25.8
1932	7,194,732	9,476,762	—	2,282,030	+ 24.0
1933	6,339,892	8,727,090	—	2,387,198	+ 27.4
1934	5,363,680	8,873,800	—	3,510,120	+ 39.6
1935	7,803,811	11,614,714	—	3,810,903	+ 32.8
1936	10,829,609	15,076,946	—	4,247,337	+ 28.2
1937	14,624,750	19,436,165	—	4,811,415	+ 24.8
1938	8,632,292	9,701,215	—	1,068,923	+ 11.0
1939	6,757,136	10,468,732	—	3,711,596	+ 35.5

¹ Values of imports include imports in bond.

² Values of exports include re-exports.

³ Imports and exports to and from Porto Novo were included in the trade figures up to 1904.

Source: Trade Reports, 1921 and 1939.

Chapter VII

CONCLUSION: ECONOMIC PROBLEMS OF A TROPICAL DEPENDENCY

BY A. J. BROWN

The contributors to this volume have dealt with various aspects of the Nigerian economy—the subsistence agriculture which supports most of the population, the great exporting industries, the conduct of foreign trade and the policy affecting it, the public finances, the monetary system, and the balance of payments. For reasons which have been given in the preface, much has, of course, been omitted which should find a place in any survey with pretensions to completeness. It has not been possible to give a systematic discussion of the transport system, which has done perhaps more than anything else to bring about the economic transformation of the country in the last half-century, and which is probably, in many areas, the factor limiting development today. Nothing has been done here to investigate the national income, and the reader will detect numerous other gaps in the account of the Nigerian economy given here; it is not the task of this concluding section to fill them—its purpose is merely to draw the varied contributions to this book together into one picture of a tropical dependency in the wider setting of the world economy.

In the foregoing pages the reader may clearly see four groups of problems—of difficulties actual or potential—which confront Nigeria, and, by implication, other non-sovereign tropical countries. The first consists of those due to sheer poverty, i.e. to the low level of material output per head of the population; the second arises from the insecurity which faces all (or nearly all) producers of agricultural or mineral products for the world market; the third is due to the situation in which the economic life and policy of the countries concerned is so largely directed from outside them; and the fourth from the fact that these countries are not only in a state of economic and social transition (as practically all countries are), but are in the peculiarly difficult stage of passing from old and relatively stable ways of life to more plastic and changing conditions that are familiar in economically advanced countries. It may be useful to look at each of these groups of problems in turn.

I. POVERTY

An impression of the poverty of Nigeria—of the extreme smallness of the typical Nigerian's command over goods and services—is given by Professor Forde. His data are in many ways unavoidably imperfect, especially in so far as they rely on assessment reports where the estimates of agricultural output are largely a matter of convention; nevertheless, the evidence he presents points firmly to the conclusion that the average value of the net output in the Nigerian countryside in the pre-war decade, valued at local prices, did not average more than £2 a head a year.

Such a figure must, of course, be interpreted with caution. In the first place, there are elements in real income which are not customarily taken into account in any country's valuations—such as the value of services rendered by members of the family to each other—and which assume a greater proportionate importance in primitive than in advanced societies. In the United Kingdom in peace-time, an allowance for these services might have added something like a fifth to the national income; in Nigeria the proportionate addition would certainly be much higher, though it would be exceedingly hard to reach even a rough estimate of it. Secondly, to compare the Nigerian output at Nigerian prices with, let us say, the British output at British prices is not permissible, since, despite the parity between the British and the West African pounds, which makes them truly equivalent for buying goods which pass freely between the two countries, their local purchasing powers over many kinds of goods and services which enter into the real incomes of both countries differ widely. Unskilled labour, for instance, even after allowance is made for its much lower efficiency in Nigeria than in Britain, certainly costs much less there than here. Mr. Colin Clark, by a very rough calculation (which may, at all events, serve to point this moral), estimated that the Indian national income valued at United Kingdom prices was almost three times as great as if estimated at local Indian prices and converted into sterling at par of exchange. Nigeria is not markedly more efficient at producing the goods it exports than at producing the goods it consumes in the way in which, for example, Venezuela is—on the contrary, its chief export products are mainly goods which are of staple importance for home consumption also and the cost of transporting them to the coast is relatively high—so that the prices of its domestic goods are low compared with those of its export goods which, reckoned at market rates of exchange, are normally of much the same price everywhere. It would not be surprising, therefore, if the Nigerian 'real' income per head proved to be two, three, or even four times as large, in relation to the British, as an initial comparison of the national incomes of the two countries, calculated in the conventional way in terms of local values, would lead one to expect. Nevertheless, it remains certain, despite all such qualifications, that the average real in-

come per head in Nigeria is but a small fraction of what it is in the United Kingdom, or any other economically advanced country.

It must be admitted, however, that measurements of 'real' income, no matter how carefully devised, are, strictly speaking, invalid as instruments for comparing welfare between peoples whose tastes—and, indeed, whose physical needs as dictated by climate and surroundings—differ as widely as do those of the Nigerian and the citizen of Western Europe. It may, therefore, be objected that the lowness of Nigerian incomes does not, in itself, prove that any problems arise from Nigerian poverty. The argument that the differences of standards, tastes, and physical needs are all-important, and that the native peoples of the tropics are, subjectively, sufficiently well off to be free from problems of poverty, despite the statistically-demonstrated lowness of their incomes, is one which income-statistics alone clearly cannot refute.

That such an argument (if it were ever advanced) would be false is nevertheless obvious on other grounds. In the first place, as Professor Forde's study shows, even the average level of nutrition is in many areas inadequate to maintain anything like maximum vitality. That this is simply a matter of low productivity is sufficiently clear, especially in view of the high proportion of these low incomes which is already consumed in the form of food. Again, though it has not been possible to deal with questions of health in this book, it is well known that the population of Nigeria and many other tropical territories is heavily infected with hookworm, which could be prevented if the wearing of shoes became general, and that, in general, morbidity rates and death rates—especially infant mortality rates—are enormously high by the standards of advanced communities. This burden of suffering, this waste of life, and this lowering of vitality and physical efficiency are directly attributable to the lack of things—food, better clothing and shelter, better public health services and general education—which the population of Nigeria simply cannot afford at present. The public health, education, agricultural, and veterinary services appear to be efficient and sometimes outstandingly enterprising, but Sir Alan Pim shows that, despite the fact that an amazingly high proportion of the national income is devoted to them—perhaps 6 per cent of it, reckoned at local prices, which is probably higher than the corresponding proportion for the United Kingdom before the war—the expenditure on them per head of the population is extremely low, even by colonial standards. The country's capacity to finance a greater expenditure on them in present circumstances is obviously very limited, though, as Sir Alan again points out, taxation is not at present distributed in the most equitable way; being based on the extent to which the various communities are habituated to it as much as on their inherent capacity to bear it.

The consideration that poverty prevents the remedying of these obvious evils of ill-health and high mortality leads on to two others, closely con-

nected with it. First, the remedying of these evils is not necessarily the purpose to which additional productivity would be put by the free choice of the Nigerians themselves; indeed, malnutrition, disease, and early death are evils so familiar to primitive peoples from time out of mind that the conscious wish to mitigate them is probably much less present to their minds than the wish for commodities which, for instance, convey social prestige. The increase of productivity is therefore not always a sufficient, though it is certainly a necessary, condition of improvement in these matters; deliberate action to improve the public services and perhaps the exercise of some influence over the directions of consumption are further conditions required.

Secondly, it may be necessary to keep a balance between action directed to the improvement of health and action directed to the increase of productivity—or, at least, to prevent the former from greatly outrunning the latter, lest it should defeat its own object. Very little is known about the course of Nigerian population, and the subject is not treated in this book; one cannot, however, ignore the possibility that the improvement of health services and the reduction of deaths from diseases other than those of malnutrition may, for a considerable time at least, bring about an acceleration of the rate of natural increase. Up to a point, the strain might be successfully taken by bringing more land into cultivation, but, unless some other means of increasing production is available, the increase must soon accentuate the problems of malnutrition due to agricultural overpopulation which Professor Forde describes as already existing in some districts. To save people from dying from one kind of disease would, in these circumstances, be merely to increase the death-rate from others. The course of economic progress and population-growth depends, ultimately, on the balance of natural increase and economic productivity; the experience of the greater part of humanity in India, China, Indonesia, and parts of Eastern Europe shows that the Malthusian devil is safely chained up only under conditions which are the exception rather than the rule, and which cannot be assumed to hold where the fundamental demographic factors are as little known as in Nigeria. There is a further possibility that once a revolution in methods of production, involving urbanisation and the weakening of old customs, is begun, it may have difficulty in keeping pace with the demographic consequences flowing from it. South African experience suggests (though it is far from making it certain) that the rate of natural increase among primitive peoples drawn into towns is, temporarily at least, very high. The growth of the urban population in a country such as Nigeria may, therefore, be very rapid once it is begun, and may change the whole structure of the economy before, for one reason or another, the rate slows down. These are, of course, mere speculative possibilities; what little evidence there is to illuminate them is ambiguous; but they are possibilities which should be borne in mind in thinking of the poverty of backward countries and its mitigation.

The main subject under discussion here, however, is the concrete fact of poverty now existing, and two further implications of this have still to be mentioned. The first is that the standard of ordinary consumption in a poor community tends to be lower, in relation to that of a rich one, than a comparison of their real productiveness per head would suggest, because there are certain necessary services, such as administration and, in sovereign states, defence, the cost of which cannot be varied indefinitely according to the means available, since they are, in some degree, fixed charges. In Nigeria, where the machinery for administration and the maintenance of order is far from elaborate, the cost of it apparently amounted before the war, at local prices, to more than 7 per cent of the national income, whereas in the United Kingdom the cost of maintaining civil order and administering justice was only some $1\frac{1}{2}$ per cent of national income, and the cost of the armed forces, until two or three years before the second world war, only a further $2\frac{1}{2}$ or 3 per cent of it.

Again, as Mr. Mars points out, the cost of acquiring the necessary cover for an expanding monetary circulation, which is trifling in an advanced country, may be a considerable burden in a primitive one, where the cover deemed necessary is so much greater in proportion to the total means of payment. The second point is a related one. Political status inevitably depends on what can be afforded for defence and education. To bring in defence here is by no means to imply that there is no hope of maintaining world order, or that territories like Nigeria will be left to care for themselves as they advance towards independence. It is obvious, to take the extreme case, that no country can enjoy a high degree of independence so long as its defence depends on troops or officers who are subjects of another country; more generally, the position which a country occupies in the councils of the nations is bound to depend on the contribution which it can make to the maintenance of order. Such a contribution depends on economic productivity and on ability, if not to produce the weapons of war, at least to make available goods which will exchange for them or will help to support allies who are making and using them. A country's position in the hierarchy of powers depends, to put it in the broadest terms, on the national income which can be made available in an emergency after meeting the essential needs of the population; if this is below a certain level, political independence itself can hardly be a reality except, perhaps, in specially fortunate cases. In accepting independence as the ultimate goal for dependent territories, and in looking at the spontaneous aspirations to independence within them, this is a fact to remember. Education is equally vital. If there is no educated class, the country can hardly be governed, except by foreigners, in a way which the world in general will tolerate; until there is a certain level of general education, a democratic régime, the only one which a democratic metropolitan state is likely to accept as the goal for a dependency, will not be possible. Education,

however, like defence, is a luxury beyond the reach of the very poor community.

These implications of poverty of the kind found in Nigeria are independent of the attitude of the people themselves; they would still have to be taken into account if that attitude was one of apathy or even of cheerful acceptance. However, such attitudes certainly are not universal in Nigeria and similar countries to-day, and that they are likely to become progressively less general is strongly suggested by the existence of two concurrent trends—a great divergence between standards of living in the backward and the advanced countries, and the constant increase in the number of points of contact between the two. In striking contrast to the relatively constant, or sometimes decreasing, degree of inequality in the distribution of wealth within advanced countries over the last century, the inequality between the advanced and the backward peoples has obviously increased enormously; a century ago, British real incomes were certainly much closer, by any criterion, to those ruling in primitive communities than is the case to-day. The reason is almost equally obvious; development depends either on home supplies of capital, which in turn depend on income-levels and the degree of advancement in social and financial organisation, or on the willingness of foreigners to lend, which is a function of internal stability, the closeness of commercial and other contacts with the outside world, and of such attractions as an already rapid rate of economic development. It depends, moreover, on the level of general education and technical ability, which can be raised only to an extent and at a rate depending, again, on the level of development already reached. Over a wide range, indeed, development is cumulative in two senses; the rate at which it proceeds depends on the level already reached and also, to some extent, on the rate already achieved and maintained. The generalisation 'to him that hath shall be given' applies in this field with especial force—or, at least, this was the case over the last century or more. Even if the worst fears of some writers about the difficulty of achieving continued progress in 'mature' economies are justified, it still remains true that an enormous divergence between standards of living in advanced and backward countries has come about at a speed which, historically speaking, is breath-taking.

This divergence might conceivably have had little effect on aspirations and events in the backward countries if their contacts with the richer ones had not increased. The increase of these contacts was, however, one of the bases on which the possibility of rapid progress in the industrial countries rested; their development during the past century has depended on their drawing raw materials and foodstuffs from all parts of the world. Not only did the backward countries come to be governed by Europeans, and not only did they come increasingly to do business with the European trader, but those of their own people who became wealthy in trade with the out-

side world naturally tended to acquire some of the tastes of the Europeans with whom they did business, and those of them who entered the public service to adopt some of the ways of the foreigner under whom they served. It is hardly possible that a people should be governed by foreigners, possessing the prestige of political authority, knowledge, and material wealth, without beginning to imitate their rulers where their means permit; it is quite unthinkable that, once the new ways of life have been in some measure adopted by socially important members of the backward community, the means to follow should not eventually come to be desired by the rest. Increasing contact with western civilisation, whether or not it awakens awareness of the limitation which poverty places on possibilities of health, education, or independence, certainly introduces innumerable new counters into the game of special emulation.

What are the prospects for the mitigation of poverty in Nigeria and similar countries? The present volume is not directly concerned with this question. It is permissible to point out here, however, that the divergence, referred to above, between standards of living in advanced and backward countries, is by no means bound to continue; against the dynamic factors which brought it about there are certain counter-forces which may greatly alter the balance if they can begin to operate. The most important of these springs from the fact that technical knowledge and knowledge on which complex social and economic organisations are founded accumulate; so that the late starter in the race of economic development has important advantages which, in their day, were denied to his predecessors. Japan, in particular, demonstrated this fact in the last half-century, and the U.S.S.R. was beginning to demonstrate it even more strikingly in the few years before the second world war. Such late comers may not be able to afford a high rate of gross saving on account of their poverty, but what they can afford may nearly all constitute, at first, a net addition to their productive capital, whereas in the United States, for instance, with its enormous past accumulation of capital goods, nearly two dollars went to the maintenance of the existing stock of equipment for every dollar that made net additions to it over the inter-war period as a whole.

Moreover, as a number of examples show, a society which is growing very rapidly in average income per head may achieve a high rate of saving. In nineteenth-century Britain and twentieth-century Japan this came about without any compulsion; traditional ways of life and the simple desire to accumulate wealth imposed a brake on consumption which kept it lagging behind income. Even more important, however, in these days of public enterprise is the fact that it is always much easier to take a slice out of increments in income by taxation than to reduce existing income-levels by that means; and the greater the increment from year to year, the bigger the tax-yield which can be obtained—to be applied to economic development—in this relatively painless way. Thus, even if the members

of a rapidly developing backward community do not prove thrifty individually—if social emulation among them is concerned with immediate standards of consumption rather than with capital accumulation, and if provision for the future is not highly regarded—the state can, nevertheless, skim off much of the rapid increase in output in order to maintain the rate of growth. In general, if the society is conservative, and if the development is enabled to take place without great social disturbances, it is likely that thrift will be in evidence and that, given suitable institutional inducements, savings will be relatively plentiful, even without the direct intervention of the state.

2. THE INSECURITY OF PRIMARY PRODUCTION

It would, of course, be grossly wrong to suppose that the dependent tropical countries of the world have made no economic progress in recent decades. On the contrary, the progress already made by some of them—including Nigeria and, even more notably, Malaya and the Gold Coast—has been very striking. National incomes have in some cases probably increased two- or three-fold in a generation or two; political security and efficient and honest administration have in many areas made possible a radical transformation of economic life; the health services, education, and the scientific reform of agriculture have begun to exercise some influence, though sometimes this is barely appreciable. The factor, however, which has more than any other been responsible for the increase of productivity—in some instances a doubling or trebling in a generation or little more—is the introduction of the opportunity to sell primary produce in the world market. In contrast with the low level of their production of goods and services for their own use, their relatively new production for export is remarkably large; Nigeria's exports over the whole trade-cycle period 1929–37 averaged over £12 million per annum, which was possibly a third of her whole average national income valued at Nigerian prices. Such a high ratio of foreign trade to national income occurred, among European countries, only in Norway and Denmark—countries with far smaller populations and natural resources and with immeasurably higher standards of living (and, therefore, vastly greater and more varied effective demands) than Nigeria possessed.

The peculiarities of the situation, in which the tropical dependencies find themselves, result not only from this heavy dependence on external trade, but also from the nature of the trade. For the tropical producer of a primary product for the world market, there are three great sources of insecurity. In the first place, the world prices of primary commodities are notoriously variable; any change in world purchasing power naturally means a change in demand for them—in some cases a proportionately very large change—and, as the supply is in many cases unable to adjust

itself to this without a considerable time-lag, a change in price ensues which, generally, has to be relatively large to stimulate or restrain purchases to the required extent. Secondly, the individual producer and the individual producing area are subject to a high degree of uncertainty in regard to the physical volume of their production. This is most obviously true of agriculture, where rainfall and disease create enormous and unpredictable variations of yield, but, in the longer run, it is in some degree true of mining also, for the proved reserves of minerals are always finite, and (especially in 'colonial' areas) what is known for certain about mineral reserves may be very small. Thirdly, there is always the risk of competition, either from the same commodity produced in a similar but more economical way elsewhere or from a substitute material. This danger is, of course, no greater—probably less—than that which the producer of manufactured goods has to face, but it is often a more serious danger for the backward primary producing area, since its resources are generally less readily adaptable to alternative lines of production than are those of the manufacturing country; its level of general education is low, its skill is of a specialised kind not easily changed, it lacks both the capital needed for transforming its economy and the social tradition which makes such transformation relatively easy in advanced countries.

To these three general factors which tend to make primary producers for world markets insecure, there must be added two further special ones; the fact that the tropical primary producing countries tend to concentrate on a small number of products, and that prices of primary products have been tending to fall relatively to those of manufactures for a generation or more. Nigeria has not concentrated its eggs in one basket so much as have some countries, for instance the Gold Coast with cocoa; nevertheless, it depends overwhelmingly on the sale of four commodities, of which one—palm-oil—is outstanding. It is not by any means well insured against a collapse of the market for any one of them. From the falling trend of primary commodity prices it has suffered in common with all other similar countries. This fall is due partly to the more rapid increase of population in the primary producing than in the manufacturing countries, coupled with the tendency of the world as a whole to demand a higher proportion of highly-finished products as it becomes wealthier; partly to the effects of the war of 1914-18 and the depression after 1929; and partly to the rise of synthetic substitutes and the cult of autarchy. How long the fall will continue is a matter for speculation—one prophet has foretold its early reversal—but it has certainly helped to increase the poverty and insecurity of all but the most fortunate primary producers to such an extent that the remedy, industrialisation, is being widely considered a matter of urgency rather than of gradual economic evolution.

What the future holds for primary producers in the tropical dependencies and elsewhere depends to a large extent on action which may be

taken to regulate world markets. In the twenty years before the second world war, not the least remarkable development in the world economy was the growth of control schemes, sponsored by producers or the governments of producing countries, with the object of maintaining or stabilising the prices of certain primary commodities in the face of the factors of instability and depression just mentioned. At first these schemes were inadequate in scope and, by their failure, made an important contribution to the disasters of the early 1930's; subsequently a number achieved a degree of efficiency which made it clear that the question for the future was not whether they would work, but in whose interest they should be worked.

It seems likely that this question will be answered by the great powers, and they have varying interests in the matter; the United States has been opposed, as an importer of the commodities concerned, to the maintenance of artificially high prices for tin and rubber, as well as, on general grounds, to all forms of market division in international commerce, but has a considerable interest in the maintenance of a fairly high world price for cotton and wheat; the United Kingdom, as a heavy importer of most primary commodities and also as a country which anticipates difficulty with her balance of payments, has the strongest possible interest in avoiding an excessive raising of their prices, though, as a colonial power, she has also to consider the interests of her primary producing overseas territories. Thus, whatever the particular solution arrived at, the time has almost certainly come when any control schemes are bound to take formal account of the interests of the consumers, but that is by no means inconsistent with their preserving the interests of the producers with greater certainty, fairness, and comprehensiveness than had been achieved by the somewhat haphazard control that existed before the war.

3. EXTERNAL CONTROL

That the market prices of the exports on which they so largely depend are fixed in the outside world by forces beyond their control is a situation which the tropical dependencies share with other areas; what is peculiar about their position is that their public commercial and economic policy is decided, and their economic development and external commerce are conducted, mainly by agencies outside them and not subject to their political control. This economic dependence is, indeed, but the joint reflection of their political status and their poverty.

It is not in all cases safe to assume that the dependent peoples have benefited by those dealings with Europe which have culminated in the present position; in some colonial areas the European brought peace only by creating (so far as the natives were concerned) a desert. The story of European expansion in the tropics contains some terrible records

ranging from extermination through slavery to dispossession and the milder forms of economic exploitation. The part of that story which concerns Nigeria is one of the least unhappy; the natives have retained the land, and they have been given, besides civil order and considerable public services, a very notable degree of economic advancement due largely to the introduction of modern transport and the initiative of white traders. The government doctrine of trusteeship and the developing zeal of European private enterprise have combined in a way which has produced much benefit and no major bitterness. Nigeria, therefore, provides a good case on which to begin the detailed study of two important matters—the flaws which are discernible in a system so much in conformity with the best British colonial doctrine, and the difficulties which have to be surmounted if even the best British tropical colonies are to progress towards the prescribed, if distant, goal of full and independent nationhood. It is to these two important questions that Mr. Mars' chapter on the extra-territorial companies, Miss Bower's on mining, and Dr. Leubuscher's on commercial policy are largely directed.

On the side of official commercial policy, one cannot say *a priori* whether a dependent status (i.e. the lack of complete sovereignty) is likely to be a net advantage or a net disadvantage. Nor, for similar reasons, is it safe to be dogmatic on whether an 'open door' policy is necessarily to the advantage or disadvantage of a dependent territory. It is clear that a pure 'open door' policy of no preference for the colony in the mother country and no preference for the mother country in the colony is, like complete economic independence, less favourable to the colony than a policy under which it obtains preference and gives none, and more favourable than one under which it gives more than it gets. It seems, furthermore, that in a world at economic war the small and weak countries would be driven to shelter under a close association with the great powers by the same logic which, in feudal times, decreed that every landless man must have a lord. Whether the connection of a particular colony with a particular mother country is a net advantage or not will, of course, depend on what price is charged for the shelter given; i.e. on the balance of preference given and received.

In the case of Nigeria and, indeed, of other British dependencies, the departures from the pure 'open door' principle have not been important in comparison with the practices of other colonial powers. There is, however, some reason to believe that Nigeria did not receive a net benefit as a result of these departures. The extent to which the Ottawa duties benefitted Nigeria in the British market does not appear to have been great; she was dependent to no small extent on markets outside the Empire, and it was in those that her position was most precarious. On the other hand, the limitation of her imports of Japanese goods was a very substantial blow to her, for the goods concerned were cheaper than

British substitutes by a greater margin than is usual in international competition; it was an act of pure exploitation, unjustifiable on the doctrine of trusteeship or on any reasonable view of what is due from a rich country to a poor one committed to its charge. It may be that, for political reasons, dependencies should not expect to obtain more in the way of preference in the metropolitan market than they give, but, once it is admitted that they are entitled to economic assistance from the mother country—as the United Kingdom admits implicitly through the status which it gives to colonial loans as well as explicitly by grants-in-aid—it is absurd to take advantages from them through the medium of commercial policy without giving any in return.

The reasons which have been making colonial powers tend more and more to institute mutual preferences between themselves and their dependent territories are, however, not to be so lightly dismissed. Here the motive is not exploitation in the sense of seeking wealth at the dependency's expense; it is a desire to increase the security of both parties even at some sacrifice of their wealth. In the past the policy has been mainly to obtain security from foreign competition or to ensure a supply of strategic foodstuffs and raw materials by fostering a judicious preference for the dependency's products. In the future, however, a further motive may enter—desire to secure for both parties a greater independence of a foreign demand which (unlike home and colonial demand) is not controlled sufficiently to remove the danger of violent fluctuations in it. The desire for a steady level of employment is already the main reason advanced, in some quarters, for seeking a high degree of self-sufficiency within the Empire or some larger system in which the Empire is included. This reason will certainly gain in cogency unless the half-dozen great industrial countries of the world can establish a common confidence in the power and the will of each and all of them to avoid catastrophic falls in their internal incomes and their external purchasing powers; otherwise a new school of imperial economic exclusiveness will almost certainly grow, and it will be all the stronger for being based on essentially humane and progressive grounds.

Whither would the policies of such a school lead as the dependent peoples began to develop independent and powerful bodies of opinion? It is, at least, clear where a policy of exclusiveness for the purpose of exploitation would lead; that was demonstrated with sufficient finality in eighteenth-century North America. It is likely, too, that any policy of imperial economic exclusiveness will, in practice, contain an element of exploitation: certainly most such systems which have hitherto existed have done so. It is, however, not impossible that a policy of exclusiveness directed to stability in dependencies as well as in the metropolitan country, and accompanied as it might be by very substantial help from the latter to the former in the way of economic development, might establish a true community of interest between them so long, at least, as

conditions in the outside world remained unstable. Whether attempts to create a tolerably stable economic world order will succeed before the world is cut up into autarchic blocs—imperial and others—may therefore be an immediate question with an answer of permanent importance.

When one comes to examine the part played by unofficial external agencies in regulating the economic life of Nigeria and other tropical dependencies, it becomes evident that there, too, new issues are arising, the settlement of which must give a new turn to the line of development in the most distant future. In Nigeria these agencies have, practically speaking, been of two kinds, mining companies and two-way trading companies, but both controlled by boards of Europeans resident outside the country, and, of course, drawing their capital from outside also. It is clear that, if any great development of external trade was to be brought about, as it has been, to the great benefit of Nigeria, this was the only available means, except, of course, public enterprise by the government of Nigeria, which, in fact, confined its economic activity mainly to the equally important and complementary task of providing the inland transport system. Nevertheless, it is equally clear that in other countries, which have been initially dependent on foreign capital, enterprise, and management for their primary development, a time has come when this dependence has been resented, especially in so far as it meant external control.

The problem of shifting the emphasis from external to internal control and capitalisation of enterprise is analogous to the political problem of making way for self-government; it is in any case difficult because nascent nationalism is peculiarly active and is often eager to dispense with external services which are symbols of dependence before it can adequately replace them. It is made all the more difficult if the external services, public and private, have in any way held back the development of native ability and enterprise within the country, if they have caused its economy to develop in an unfortunate way, or if they have been guilty of exploitation. It is extremely likely, in fact, that they will be charged with having done some or all of these things at some point, whether the charges are well-founded or not. If there is ground for these complaints, it is all the more likely that foreign managers and experts will be dispensed with prematurely and to the accompaniment of ill-feeling, and that foreign capital will be harried with taxation, special labour legislation, confiscation, and default, as has happened so widely in Latin America. These possibilities may be thought to lie far ahead in Nigeria, but it is certainly better to be early than to be late in pointing them out; moreover, if there is any real basis for the charges which have just been mentioned, it is clearly desirable that they should be removed, quite apart from any consideration of avoiding a possibly far-distant storm.

Have the extra-territorial companies and the government agencies concerned with internal development operated in Nigeria in such a way as

to give any real ground for the charges? It is clear that the first charge—holding back the development of local ability and enterprise—embraces not only sins of commission but also sins of omission. Even for the companies it is not only a matter of deliberately opposing native enterprise; a powerful extra-territorial trading organisation with trained white employees in a primitive community is in an immensely strong position, not only because it commands the technique and habits of modern commerce but because of its overseas connections. Without ever consciously setting out to crush a native competitor, it may still be instrumental in preventing the gradual growth of, at first, less efficient local trading organisations through the mere exercise of its natural advantages. That it has served the local community more efficiently than native traders, for some time, at least, could have done will not pardon it in the local mind—and may not justify it on the coldest economic calculation in the long run—if it has prevented native enterprise from getting its necessarily less efficient start. The ‘infant industry’ argument for protection applies to native industries probably more cogently than to others. What is true of individual ability is also true of enterprise. European companies feel themselves to be justified in refusing to employ natives in skilled or responsible jobs on the ground that there is no supply of natives with the necessary qualifications, but if, as is generally the case, the qualifications can be acquired only by doing the jobs, they will not escape some part of the blame for obstructing native progress. It is, of course, true even in advanced communities that the cost of training labour is one which, since they cannot be sure that the benefits will not accrue to their competitors, employers are loath to undertake, so that the state has to fill the gap. In Nigeria the state has not filled the gap; perhaps the situation, in which extra-territorial enterprise does not demand commercially and technically well-qualified local labour because there is none, and the state does not organise technical and commercial training because there is no demand for the products of it, amounts to a vicious circle; at all events, both the government and extra-territorial enterprise will have to change their policies in this respect if just blame is not to be attached to them.

The dependence of undeveloped countries on external experts and administrators, at all events, imposes a very considerable direct cost upon them, quite apart from its wider social and political aspects. Miss Bower’s study of the Nigerian balance of external payments shows how large are the remittances of Europeans to their home countries; but that is not the whole of the direct cost involved. The services of white administrators and traders in the tropics must always be dear relatively to those of natives, if the two groups work with equal efficiency, if only because the European has to be recompensed for working under conditions which, to him, are trying. The fact that native services of the kinds concerned are not available means not only that the Nigerian community has to import them

instead of producing them for itself, but also that it has to pay more dearly for them.

It is not, however, certain that the sins which are liable to be charged against extra-territorial enterprises in this matter are all sins of omission. The accusation that they practice 'aggressive selling' in order to crush incipient competition, including native competition, is often made. It would not be surprising—nor, by western commercial standards, particularly discreditable—if this were true. Few Englishmen do not know of instances at home in which a powerful firm with strong reserves has sold at prices lower than it would normally think profitable in order to crush a competitor; that is part of the normal process of self-defence in a competitive economy; freedom from it can be expected only where competition is more nearly 'perfect', in the technical sense, than is usual to-day. In a primitive country, however, where all the competitive strength is on the side of extra-territorial enterprise and most of the weakness on the side of native, it is likely to be not only a source of grave injustice (as it is wherever it exists) but a disastrous factor in the relations between the ruling and subject race. Practices which are mere excrescences of generally healthy competition in an advanced society are less venial when they obstruct the progress of a whole people.

The second charge which may eventually be made against extra-territorial enterprise and/or the government in Nigeria and similar countries is that of having caused the economies concerned to develop along unfortunate lines. Some critics would no doubt make that charge to-day; they would say that the country's degree of dependence on external trade is excessive, especially in view of the weak position of the primary producer in world markets to which attention has been drawn earlier in this chapter. As has been pointed out, however, there are advanced European countries (Norway and Denmark) which are equally dependent on external trade, in the sense that their trade bears an equally high relation to their national incomes, while New Zealand, to name another advanced primary-producing country, also exported little less than a third of its total output of goods and services before the second world war. It is true that the external markets on which these advanced countries depended were less fickle than those in which Nigeria sold, but that in itself is not sufficient to account for the fact that their high dependence on external trade was not felt to be a source of weakness in the same degree as Nigeria's. Nigeria's exporting industries have made her much richer than she was; it may be reasonable as a first approximation to say that they have increased her income by something approaching the full value of her imports. On that hypothesis they have raised it by perhaps 30 per cent. In the Gold Coast, the proportionate increase which the exporting industries have made in national income is much higher still, just as the degree of dependence on external trade is greater.

Nevertheless, it may be argued with some force that this is progress along what, in the absence of some simultaneous developments of a quite different kind, will ultimately prove to be a blind alley. Given the natural resources and the existing, and still more the prospective, populations of the dependencies concerned, the average incomes which the native peoples can hope to earn so long as the overwhelming majority of them are engaged in agriculture, with a small leavening of primitive handicrafts, are very strictly limited. The mere ratio of population to cultivable land sets limits, which, though high by present African standards, are very low by European ones, to what can be achieved. Naturally, the growth of technical knowledge may be expected to raise that limit continually, but not necessarily more rapidly than it raises the higher limits in more advanced economies. Relatively to what may be expected elsewhere, the standards of living which these dependencies can attain with anything like their present economic structures seem likely to remain very low. Structure must change if there is to be a prospect of progress as great as that which other countries enjoy; Denmark, which is always thought of as an agricultural country, and which is dependent on agricultural exports to perhaps something like the same extent (in relation to her national income) as Nigeria, actually derives a greater total income from manufacturing industry than from agriculture, while New Zealand, with the most productive agriculture in the world and with probably far more potential agricultural resources per head than Nigeria possesses, had nearly as many people engaged in manufacture and building as in farming, and may have derived nearly as much income from the former activities as from the latter. To quote New Zealand and Denmark in a discussion of Nigeria is, of course, to fly to extremes, but that does not invalidate the moral of the comparison—namely, that any country which does not possess truly enormous potential agricultural resources in relation to population, as Nigeria certainly does not, cannot hope to rise very far in the hierarchy of national incomes per head without a substantial development of manufacture and, of course, of the associated commercial activities.

The charge most likely to be made with any justice against extra-territorial enterprise and government on this count, therefore, is not so much that they have made Nigeria and similar countries too dependent on external trade, as that, in the existing circumstances, they have brought about a development too exclusively based on primary production. It is not, of course, too late to begin correcting the balance, but it will be necessary to begin doing so soon if the charge is not to be a weighty one, and it is perhaps already to be regretted that a beginning was not made earlier. It is not possible to say confidently without more knowledge than is available whether the failure of extra-territorial enterprise to develop manufacturing activity in tropical dependencies has been based on a formally correct application of ordinary commercial principles, on a correct calcul-

ation that better profits were to be secured by concentrating on the exportation of raw materials and the importation of finished manufactures, or whether, as some hold, natural inertia and an undue unwillingness to take the risk of entering new fields of activity have influenced its decisions. If the latter were proved to be the case, there would still be no reason to suppose extra-territorial enterprise less enterprising than the general average, and especially (alas!) than the general British average.

What is much more important, however, is that even a formally correct and vigorous application of ordinary commercial principles would not be enough to bring about the most desirable kind of development. The point is the same as that made earlier in connection with the failure to develop native skill and responsibility in Nigeria. The existing lack of skilled or efficient native labour and the inordinate cost of employing white labour even in a supervisory capacity under tropical conditions means that costs of training and costs, too, of other facilities for industry have somehow to be borne if manufacturing is to develop on any considerable scale. It may be that a very bold and far-sighted extra-territorial enterprise would find it worth its while to shoulder some of these costs itself; it is, however, certain that they are costs of a kind for which the state is normally expected to accept some responsibility. Again, therefore, the state and extra-territorial enterprise will share the responsibility for the failure of the Nigerian economy to develop these activities, which are necessary for its ultimate full growth, or the credit for its success in developing them.

In what proportion the weights of both the charges so far discussed will properly lie, or will be felt by Nigerian opinion to lie, on the state and the extra-territorial enterprises, respectively, is an unprofitable question. The important point is that some change in the policy of both is required to avoid these charges, and that each is in a position to take some initiative to that end. The state has shown by its interest in economic development in many fields that it is aware of economic responsibilities; whether it is aware of the extent to which the lines of development so far are inadequate for the future is unfortunately less certain. The extra-territorial companies, also, may be in danger of forgetting the extent of their responsibilities. Controlling, as they do, perhaps a third of the national income of Nigeria and virtually all its external trade, and possessing, as they do, efficient means of making their influential opinions known both to the government of Nigeria and to the Colonial Office, they cannot escape some portion of the responsibility for general economic development, or lack of it, which, in countries where concentrations of private economic power are smaller in relation to the government, devolves upon the latter.

It may be, however, that the chief difficulties which will arise in the nearer future in connection with extra-territorial enterprise in tropical dependencies will be due, not to their effect on the development of native skill and enterprise or to their influence on the economic structure of the

countries concerned, but to their development of monopolistic or semi-monopolistic power to exploit them. The danger of this, as Mr. Mars points out, is threefold; in the first place there is a clearly perceptible trend towards concentration of ownership and control among the trading enterprises operating in Nigeria, and one of them is already responsible for nearly half the external trade of that country; secondly, since the companies operate from trading-posts scattered through relatively isolated places over a wide area, there is in any case very little competition in buying or selling for a high proportion of these posts; thirdly, the companies are in any case sufficiently small in number to facilitate agreements between them such as the well-known cocoa-buying agreement of 1937.

Monopoly (with which is included here what economists more accurately call monopsony) in any case presents grave problems throughout a large part of the world. In the most advanced countries it has long been clear that loose agreements for mitigating the rigours of competition protect inefficiency and remove the community's only guarantee that private entrepreneurs are, in fact, doing anything to deserve the large incomes which they claim as the rewards of risk-bearing and enterprise. It has also long been clear that concentration of ownership and control, while it presents opportunities for rationalisation, economy, and more vigorous research on products and methods of production, gives no guarantee that those benefits, or a due proportion of them, will accrue to the buyer, but, on the other hand beyond a certain point opens up even more lucrative opportunities for exploiting him by a policy of restriction. Furthermore, it has for some time been growing clear that great concentrations of economic power of any kind are politically dangerous, because they enjoy their power without responsibility, unless somehow held in check. If public criticism or similar concentrations with opposing interests are not adequate to check them, the state must, in the long run, control them or they will control the state.

In the primitive community these dangers are magnified. Criticism is relatively weak and ineffectual through ignorance, illiteracy, and a lack of representative institutions—though there may be surprises in wait for the monopolist, as the outcome of the cocoa-buying agreement showed. The threat of potential competition, which is the chief active check on monopolistic exploitation in advanced communities, is much reduced, because potential competitors, if native, lack capital, or, if extra-territorial, are at the disadvantage of operating from a distant base. Moreover, opposing concentrations of economic power are generally lacking since buyers and sellers with whom the monopolist deals in a primitive territory are likely to be scattered and unorganised. The opportunity for exploitation certainly exists in such countries in a high degree; is there any evidence that it is taken?

It is notoriously difficult to prove the existence of exploitation; almost the only way of doing so conclusively, indeed, is from the experience of firms which undercut the monopolists, and so end their monopoly. The community's safeguard against exploitation, therefore, can consist only in the absence of the conditions that make it possible; it is necessary to treat the possibility of exploitation as a danger to society, not to wait until it is proved that advantage is being taken of it. It is, in any case, clear that any agreement in restraint of trade—such as the cocoa-buying agreement—creates a *prima facie* presumption that there is exploitation; wherever, too, a firm is in a position to raise its profits by restricting its sales or purchases, or by taking advantage of its position as the only available purchaser from a particular seller, or the only seller to a particular buyer, it may as reasonably be assumed that it does so as that it conducts its affairs, in general, with adequate efficiency and economy. There is nothing commercially disgraceful in driving a hard bargain, or in deciding the amount that is to be put on to, or taken from, the market with regard solely to the interests of one's own firm. The complaint against firms that are in a monopolistic position is not that they behave improperly, but that it is not in the interest of society that they should be in that position at all without some check other than those which the forces of the market impose. That the extra-territorial trading companies are in danger of getting permanently into such a socially undesirable position in Nigeria, that their position may already be undesirable in scattered inland markets where there can be no effective competition between them, and that they have been temporarily in undesirable positions as a whole, as a result of special agreements, appears to be indisputable on the evidence. The real danger of this situation, again, is not so much in the exploitation itself, or in the drift towards a situation in which it is probable, as in the fact that it introduces, or may introduce, a further antagonism between one race and another, between rulers and ruled. That Englishmen are in some degree exploited by English monopolists and Africans even more heavily exploited by Africans (as the *Cocoa Commission Report* showed) are situations infinitely less dangerous than one in which Africans are exploited by European monopolists. If that situation is allowed to feed the fiery imagination of nascent African nationalism, then not only will the great work of European enterprise and capital in Africa be in danger of a premature and ungrateful end, but the necessarily delicate political relations between the two continents will be rendered vastly more difficult. Both extra-territorial enterprise and the public authorities share the heavy responsibility of avoiding these dangers.

4. THE PROBLEMS OF SOCIAL ADJUSTMENT

The three groups of problems so far discussed in this chapter are connected with the driving forces which are most likely to force Nigeria,

and other tropical dependencies, down the roads of social and economic change. The poverty of these countries, in contrast with the wealth of advanced communities, both evokes a desire for economic advancement in the countries themselves, and also presents a challenge to those in the wealthier countries who feel the pre-eminently European and North American urge to make two blades of grass grow where one grew before. The unusually insecure position of the primary producer for world markets has reinforced, and may continue to reinforce, the incipient desire of Nigerians and similarly placed peoples for a greater measure of control over their own economic destiny and a mode of economic development which takes better account of internal needs and aspirations than in the past. The completeness of the external control over their economies, and such difficulties and abuses as may arise from it, promise to feed the growth of their national self-consciousness.

What effect these driving forces actually exert, however, depends largely upon the native peoples of the countries concerned, upon their existing institutions and outlooks, and upon the precise manner of impact of the new forces on them. On the ease with which social patterns adapt themselves to new needs, or with which economic changes are made to fit in with those social patterns which are not easily adapted, will depend not only the smoothness of the transformations which lie ahead, but their course also. It is not proposed here to do more than mention some of the more obvious of the difficulties of social adaptation which will require attention.

In the first place, the question arises how efficient the native peoples concerned will prove to be at the new techniques which they must master if the economies of their countries are to develop fruitfully. In particular, will they, within a reasonable time, manage to supply efficient industrial labour? The question has point, because the general impression is that the Nigerian factory worker, for instance, produces only a fraction of what a European, Chinese, or Japanese, worker would turn out under similar factory conditions. So much is this the case that competent observers believe that, despite the lowness of West African wage-rates, labour in the industries which have been stimulated by the second world war in that region is by no means notably cheap by British standards. It must be remembered that, as was mentioned earlier in this chapter, a high proportion of the people concerned are normally undernourished or suffer from debilitating diseases. This state of affairs is probably already being slowly remedied; a more rapid improvement is to be expected in the course of the very economic and social development which is under discussion. Moreover, regularity of attendance at work is largely a matter of habit and tradition so far as the worker is concerned, and depends also on the development of suitable and congenial methods of management. Given a little time and a more widespread development of factory industry, there-

fore, there is little sign to show that Nigerians and the peoples of other tropical dependencies will fail to develop traditions, if not of hard work by European standards, at least of reasonable regularity and efficiency in working hours which may, perhaps, be shortened. So far as managerial and higher technical ability are concerned, there is no evidence to suggest that, given the necessary educational facilities, the tropical peoples would not be able to supply them within a reasonable period. Russian experience should act as a deterrent to those who base prophecy in such matters on the received notions of 'national character'.

If, as there is every reason to believe, the skill and efficiency necessary for far-reaching economic development can be created in the tropical dependencies, the practical problem is to keep the supply of it and the demand for it in a proper relation to each other. If the supply of people, whose education makes them believe that they are ripe for managerial or administrative posts or for minor 'white collar' occupations, outruns the numbers that can be absorbed into appropriate employment (as has happened in many countries in the past), the seeds of social unrest and political disaffection will be well and truly sown. If unskilled labour is allowed to flow into the towns faster than it can be absorbed into employment, social unrest is again caused, wage-rates are depressed, and antagonism is set up between the established urban labourers and the newcomers. Mismanagement of the relation between the supply of labour and the demand for it can thus wreck the prospect of orderly development, besides causing much immediate suffering.

Again, because the essence of economic development is that it creates many new opportunities for personal advancement and creates the need for new units of organisation, many of them larger than the relatively small ones which exist in a primitive society, the question arises whether it can be accomplished without a sharp break with the institutions of the past. Two vital distinctions have, of course, to be made in considering this question; first, which of the existing institutions are essential to social continuity as opposed to those which are in decay and no longer occupy a high place either in the feelings of the people or the machinery of their civilisation, and, secondly, which of them can be adapted to the new purposes. Mindfulness of these distinctions will help to reduce the sharpness of the transition.

The reduction of the social strain involved in the necessary economic advancement of the tropical dependencies is all the more important where, as in Nigeria and other British dependencies, it is hoped to preserve and develop indirect rule along existing lines. A violent break with the past, if not managed with something like Russian directness and vigour, may well result in chaos; only if the transition can be rendered reasonably smooth will such direct and vigorous control be unnecessary. Existing native institutions are adapted, in general, not merely to the needs of an

economy different from that which is likely to emerge, but to the needs of an economy which is not in process of revolution in the sense in which the economy of the United Kingdom has been in process of revolution for between one and two centuries. The individual members of primitive societies are in many ways more mobile than members of advanced ones; the pressure of poverty and the lack of a secure minimum standard of life force them to be so; so that their institutions, being adapted to the needs of a rigid economy rather than a changing one, are more than usually vulnerable. The possibility of a conflict between political advancement, as envisaged by British colonial administrators, and economic advancement—by whatever road it comes about—requires, therefore, to be watched for with the closest attention.

It would be tragic if the British ideal of indirect rule and the preservation of native institutions had to be sacrificed in any substantial degree to the exigencies of economic progress, but that does not mean that economic progress can, or should, be held in check. It may well be that to check it (or rather, to fail to promote it with sufficient vigour) would be as dangerous to orderly political development along the lines contemplated as the most violent and uncontrolled economic revolution. One thing is certain; to reconcile political and economic progress, and to avoid the disasters which the obstruction of either would bring, a positive and clear-headed study and control of the social consequences of economic change—and hence of economic change itself—will be imperative. It is to be hoped that the studies in this book may provide some preliminary material for this enormous task.

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