

REAL PRICE AND THE NIGERIAN STRUCTURAL ADJUSTMENT PROGRAMME

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ABSTRACT

The study examines the trend in the movement of agricultural wages, input prices and produce prices. Although all nominal prices are on the increase, most real prices are on the decline. The only exceptions are cash crops prices. With this development, only cash crop farmers are currently not affected by the illusion of higher returns. If the trend is not redressed, this paper opines that it might create a problem for the future of agricultural production, especially the all-important food crops sector of the economy. It is the opinion of this paper, that the ever-increasing inflation rate must be pegged especially as it affect the agricultural sector, to avert a food crisis.

Key words: Structural Adjustment, Average annual growth rate, nominal and real prices, consumer price index, inflation Rate.

INTRODUCTION

Since the inception of the Structural Adjustment Programme (SAP) in 1986, several studies have been carried out on its impact on rural life; Oni (1989), Bade (1987), and Oni (1992); agricultural production; Akande (1989); production of specific crops; Alimi and Awoyomi (1991) among others. The general conclusion from most of these studies is that SAP has led to increases in the spate of activities in most sectors of the economy. In agriculture, it has led to increase in nominal prices of most agricultural products but not without increases in production costs. The gradual deregulation of the foreign exchange market which culminated in the recent floating of the Naira exchange rate has led to upward and continuous increases in prices of all commodities including labour.

The composite all-item consumer price index, which is a measure of the rate of inflation has also not been stable. The logical question to ask then is how far prices and costs have actually gone? It is essential to examine the movement of the real values of the prices and costs in question before and during SAP, to ascertain their real effects on living standards. One would

also like to know whether rural workers are actually better off even with continuous increase in nominal wages or whether farmers are paying more in real terms for agricultural inputs, so as to draw conclusions on its effect on their real earnings.

This study therefore examines the movements of nominal and real prices of agricultural products as well as costs of agricultural inputs with a view to assessing their implications for agricultural development.

Specifically the study:

- (i) examine movements in prices (nominal and real) of cash and food crops at the farm gate as well as market retail prices.
- (ii) examines trends in agricultural wages and other inputs and the purchasing power of government sector wages.
- (iii) compares these trends and determines whether there are illusionarily high prices in the agricultural sector and hence, their effect on agricultural production.

METHODOLOGY

The study used secondary data on prices of cash and food crops, agricultural and government wages and prices of major

in real prices with the pre - SAP experiencing a smaller average decline (a higher average real value). The difference experienced with respect to cocoa arose because the devaluation of the naira occurred at a rate much faster than the inflation rate. Due to the fact that the marketing of this crop is not locally based, the devaluation has ensured that nominal prices rise above any "inflation drag" hence the real prices have continued to climb as opposed to what is happening to all other crops.

Retail Prices

Retail prices are the relevant parameters for consumer welfare. Retail prices take into consideration the input of middle-men with respect to such functions as form, time and location. It also takes into account their profit margins (Kohls and Downey 1972). It is expected therefore, that the retail prices would in normal circumstance be higher than farm gate prices.

Table 7 gives a rundown of retail prices for selected food crops. Most crops experienced continuous price increases between 1981 and 1986. By 1987, the increases has become more pronounced; for example, cassava which sold for N778 per tonne in 1981 and N910 in 1987 sold for N2,260 in 1988 and N2,686 in 1989. The same applied to maize, yam sorghum, rice and millet. Table 8 summarises the growth rates of the prices pre and during SAP. As seen here, there was a 15 percent annual growth in retail prices pre - SAP while the figure increases to 25 percent during SAP. However, just as it was for real farm gate prices, retail prices did not experience any real increases pre or during SAP. Rice for example has a real price of N2,845/tonne in 1981, N2,645 in 1986 and N2,770 in 1989. Again, the illusion of higher retail prices paid by consumers created by persistent increases in nominal prices is not reflected in the real values. Retail prices actually experienced annual declines in real prices pre and during SAP with the SAP period experiencing a bigger decline.

(C) Government Sector Wages

If consumers are not really paying more for food, what about the purchasing power of their take home? In this situation, the average salary of University teachers for the period is used to examine the effect of SAP on regulated wages. Table 9 presents the average wages and the annual growth rates. The nominal values showed some consistency in the increment as will all government sector wages. An annual salary of N3,864 in 1980 to N12,744 in 1991 is a whopping increase of 230 percent. By 1989, when most retail food price rose by 200 percent over the 1981 figures, the wages have also gone up by 185 percent. The pre - SAP and SAP annual growth rates of 11.3 percent and 10.7 percent respectively however showed that the nominal wages increased at almost the same rate during these two period with a higher increase during the pre - SAP days.

An examination of the purchasing power of the government workers shows that a real wage of N10,733 in 1980 fell to N9,228 in 1981. The wage earner was to experience a continuous slide in his purchasing power up to 1987 when it fell by about 13 percent below the 1981 value. As from 1987 (SAP), the decline become more pronounced and consistent reaching N4,410 in 1989 when the real retail price of rice was still the same price it was in 1981 when the real wage was N9,228. The real income figure showed a 2.4 percent annual growth pre - SAP and an 11 percent average annual decline post - SAP reflecting the fact that government wage earners are worn - off during SAP than the pre - SAP era.

CONCLUSION

Undoubtedly, all prices have gone up and are still doing so. Agricultural labour continues to hike its wages, costs of agricultural inputs are on a skyrocketing increase while farm and retail prices of agricultural commodities have been on a continuous increase.

However, an examination of the trend in the real values of these items (as measured by simple annual average growth rates) did not show the marked changes experienced by the nominal values. Farmers cannot be said to be

paying more for agricultural inputs in real - terms although they appear to be paying more for labour. Food crops farmers are also experiencing lower real prices simultaneously with the lower real input prices.

Cash crop (especially cocoa) farmers are the only groups with meaningful real increases which place them above other agricultural producers, since the international nature of the marketing of their produce puts them in a special class.

Recent studies have indicated that returns to farmers are higher in the SAP than in the pre - SAP era. What these studies have not shown is that the biting inflation have made these higher returns actually lower than the pre - SAP era. What remains is the illusion of higher returns. Of course, cash crop farmers and agricultural labour are still largely unaffected by the illusion.

The trend emerging could dampen agricultural production especially with respect to the all - important food crops sector unless the situation is redressed. The issue of

run - away inflation must be addressed. Such that higher

return to farmers would mean higher real returns. The pace of agricultural development would be hastened if effects are made to control the rise in input prices and to ensure a wider gap between its real value and that of food prices if the all - round inflation cannot be completely addressed. Government sector wages must also be increased to reflect the continuous increase in the inflation index. Workers must be encouraged to be more productive through a realistic review of wages in an economy with an ever increasing inflation index resulting in continuous slides in living standards.

Unless this is done, the nations might be moving gradually to an era of food shortages when producers eventually discover that is "better" to produce cash than food crops, while consumers become cash strapped, hungrier and less productive.

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TABLE 1: Nominal (N) and Real (R) Farm Labour Wages National Average (N/manday)

YEAR	NOMINAL	ANNUAL GROWTH RATE (%)	REAL	ANNUAL GROWTH RATE (%)
1984	3.99	-	4.86	-
1985	6.36	59	7.48	54
1986	9.09	43	10.12	35
1987	9.83	8	9.83	-3
1988	13.91	42	9.08	-8
1989	18.81	35	8.09	-11
1990	27.4	46	11.00	36
1991	29.1	6	10.34	-6
Averages				
Pre-SAP				
1984 - 1986	6.48	34	7.49	30
SAP				
1987 - 1991	19.81	27.4	9.67	2

1987 = 100 for Real Wages

Sources: Compiled from ADPs and FACU annual reports.

N.B: On all tables pre - SAP period is up to and including 1986 while SAP period is from 1987.

Table 2: Prices of Farm Inputs (N) (a) Nominal

Farm Input/Unit	1984	1985	1986	1987	1988	1989	1990	1991	1992
Agrochemicals									
(1) PRIMAGRAM/Liter	70	70	62			320	70	79.75	95
(2) ACTELIC DUST (250kg)	175	175	265		200		1000	1000	1225
(3) CYMBUSH IOEC/LITRE	37	37	28	55	55	85	85	165	206.25
(4) SALTICK BLOCK	10.5	10.5	10	10.5	10.5				
SEEDS (IMPROVED)									
SORGHUM/10kg	0.35	6	6	13	18	35	35	35	35
MAIZE/ 10kg	0.35	6	6	13	18	35	35	35	35
RICE/10kg	0.5	6	6	15	15	-	-	-	-
MILLET /10kg	0.35	8	8	3	-	-	-	-	-
SOYABEANS/10kg	-	25	25	10	10	-	-	-	-
COWPEA/10kg	-	25	25	10	10	-	-	-	-
GROUNDNUT/10kg	-	-	41	10	10	-	-	-	-
Implemanants									
PUMPS 3 (100mm)	-	-	-	2000	2000	3500	3500	3500	4375
ANIMAL DRAWN RIDGER	90	90	90	250	-	800	800	1000	1250
EUNLOT PLOUGH	140	200	200	250	250	-	650	800	800
KNAPSACK - SPRAYER	-	-	-	150	150	-	650	800	800
ULV SPRAYER	16	16	16	150	150	195	-	-	-

SOURCE : FASCOM, KADUNA.

TABLE 2: Prices of Farm Inputs
(B) REAL (1987 = 100)

FARM INPUT/UNIT	1984	1985	1986	1987	1988	1989	1990	1991
AGROCHEMICALS								
1) PRIMA GRAM/ Litre	86.96	82.35	69.04		-	137.69	28.06	28.28
2) ACTELIC DUST (250kg)	217.39	205.88	295.10		12.45	-	400.80	354.60
3) CYMBUSH IOEC/ Lit.	45.96	43.53	31.81	55	35.60	36.57	34.07	58.51
4) SALTICK BLOCK	13.04	12.35	11.14	10.5	6.80	-	-	-
SEEDS (IMPROVED)								
SORGHUM/ 10kg	0.43	7.06	6.68	13	11.66	15.06	14.03	12.41
MAIZE/10kg	0.43	7.06	6.68	13	11.66	15.06	14.03	12.41
RICE/10kg	0.62	7.06	6.68	15	9.71	-	-	-
MILLET/10kg	0.43	9.41	8.90	3	-	-	-	-
SOYABEANS/10kg	-	29.41	27.84	10	6.47	-	-	-
COWPEA/10kg	-	29.41	27.84	10	6.47	-	-	-
GROUNDNUT/10kg	-	-	45.66	10	6.47	-	-	-
IMPLEMENTS								
PUMPS: 3" (100mm)	-	-	-	2000	294.49	1506.02	1402.80	1241.13
ANIMAL DRAWN RIDGER	111.80	105.88	100.22	250	-	344.23	320.64	354.61
EUNLOT PLOUGH	173.91	235.29	222.72	250	161.81	-	260.52	283.69
KNAPSACK - SPRAYER	-	-	-	150	97.09	-	260.52	283.69
ULV SPRAYER	19.88	18.82	17.82	150	97.09	83.91	-	-

Source : Computed from Table 2(a)

Table 3: Annual Growth Rates in Input Prices (%) (Nominal -N and Real - R)

YEAR	ANIMAL- DRAWN RIDGER		CYMBUSH		MAIZE		SORGHUM	
	N	R	N	R	N	R	N	R
1985	0	-6	0	-4	161	153	161	153
1986	0	-6	-24	-30	0	-5	0	-5
1987	178	-150	9.6	7.7	117	95	117	95
1988	-	-	0	-53	38	-10	38	-10
1989	220	38	55	3	94	-29	94	29
1990	0	-7	0	-8	0	-7	0	-7
1991	25	11	9.4	69	0	-12	0	-12
1992	25	*	25	*	0	*	0	*
Average Pre-SAP	0	4	8.0	11.3	53.7	49	53.7	49.3
SAP	0	-22	45	17.6	42	19	41.6	19

Source: Computed from Table 2 (b)

* Values not computed due to unavailability of the CPI for 1992.

Table 4: Average Farm Gate Prices of Selected Agricultural Commodities (N/ton)

Year	Coca	P/Kernel	Rubber	Cotton	Ground Nut	Beans	Rice	Yam	Guinea Corn	Millet	Maize	Cassava
1981	1300	200	458	465	450	547	613	471	2212	233	246	362
1982	1300	230	700	510	450	567	541	552	245	352	316	396
1983	1400	230	700	560	450	707	575	576	233	336	627	399
1984	1500	400	750	700	650	1020	883	619	421	470	627	534
1985	1500	400	750	850	750	1410	1040	1030	630	680	680	680
1986	3500	400	1200	1000	1000	1197	987	630	312	347	394	308
1987	7500	850	1000	4000	2075	1317	979	516	302	358	462	372
1988	11000	1800	2000	2433	4775	2638	2674	1560	797	970	838	836
1989	10100	1800	2000	2433	4775	2638	2674	1560	808	1192	1566	1283
1990	8500	1385	2600	2600	4320	2775	2471	1587	757	951	1009	1282

Source: FOS, FACU, CBN Annual Reports

Table 5: Real Average Farm Gate Prices of Selected Agricultural Commodities.
(1987 = 100)

Year	Cocoa	Palm Kernel	Rubber	Cotton	Ground Nut	Beans	Rice	Yam	Guinea Corn	Millet	Maize	Cassava
1981	2989	460	1053	1069	1034	1267	1410	1083	507	536	565	832
1982	2778	491	1496	1090	962	1212	1165	1393	523	762	673	847
1983	2426	398	1213	970	780	1225	897	1028	404	582	891	692
1984	1863	479	932	870	807	1267	1087	769	523	584	779	683
1985	1765	471	882	1000	882	1659	1223	1212	741	776	765	800
1986	3897	445	1336	1114	1114	1333	1099	702	347	386	439	343
1987	7500	850	1000	4000	2075	1371	978	516	302	358	462	372
1988	7119	647	971	2912	1456	1393	1018	893	516	628	642	541
1989	4346	775	861	1047	2051	1135	1151	671	348	513	502	543
1990	3405	569	1042	1042	1713	1112	890	636	303	381	404	518

Source: Computed from Table 4.

Table 6: Average Annual Growth Rates of Farm Gate Prices For Selected Agricultural Crops (%)

Year	Cash Crops		Food Crops	
	Nominal	Real	Nominal	Real
1981				
1982	-44	3	14	6
1983	5	-15	11	-10
1984	20	-14	34	-4
1985	6	0.6	33	26
1986	67	58	-32	-35
1987	117	95	5	-6
1988	43	-18	136	29
1989	-4	-44	0.5	-14
1990	-8	-14	-7	-11
Average Pre-SAP	9	5.4	10.0	-3
SAP	37	4.8	34	-0.5

Computed From Table 4 and 5.

Table 7: Retail Prices of Selected Food Items Nominal (N) and Real (R) (N/tonne)

Year	Maize		Beans		Millet		Sorghum		Rice		Cassava		Yam	
	N	R	N	R	N	R	N	R	N	R	N	R	N	R
1980	537	1491.67	674	1872.22	366	1013.89	270	760	981	2669.44	505	1402.78	558	1550
1981	848	1849.43	999	2296.55	442	1016.09	414	961.72	1238	2845.88	778	1788.50	780	1793.10
1982	724	1647.00	848	1811.97	558	1192.31	517	1104.70	1062	2269.23	853	1822.66	1080	2307.69
1983	719	1246.10	1317	2282.50	534	925.48	581	1006.93	1237	2143.85	1012	1763.90	1113	1928.94
1984	1032	1281.89	2426	3013.66	894	1234.78	1233	1631.68	2863	3556.52	1419	1762.73	1354	1681.99
1985	877	1031.76	2086	2452.54	784	834.12	846	896.29	2654	3122.36	1040	1223.53	1249	1618.99
1986	714	785.10	2079	2316.14	576	641.43	635	707.13	2376	2845.88	663	738.31	1045	1469.41
1987	838	838	2382	2382	595	595	615	615	2368	2368	800	800	856	1163.69
1988	1520	988.99	3737	2418.77	1611	1042.72	1621	1049.19	3787	2451.13	1798	1163.75	2288	856
1989	2115	910.07	4581	1971.17	1979	861.55	1645	707.83	6439	2770.65	2718	1169.54	2586	1480.91
1990	1830	733.47	4820	1709.22	1580	633.27	1540	617.23	5950	2384.77	2780	1114.23	2630	1112.74
1991	1650	586.11	6020	2134.75	1990	670.21	1810	641.84	-	-	-	-	2630	1054.11

Source: AFMEU, CBN Annual Reports

Table 8: Annual Growth Rates in Retail Prices (Nominal and Real) of Selected Food Items.

[%]		
Year	Nominal	Real
1980	-	-
1981	42	18
1982	3	-5
1983	15	-6
1984	74	25
1985	-16	-22
1986	-15	-18
1987	4	-6
1988	84	26
1989	35	-10
1990	-4	-13
1991	-6	-14
Pre-SAP Averages	15	-1
Post SAP	25	-3

Source: Computed From Table 7.

Table 9: Nominal and Real Values of Representative Government Sector Wage.

Year	Annual Income(N)	Annual Growth Rate (%)	Real Value of Income 1987 = 100	Annual Growth Rate (%)
1980	3864	-	10,733	-
1981	4014	3.9	9,228	14.0
1982	5855	45.9	12,513	35.6
1983	6336	8.2	10,981	-12.2
1984	6816	7.6	8,467	-22.9
1985	7286	7.0	8,584	1.4
1986	7776	6.8	8,658	0.9
1987	8054	3.8	8,054	-7.0
1988	8328	3.4	5,390	-33.1
1989	10,248	23.1	4,410	-18.2
1990	11,496	12.2	4,608	4.5
1991	12,744	10.9	4,519	-2.0
Pre - SAP Averages		11.3		2.4
Post - SAP		10.7		-11.2

Source: Field Study.