WEST AFRICAN TRADE

A Study of Competition, Oligopoly and Monopoly in a Changing Economy

P. T. Bauer

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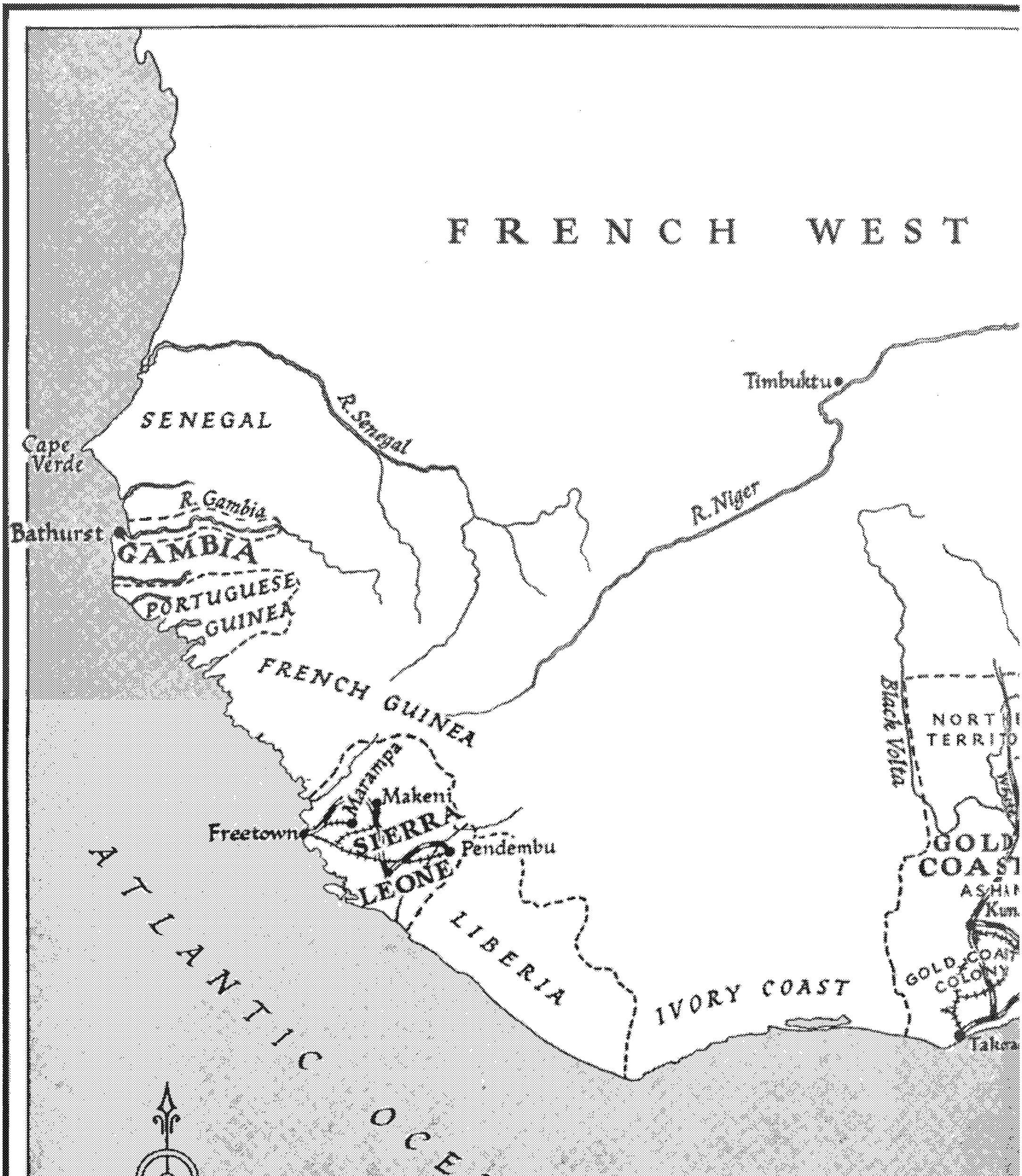
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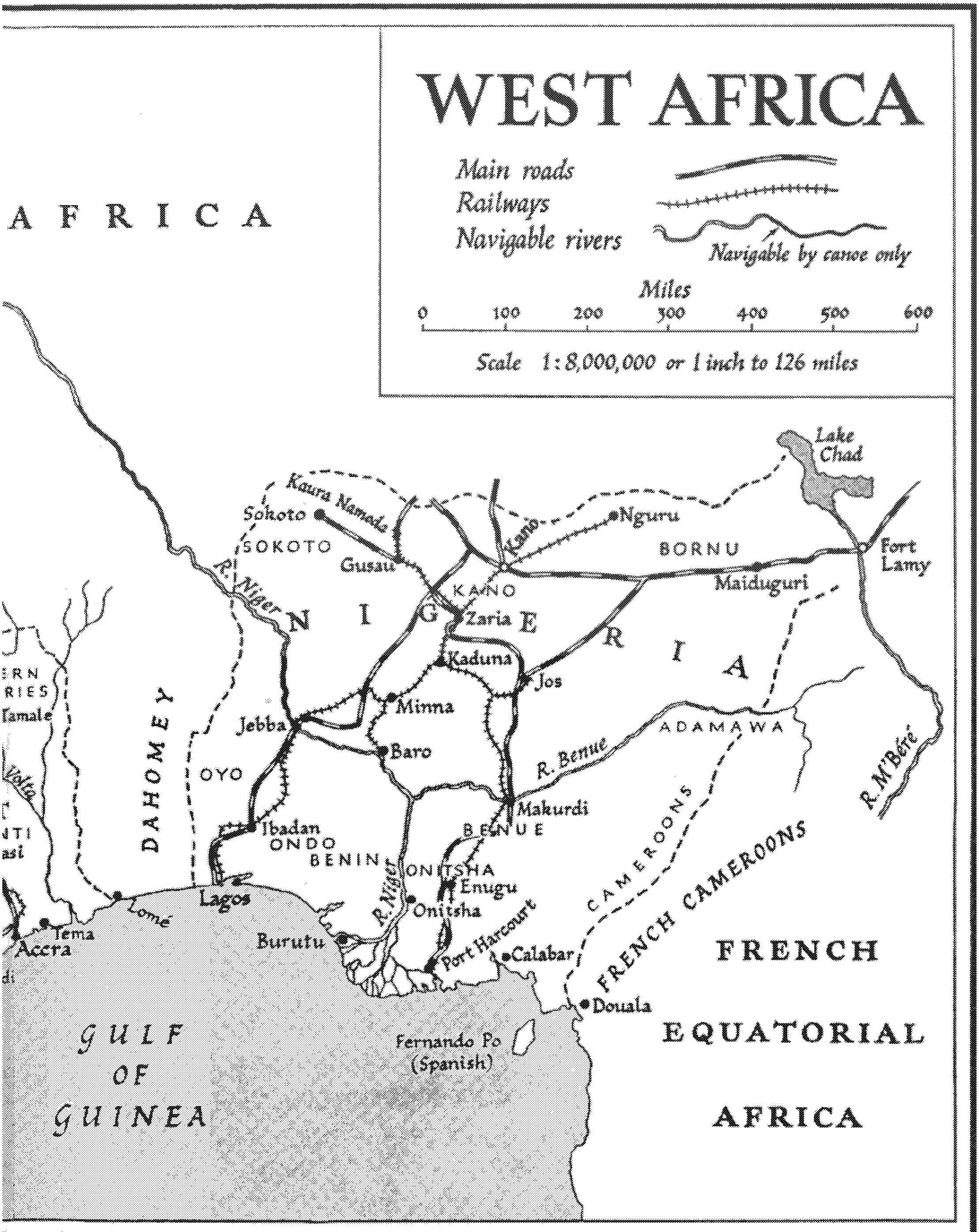
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WEST AFRICAN TRADE

A Study of Competition, Oligopoly and Monopoly in a Changing Economy

BY

P. T. BAUER

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PREFACE

The work for this study began as an investigation into the structure of West African trade and especially of monopolistic tendencies, undertaken at the request of the Colonial Office. For reasons stated in the introduction, its scope had to be extended substantially beyond the topics usually covered under these headings, and it broadened into a detailed study of West African trade and of those aspects of the West African economies which bear on trade. It was conducted under the auspices of the Colonial Economic Research Committee, which recommended to the Secretary of the State for the Colonies that it should be financed by a grant from Colonial Development and Welfare funds. The views expressed are not those of any government authority.

The collection and analysis of the material for this study were undertaken between the early part of 1949 and the latter part of 1952. The book deals mostly with basic factors and aspects of the West African economies largely unaffected by the political and economic developments of the last few years. But important changes have occurred in a number of subjects reviewed, notably such matters as the administration of trade controls and the policies of the marketing boards. It has not been possible to bring up to date the material beyond about the middle of 1952, and it should be remembered that the discussion refers to conditions at that time, and to policies pursued up to that time.

I have received much liberal help from both official and private sources. I was given free access to the relevant files of the Colonial Office, of the local governments and of the marketing boards. Moreover, not only was this material placed at my disposal, but much information was specially collected and tabulated by the authorities for the purpose of this inquiry. Both in Nigeria and in the Gold Coast the executives of the marketing boards have been of the greatest help in making information available. I have also had much assistance from the Department of Commerce and from the Department of Statistics both in Nigeria and in the Gold Coast.

The attitude adopted by the commercial firms has also been very liberal. I have been greatly assisted in my work by European, Levantine and African firms and merchants. I received much confidential information from the firms of John Holt and Company Ltd., A. G. Leventis and Company Ltd., and the United Africa Company Ltd.

The help I have received from the United Africa Company was especially generous. The Company made available to me much confidential information, and the material was given to me without restriction on its use. As well as adopting this very liberal attitude, directors and officers of the Company gave me freely of their time for discussion of problems of West African trade.

In the writing of this book I have had great assistance from Mr B. S. Yamey. I assembled the material, but in the greater part of the book our collaboration was so close that the analysis and presentation are his as much as mine, and I am very much indebted to him indeed. In the analysis of the problems of the statutory marketing boards I have benefited greatly from collaboration with Professor F. W. Paish. Those familiar with contemporary economic literature will realize how fortunate I have been in my collaborators. I am also obliged for helpful criticisms of earlier drafts of this book to Professors E. A. G. Robinson and S. Herbert Frankel.

In the collection, analysis and presentation of statistics I was greatly helped by Mr G. L. Unsworth, formerly of the Colonial Office and at present with the Board of Trade, and Miss S. Y. Mallett, Statistical Assistant in Research, Cambridge University. In the closing stages of the work a very heavy burden was borne by Miss Mallett in the preparation and presentation of the tables and diagrams. Her helpfulness and efficiency made it possible to extend all the time series to the end of 1951.

Some of the material in this book has appeared at various times (or will appear shortly) usually in a somewhat different form, in *Economica*, the *Journal of the Royal Statistical Society*, the *Business History Review* (Harvard) and the *South African Journal of Economics*. I am obliged to the editors of these journals for permission to use it again.

I am also grateful to my publishers, the Cambridge University Press, and to their staff, for unfailing efficiency, courtesy and forbearance at various stages in the production of the book. Lastly, I should like to thank Miss S. D. Lyman who has borne the burden of the secretarial work in the preparation of this book, and whose efficiency and patience have been of great help.

P. T. BAUER

GONVILLE AND CAIUS COLLEGE
CAMBRIDGE
March 1954

PREFACE TO THE 1963 REISSUE

The reissue of a book long out of print is always gratifying to an author, particularly when, as in this instance, it represents several years of work in his special field of study.

I think that the shortcomings which a revision would need to rectify are those of omission rather than of commission. The major subjects treated represent either examination of dominant features of the West African economies and analysis of their implications, or description and discussion of topics or policies of some general interest. This applies, for instance, to the rapid progress of the West African economies over the last half-century; the multiplicity of traders and the role and productivity of trade; the operation of restrictive tendencies in emerging economies; the high degree of concentration in the private sector of external trade; the factors influencing new entry and the prospects of entrants; the operation of private market sharing agreements, and the relation between these and official controls; the effect of buying competition on the terms of trade of producers; the main features of internal trade; the problems of price and income stabilization; the operation of official export monopolies; the special problems of official controls in underdeveloped countries; and the implications of the immigration policy.

These topics were chosen because they seemed of more than ephemeral significance in West Africa, or because they raised issues of some general interest, or because they reflected the operation of forces at work elsewhere also and thrown into unusually clear relief in West Africa. The statistics presented are all designed to illustrate one or other of these topics, and in this sense are still relevant. I hope, therefore, though this is necessarily only an expression of hope, that much of the book, including the statistics, is not out of date.

The familiar problem of the need for revision arises acutely because of the far reaching political and social changes in West Africa, which were already apparent when the book was completed about ten years ago, as is recognized in its sub-title. If I were to re-write this book now, or if I had the opportunity to revise it extensively, I would have to discuss at length certain important developments which have taken place in West Africa during the last decade, and which are relevant to the trading situation and methods there. Perhaps the most important of these are the expansion of the market; the development of local manufacturing activity; the increase in the numbers of officially sponsored or controlled industrial and trading organizations; and the decision of some of the major expatriate merchant firms to abandon or curtail produce buying and the retailing or semi-wholesaling of important branches of merchandise.

The expansion of the market is the result of several factors, notably the secular advance of these economies, especially through the progress of the exchange economy, the running down of the reserves of official boards, notably the former West African Currency Board and the marketing boards, and the injection into these ecomomies of substantial external aid. The expansion of the market and the development of local manufacturers, in part spontaneous, in part officially sponsored, have considerably reduced the effective dominance in the market of the larger expatriate firms.

The larger size of the market has been particularly important, since it has increased its attraction to overseas manufacturers, many of whom have set up sales organizations, agencies and depots outside the control of the larger established merchants. The recovery and expansion of some of the West European economies, especially those of West Germany and Italy, and the greater interest in West Africa of various East European countries, have increased actual and potential competition in the merchandise trade, and they have greatly reduced the scope and significance of exclusive agencies. In Nigeria at any rate, a wider market seems to have more than offset the inhibiting effects of political uncertainties and official restrictions on the entry and activities of expatriate merchants, inhibiting effects which tend to strengthen the relative position of established firms. The increase in the number of official and semi-official industrial organizations are the result partly of familiar forces and influences at work in many underdeveloped countries, and partly the result of the search for outlets for the very large funds accumulated by the marketing boards. The withdrawal of some of the larger firms from produce buying and from certain branches of the merchandise trade is the result partly of various forms of political pressure and of the operation of the immigration regulations; partly of the unremunerative level of the margins prescribed by the marketing boards to the licensed private buying agents; and partly the development of personnel and capital into more profitable directions.

Some of these results are implicitly covered by the discussion, especially those which represent acceleration of tendencies already at work when the book was written. But the absence of explicit and systematic discussion of these topics is undoubtedly a serious, though unavoidable, defect of omission

I stand by the argument of the book. The discussion of price stabilization and of the operation of the marketing boards aroused much controversy at the time, but the analysis and conclusions are no longer disputed. In particular, the contention that the operation of the system is simply a method of taxation is today no longer questioned, and is indeed officially recognized in such measures as the imposition of a governmentally prescribed price for cocoa in Ghana, and the effective diversion to the Government of practically the entire difference between the market price and this fixed price; and in the directive in Nigeria by the Northern Regional Government to its Marketing Board not to concern itself with stabilization but fixed producer prices so as to ensure a surplus each year.

There is one topic where I think a change of emphasis is perhaps necessary. In view of the extended discussion of the high degree of concentration in the private sector of external trade, more emphasis might have been placed on the relative unimportance of the barriers to entry (in the absence of official restrictions on the establishment or progress of new enterprises), and on the consequent limitation on the scope for abnormal returns, or monopoly or quasi-monopoly profits. Although these points are made in the book, I think that greater and more explicit stress might have been placed on the distinction between natural or inevitable scarcities on one hand, and contrived scarcities on the other, the former representing the limitation of the total supply of certain types of scarce resources, and the latter the withholding from the market of part of the total supply, through various restrictive devices. During the war and early post-war years, contrived scarcities, generally the result of the operation of official controls and of private market sharing agreements, buttressed by such controls, considerably inflated the profits of the expatriate merchants. But generally the contribution of contrived scarcities to trading profits has been negligible, even before the results of the expansion of the market have weakened the dominant position of the large expatriate firms; the trading profits represent very largely the returns for the provision of capital, skills, experience and risk taking, effectively under long term competitive conditions. This should be emphasized, since so much of the discussion of the operation of the private sector covers the war and early post-war years.

December 1962 P. T. B.

INTRODUCTION

SCOPE AND METHOD OF THE STUDY

I. OUTLINE OF THE SCOPE OF THE STUDY

This study began as an inquiry into the structure of West African external trade with special reference to monopolistic tendencies. As it is generally interpreted, a study of the structure of trade involves an inquiry into the role of different classes of trading intermediary, the quantitative significance of each class, and the shares of the trade handled by one or more of the largest firms. Where the emphasis is on monopolistic tendencies, the share of trade handled by large firms and by groups of firms acting together deserves special attention; in addition, the nature and effects of various marketing practices which influence the extent of concentration also require more detailed investigation. Some of these topics have been prominent in the emphatic and acrimonious, though generally imprecise and uncritical, discussions on West African trade in recent decades.

These matters are discussed at some length in this study. It gradually became clear, however, that proper discussion of the original subject-matter of the inquiry postulated analysis and review of the forces influencing economic power and the extent of concentration in trade. Some of these varied and diverse forces are in turn so closely interwoven with certain general characteristics of the West African economies that it has been necessary to examine these also. A lengthy treatment thus became inevitable once the study extended beyond the confines of the structure of trade.

2. LIMITATIONS ON THE SCOPE OF THE STUDY

The British West African colonies have about one-half of the population of the colonial Empire; indeed, the population of Nigeria, which by now may be not far short of 30 million, is itself almost one-half of the total. The external trade of these colonies is about one-fifth of the total of the colonial Empire. The proportion would be larger if entrepôt trade were excluded; and it would be larger still if the prices received by the producers of export crops were nearer their commercial values than they are at present. The total value of the merchandise trade of these territories in recent years is shown in Table 1.

A measure of selection has been necessary to reduce to manageable proportions a survey of the trade of the large and diverse territories and economies of the British colonies in West Africa. Thus there is no special consideration of Sierra Leone and the Gambia. I visited Sierra Leone in the course of my inquiries, and collected some interesting material which has helped to clarify some of the arguments; this material is largely incorporated in this study. In general, however, the two smaller colonies have had to be omitted from the discussion in the interests of brevity; the study concentrates on the economies of Nigeria and the Gold Coast. These two colonies comprise well over 90 % of the population of the four West African territories, and their external trade is over 95 % of that of British West Africa.

This study is primarily concerned with trade; therefore the economic problems of manufacturing industry and of transport and banking are discussed only in so far as they bear closely on trading activities.

Table 1. *External trade of Nigeria and the Gold Coast, 1948–51*

Note. The figures refer to visible trade, excluding specie and currency.

	Nigeria			Gold Coast		
	Exports (f.o.b.) £ m.	Imports (c.i.f.) £ m.	Total £ m.	Exports (f.o.b.) £ m.	Imports (c.i.f.) £ m.	Total £ m.
1948	62·3	41·2	103·5	55·6	30·1	85·7
1949	80·2	57·5	137·7	49·6	44·4	94·0
1950	87·2	60·0	147·2	76·4	48·0	124·4
1951	128·4	84·0	212·4	91·3	63·4	154·7

3. DIVERSITY AND CONTRAST IN WEST AFRICA

The heterogeneity of the population and of the physical structure of the country is a feature of all four British West African colonies. The vast area of Nigeria, though to some extent administered as one country, contains three regions, whose populations differ in history, social organization, outlook and language quite as much as the British differ from the French or the Germans. Within each region there are other major groups, tribes or races with widely different institutions and languages. This diversity extends even to very small areas and communities. It bears on this survey at many points; and it is relevant to the conduct and organization of trade as well as to issues of official policy.

In addition to this heterogeneity, there are instances of extreme contrasts such as can be found in very few other countries. Some examples may be useful here. In Port Harcourt several African wholesale merchants operate on a large scale. Among them there is an African lady whose annual turnover with one of the big European trading firms runs into six figures. Her business methods are essentially those of a modern wholesale trader. Thirty miles away there are markets in which the sale of meat without the hide is prohibited to ensure that no human flesh is sold for human consumption.

The Oni of Ife, the spiritual head of the Yoruba in western Nigeria, is a member of the Cocoa Marketing Board and a director of the Nigeria Produce Marketing Company; in this capacity he is concerned with the marketing of produce which at present has an annual value of about £100 million. But as spiritual head of the Yoruba he is considered responsible for the regulation of the supply of rainfall in Nigeria.

In Onitsha I witnessed a remarkable transaction in which the three partners of an African trading firm (all women) bought on credit over £9000 worth of tobacco from a European trading house; the informal elegance and dignity of the proceedings and the obvious mutual respect and confidence could not have been excelled in the most select trading circles of London and Amsterdam. The same day in the vicinity I visited a fair-sized market close to a large number of the crudest ju-ju shrines; some of the adult participants in the market were without a shred of clothing.

The United Africa Company is a giant concern operating enterprises employing the most up-to-date equipment. Yet a year or two ago five night watchmen employed by the company were found guilty of having murdered two men and having eaten their fingers in order to acquire greater strength. At about the same time in a native court two men were tried for tying up the rain and preventing it from falling. They pleaded guilty (it is not known whether from conviction or from shrewd business motives), and were fined £5.

There are also extreme contrasts in the size of transactions. The big merchant firms may import merchandise in lots of hundreds of cases or bales and resell at times in units of scores of cases or bales. At the other extreme cheap imported scent is sometimes sold by the drop; for a half-penny two dabs of scent can be bought.

These contrasts reflect the fact that certain sectors of the economies have reached an advanced and in some cases even a sophisticated stage, while others are only a few decades removed from a barbarous and savage state, or have not as yet fully emerged from it. The factors underlying these contrasts and extremes themselves present difficult problems for economic policy and its administration. They are central to an understanding of the functioning of these economies.

In a meaningful description and analysis of such economies it is necessary to restrict abstraction rather severely, and to investigate factors and influences which are often regarded in modern studies in economics as institutional elements (or as data given to the economist). This survey therefore includes a review of some factors which are normally omitted from most modern text-books on economics, and even from some of those professedly dealing with applied economics.

PART 1

GENERAL ASPECTS OF THE WEST AFRICAN ECONOMIES AND OF THE ROLE OF TRADE

CHAPTER 1

UNDERLYING FORCES AND INFLUENCES

This chapter treats of certain underlying forces and influences in the West African economies of special relevance to this study. The selected aspects are the impact of the money economy and of its recent and rapid growth; the imperfect specialization of economic activity; the low level of certain productive resources, especially of capital; and the unemployment of unskilled general workers. These have been chosen because an understanding of the phenomena is fundamental to an appreciation of the trading situation in West Africa.

1. DIFFICULTIES OF ADJUSTMENT TO A MONEY ECONOMY

Although by Western standards the real income of the population of the West African colonies is still low, and very low in some territories, these economies are not stagnant. In fact, many of their problems arise from the very rapid and necessarily uneven development which has taken place, and especially from the impact and progress of a money and exchange economy. There has been trade between Europe and the west coast of Africa since the sixteenth century, but its character, composition and volume have changed fundamentally during the last few decades. Until about fifty years ago there were no exports of cocoa, groundnuts, hides and skins or timber, and the export of palm products was only a fraction of what it is today. The Ibo, who today play an important part in Nigerian trade, were in an almost savage state as recently as 1910. It would call for anthropologists and sociologists to analyse many facets of the progress and the effects of this rapid transition. But those which bear closely on the present study require discussion here.

The comparatively recent emergence of a money economy explains the presence of institutions and attitudes which are largely unsuited to its requirements. The family system is an example.[1] In West Africa a reasonably prosperous man is frequently obliged to support even

[1] The term 'family' includes many more distant relatives and kinsmen than in Europe. The brief discussion of the family system in the text is intended only as a rough outline of those of its features which bear on the structure of West African trade. The information is based on numerous discussions with Europeans and Africans, and on some personal observations of the system and of its results. This seems sufficient for the brief analysis of its effects on the structure of trade, but comprehensive discussion would, of course, require the methods and the training of an anthropologist, by whose standards and for whose purposes the discussion presented here is necessarily amateurish.

distant kinsmen and relatives. A moderately successful man may find that a score or more relatives descend on him, expecting to live off his bounty. Some of the successful Africans probably enjoy the status and sense of power attaching to the support of their relatives, but many admit in private discussion that they dread these extensive obligations.

The system is not without redeeming features. It exhibits elements of real charity and generosity. Moreover, it often results in the pooling of family resources for such purposes as the education of promising children or the setting up of a member of the family in trade or in a profession. In such circumstances it amounts to a circulation of capital within the family. Persons supporting a number of needy kinsmen may themselves have been supported by distant relatives a few years earlier.

The principal weakness seems to be the comparative absence of discrimination in its exercise. Relatives who might be able to support themselves qualify for assistance on much the same basis as those who cannot find employment. Quite clearly the system is largely the legacy of a subsistence economy.[1] Excessive and indiscriminate hospitality is a feature of subsistence economies where surpluses cannot be marketed, and where it is therefore expected that these should be used for charity, and in particular for liberal entertainment of kinsmen, friends and visitors.

The excessive hospitality and the indiscriminate maintenance of distant relatives are likely to diminish in West Africa as economic and social life increasingly sheds the habits and institutions of subsistence economies. Meantime capital formation and economic development are retarded; thrift, enterprise and initiative and the productive use of accumulated savings are discouraged, and an incidental premium is placed upon idleness. The fear of the obligations of the family system is partly responsible for the widespread use of textiles and trinkets as outlets for savings, in preference to more productive forms of investment which are more likely to attract the attention of relatives.[2]

The comparatively slow spread of banking in parts of the Gold Coast and Nigeria may also be partly attributed to the family system. Africans often mistrust the bank clerks, fearing that they may disclose the size of their accounts to members of their families. They therefore prefer to keep their savings under the fireplace or buried in the ground.[3] An

[1] The widespread unemployment of unskilled workers is possibly a secondary reason. But the system is so indiscriminate as to make it certain that this is not a major reason.

[2] There are other reasons as well, mostly connected with imperfect adjustment to the requirements of a market economy.

[3] It appears that the fear of disclosure to relatives is as yet more important than the fear of disclosure to the authorities, which is the reason for similar practices in more advanced economies.

educated African chief told a bank manager in the Gold Coast that were it not for this particular suspicion the banking habit among Africans would spread very rapidly. The failure of some prosperous traders to keep bank accounts makes it more difficult for them to secure bank advances, since bankers do not like lending to customers who do not pass all their transactions through the bank.

The complexities of African land tenure, which are connected with the family and the tribal systems, require only brief mention here. Both in Nigeria and in the Gold Coast family and tribal rights in rural land are often so complex that land is an unsatisfactory security for loans. This obstructs the flow and application of capital to certain uses of high return, which in turn retards the growth of income and hence of accumulation.

The people often exhibit a pronounced ignorance of the operations of an exchange and market economy, again partly because of its novelty. The profit margins of the European firms and of the Levantine[1] and African intermediaries are believed to depend solely or largely on their own decisions, which are only remotely connected with such academic matters as supply and demand. Accumulated wealth is thought to have been earned solely by the impoverishment of customers or competitors. It is a widespread article of faith that the wealth of the mercantile firms has been extracted from the Africans and has in no way been created by the activities of the merchants.

Unfortunately, many of these fallacies have now become respectable doctrine in more sophisticated countries, and are often explicitly supported by members of the European community in West Africa. This has an important practical corollary: even the cruder notions current in West Africa are not effectively refuted, because the underlying fallacies are not discerned. Consequently certain unreasonable African demands are not resisted, even where a little analysis would show that the proposed measures would not only be harmful but would also defeat their own ends. It is by no means a foregone conclusion that the Africans would be unable or unwilling to understand the confused and self-frustrating character of some of their demands if this were clearly shown to them, but this must remain an open question for the time being.

This imperfect understanding of the operation of market forces is also evident in the widespread complaint of Africans that whenever they attempt to establish themselves in business, especially in the direct importing of commodities from overseas, the European merchant firms deliberately reduce prices to put them out of business. As we shall see

[1] Throughout this study the term 'Levantine' includes Lebanese, Syrians, Greeks, Cypriots, Tripolitanians and Arabs; Lebanese are numerically the most important in West Africa.

later there may have been instances where firms have engaged in localized or temporary underselling with the deliberate intention of destroying a competitor. But Africans are apt to regard any fall in prices as evidence of a deliberate attempt to put them out of business.

The smaller African importers and traders have great difficulty in understanding the various government regulations affecting them. Some government departments, especially the Department of Commerce and Industries in Nigeria, attempt to give wide publicity in simple language to the various licensing regulations, especially to those relating to import control, and they have obtained some measure of success. But there are still many *bona fide* traders who do not understand the operation of these and of other regulations. There is a steady increase in direct government control and direction of economic life. The administration of these regulations, especially the compulsory inspection of export produce, opens the door to corruption, graft and oppression. This is only to be expected where the regulations are not understood by the majority of those affected by them, and where those who are injured are unable or unwilling to protest effectively.

Many African traders, especially importers, are not always meticulous in honouring commercial contracts. This naturally makes commercial intercourse between foreign firms and African traders more difficult, and slows down economic development in West Africa, as well as the Africanization of commerce and industry. Many examples of African commercial dishonesty stem from the period of imperfect import and price control during and after the war. Quick and almost riskless profits were open to those traders who were able to obtain short-supply merchandise at controlled prices or who were allotted the necessary import permits. The trade attracted many *ad hoc* traders (including schoolboys), who, because they regarded their activities as isolated and discontinuous ventures, were not averse to breaking contracts if owing to changes in market conditions their fulfilment was no longer advantageous. In 1949 the warehouses of Lagos and Accra were stacked with consignments addressed to African importers on firm orders which they had refused to accept, either because the market had turned against them, or because they hoped that the goods would eventually have to be auctioned and that they would thus obtain them direct, or through nominees, at prices well below the contract terms. But this weakness should properly be associated with conditions which make for episodic commercial relationships, when lapses from commercial standards of honesty are likely to be frequent in all trading communities in Africa or elsewhere. In fairness it should be stated that some overseas suppliers of African customers are also apt to follow standards very different from those prevailing in Britain and Western Europe.

Africans in the import trade may sometimes appear to be dishonest when they fail to meet their obligations. Often the failure is not due to dishonesty or even to irresponsible risk-taking, but to a combination of small capital, severe price fluctuations, and a tendency to overtrade which is often encouraged by European exporters eager to secure business.

These differences in the trading methods of Europeans and Africans arise from social, institutional and political factors. The comparatively recent emergence of a money economy has, however, also played a part, since the importance of continuity in business relationships, and of integrity as a condition of this continuity, has not yet come to be generally appreciated. But the observer cannot fail to be impressed by the numerous examples testifying to the commercial trustworthiness of African traders and intermediaries. Continuous business relationships, often of long duration, exist between parties in produce buying and in the distribution of imported merchandise. European merchant houses grant substantial trade credit to African customers or make advances to Africans to finance produce buying. There are also extensive credit transactions between Levantines and Africans. Loans are often outstanding for considerable periods on conditions which require much mutual trust.

2. IMPERFECT SPECIALIZATION

The economic activities of large sections of the population of West Africa are still partly or largely unspecialized. The preponderance of a few staple exports is compatible with a low degree of economic specialization. Many farmers produce a number of products on a very small scale.[1] Even in northern Nigeria and in the Northern Territories of the Gold Coast many farmers spend a substantial part of their time in non-agricultural activities, or in activities away from their home as migrant labourers or traders. In other parts of these countries, especially in southern Nigeria and the colony area of the Gold Coast, the great bulk of the population has other occupations, generally some form of trading, in addition to their main activity. The lack of specialization becomes more apparent when the economic activities of wives and children are taken into account. Africans frequently do not regard trade as an occupation (especially when carried on by dependants), and would not refer to it as such. They regard it as part of existence and not as a distinct occupation.[2]

[1] The cocoa farmers are probably more specialized than the rest of the farming population.

[2] In general the wives and children are independent economic agents as much as dependent relatives. They almost invariably take part in trade, and participate to

The lack of specialization which affects a large section of West African economic life derives from narrow markets which are an aspect of the low level of the local economy. In turn it impedes efficiency and retards economic progress. Thus it is both a symptom and a cause of the low standard of living.

This imperfect specialization and the importance of secondary activities carried on by members of the household greatly diminish the value and relevance of the conventional occupational classifications of statistical compilations. This fact has not been sufficiently recognized. Official reports and standard works state, for example, that five-sixths of the population is engaged in agriculture,[1] and they rarely mention trade among the lists of the economic activities of the population.[2] In fact, in many of these so-called agricultural households the head of the family trades part-time even during the normally short farming season, and more actively outside the season, whilst members of his family trade intermittently throughout the year. It is misleading to ignore these trading activities and to imply that the great bulk of the population is engaged in farming only.

The fluidity of activity extends to personal relations where they bear closely on economic life. A prominent African trader in Lagos, whose children are being educated at expensive residential schools and universities in Britain, told me that his wife was one of his principal customers, and that she bought goods from him both on cash and on credit terms. He did not consider this unusual; indeed, it is not so, as similar commercial relations exist between other prominent Africans and their wives and children. It is not unusual for wives to sue their husbands for commercial debts.

It is well known that many African doctors and lawyers have extensive trading interests. Government employees are also frequently part-time traders. Every servant or driver who worked for me on my two visits to Nigeria was either in trade or asked for my assistance in finding

some extent in the economic life of the country. The wife is expected to make some contribution to the family income. This is no doubt partly because there is very little for her to do in the house. In parts of Nigeria and the Gold Coast a man expects his wife to trade, and he is likely to regard the bride price (which is in fact a dowry in reverse and not a sign of the low social status of women) partly as an investment in a trading concern. In certain parts of the Gold Coast a husband can divorce his wife if she fails more than twice as a trader. On the other hand, women often trade in order to save enough money to return the bride price and thus to be able to divorce their husbands. The children also generally trade, as there are few adequate schools and there is little else to occupy them.

[1] Cf. the statistics quoted, apparently with approval, in *An African Survey*, 2nd edition, pp. 1425–6.

[2] The official annual reports on Nigeria and the Gold Coast provide examples.

trading contacts for him. Many of these requests were simply advanced to obtain either free samples or else so-called short-supply goods at controlled prices for re-sale at easy and immediate profit. But at least one of my drivers, a full-time employee of a government department, displayed an excellent knowledge of market prices and of market conditions for provisions throughout southern Nigeria, and acted upon it.[1]

Quite apart from this imperfect occupational specialization there is still widespread lack of specialization in trading operations both horizontally (by type of commodity handled) and vertically (by successive stages of distribution). These will be considered when the import trade comes to be reviewed.

3. THE LOW LEVEL OF PRODUCTIVE RESOURCES

West Africa is generally poor in disclosed and accessible natural economic resources, acquired capital and technical and administrative skills. It is preferable to speak of the low level of capital rather than of its scarcity. The comparative lack of local technical and administrative skill aggravates the effects of the scarcity of equipment; it is not lack of capital alone which retards development. For this reason indiscriminate import of capital, or even substantial capital accumulation in the hands of public organizations, alone would not necessarily improve the situation.

The African communities are very poor in acquired reserves of fertile soil, in accumulated plant, buildings, roads and railways, as well as in stocks of working capital and in liquid assets with which external capital can be obtained. Though the measurement of capital raises conceptual difficulties, it is quite easy to illustrate its low level in West Africa. Nigeria may be taken as an example. The territory has an area of approximately 372,000 sq. miles and a population of about 30 millions. The f.o.b. value of its exports is at present over £100 m. a year. Two of its major export crops originate in the north, 700–1000 miles from the sea. The bulk of the meat supply also comes from that area or even farther north. The volume of the shipborne cargo handled in the ports of Nigeria in 1949 was almost 2½ m. tons. The capital equipment sustaining this very large trade is extremely small. At the end of 1949 the total track mileage of the Nigerian railway was 1900 miles. There were only

[1] The following episode is characteristic of several aspects of economic life and of trade in Nigeria. This driver, when on tour with me, ascertained in Ibadan (112 miles from Lagos) that the price of tins of Horlicks was lower there than in Lagos, where they were originally landed. The difference was 6*d.* a tin. He decided to buy a dozen tins, gave a deposit of 5*s.* and on our return to Lagos a few days later sent a relative to collect the goods. The return fare of the relative was 3*s.* and the gross profit on the transaction was 6*s.*; the net profit was divided between the driver and the relative.

900 miles of bituminous roads in the country. There were about 11,000 commercial vehicles, almost one-half of which were over ten years old, and the poor roads and inadequate maintenance reduce their effectiveness. There were less than 900 telephone subscribers and about 8000 instruments.

The low level of fixed capital increases the working capital requirements of the economy by tying up large quantities of resources in the form of stocks and goods in transit. The large accumulation of unrailed groundnuts in Kano is well known, but it is only one instance of a general problem. Part of the Benue, the principal tributary of the Niger, is open for navigation during two months of the year only, and the annual requirements of the substantial hinterland of the upper Benue have to be transported within that short period. Considerable quantities of export produce are evacuated by the Benue, and if they are not shipped in time they may have to wait for almost another year before they can be removed. Similar difficulties also arise in the movement of palm produce from certain areas of the Eastern Provinces. In short, owing to the dearth of fixed capital much larger stocks are required to sustain an even flow of goods than would otherwise be necessary.

The low level of technical knowledge reduces both the life and the efficiency of available capital. Lack of spare parts combined with inadequate repairs result in rapid deterioration of machinery and equipment. The difficulties are aggravated by restrictions on imports from North America; British transport equipment does not stand up to local conditions as successfully as American.

Some financial data also illustrate the low level of capital. Deposits in the Nigerian Post Office Savings Bank increased fifteen-fold between 1934 and 1951, but still totalled only about £3 m. The total currency in circulation in Nigeria in March 1951 was about £40 m., and this included money held for business transactions and for current expenditure on consumption, as well as for savings accumulated over a period. The total volume of bank deposits outstanding was about £18 m., and these were largely business and government deposits.

In a subsistence economy the low level of capital may be regarded as inherent in the situation. The very rapid progress of the West African colonies beyond the subsistence stage has been so recent that there has been no time to accumulate much capital. The general poverty of these territories, the backward state of very large sections of the population, the social and institutional organization and the rapid growth of population have all enhanced the difficulty of capital accumulation. The substantial increase in the volume of trade and general activity in these territories over the last few decades has greatly strained the stock of capital. Lorries are in service twenty-four hours a day for seven days a week and are generally tightly packed with passengers and freight. The railway is barely able to move the traffic which is offering. By the middle of June 1950 some of the groundnut crop of 1948–9 had not yet been railed, fifteen months after the close of the season; and if the 1949–50 crop had not been a comparative failure an appreciable part of that would also have remained unrailed.

There are in West Africa a number of wealthy Africans, many more than before the war. But there is no substantial local capitalist class comparable to the Chinese and Indians in south-east Asia and in the territories bordering on the Indian Ocean. There were substantial African traders operating in West Africa in the nineteenth century, but their resources and methods were inadequate to meet the great expansion of trade over the last half-century or so, with its increased capital requirements brought about by larger turnover, the extension of trade into the interior and the gradual emergence of cash payments for the services of employees.

The absence of a strong local capitalist class helps to explain certain features of the West African trade. The activities of the European trading firms spread into small-scale wholesaling partly because there were too few local merchants able to handle imported commodities in wholesale quantities.[1] The firms were compelled to carry stocks and take them up-country to their own stores because the local African merchants were unable to undertake the task. The large firms still experience difficulties in finding Africans willing and able to buy readily and regularly on a wholesale basis.

The extension of the activities of the firms into local selling, as distinct from importing or wholesaling only at ports and central towns, has greatly raised the capital requirements of trading in West Africa compared with, for example, the Far East or South America, where generally speaking the British import merchants are able to turn their capital over fairly rapidly. The long distances, the backward communications, the shortage of equipment and the absence of a local capitalist class have thrown a greater burden on the capital resources of the importer. This in turn has served to strengthen the position of the large firms.

The low level of local capital is reflected in the much-discussed practice by which non-African firms make advances to middlemen (often Africans) for the purchase of export produce on their behalf. The merchant firms frequently advance substantial sums of money for weeks and occasionally even for months for the purchase of a

[1] This was not the only reason for the development of vertically integrated organizations; considerations of market strategy have contributed towards this development. This is discussed in Chapter 9 below.

particular crop. Although the risks are often exaggerated[1] much capital is used in this way.[2]

The system has been much criticized in recent years, often without appreciation of the conditions which have brought it about. In essence the system of advances uses foreign capital to assist in the harvesting and movement of local crops. It has grown up largely[3] as a result of the absence of a substantial capitalist class, and it has continued even after the elements of such a class have emerged. These advances are generally given by the firms to middlemen and distributed by them to their sub-buyers, through whom they reach the producers. Sometimes the funds are advanced well before the purchase of the produce; the intermediary often uses the money for the temporary financing of other projects such as the purchase of transport equipment. He may secure such a substantial return on this outlay that he may be able to repay much of his loan before his obligation to deliver produce has matured. Thus here again European capital finances local enterprises. Advances are generally intended for the movement and transport of crops already harvested. Where they reach producers before the harvest, the advances from the firms may serve partially to finance the collection or harvesting of the crop.

These transactions are somewhat different from advances and loans given by brokers and other intermediaries to the producers early in the season, which may be used to finance the planting and growing of the crop or the personal consumption of the borrower until after the harvest. But the extent of such pre-harvest loans from brokers to producers is increased because brokers realize that later in the season they are likely to receive advances from the European firms.

The low level of capital has been one of the factors militating against the development of small locally owned estates or larger peasant holdings. It is true that some cocoa farmers have acquired several scattered holdings, but this has been exceptional. The absence of such enterprises has retarded the growth of locally owned capital, especially in the agricultural sector of the economy.

[1] Many of these advances are not really a credit risk as the firms may hold sufficient security; in other instances the advances really represent moneys entrusted to semi-independent employees who are advantageously placed for the purchase of produce. In accounting language it would be difficult to decide whether to call these advances 'cash' or 'debtors' balances'.

[2] The system differs from that prevailing generally in the Far East where the trading firms buy rubber and copra at prices ruling at the time of delivery from intermediaries who provide their own finance.

[3] But it may be connected with motives of market strategy of the type discussed in Part 3 below. It is in some respects analogous with vertical integration which is a feature of the organization of the large merchant firms.

The curious practice known in Lagos and the Western Provinces of Nigeria as 'gold-coasting' also illustrates the low level of local capital. This is the use of merchandise obtained from the importing firms for the purpose of raising short-term funds for trade or money-lending. An established customer of an importing house buys standard lines of merchandise on credit at the beginning of the month, promptly sells these (if necessary, even at a loss), and uses the proceeds to finance internal trade or money-lending. The practice is widespread, and 'to gold-coast' has become a recognized expression. Thus imported cigarettes are frequently gold-coasted; they are bought from the firms at £130 a case, immediately resold at £128 or £129 and the funds so received are used as short-term capital. It is frequently possible to lend the money at a rate of interest of 6*d.* in the pound from market day to market day, which in Yoruba country is generally every fifth day. At even much lower rates than this the gold-coaster can recover his loss and make a substantial profit, as he is expected to settle his account with the firm only at the end of the month. By this process European capital is used for financing trade in local foodstuffs and in the petty retailing of imported merchandise.

With the rapid but very uneven expansion of activity in recent years the low level of capital has made itself increasingly felt. One outward manifestation is the very high rate of interest paid even by sound and indeed financially strong African enterprises for loans of all kinds. In Lagos respectable money-lending institutions can obtain 12–18% on first-class mortgages on unencumbered property, the sale of which in Lagos is not subject to the same restrictions as it is elsewhere. The real return on capital under suitable management in internal trade and transport is so high that borrowers can afford to pay these high rates, while the meagre supply of capital forces them to do so.

This insistent demand for credit is a sign not only of the poverty and improvidence of the local population, but also of the high real return to be obtained locally from the use of capital when directed with a small measure of skill and competence. This raises the obvious question why more foreign capital has not been attracted by the favourable rates of return.

Of course large amounts of capital have been invested in West Africa, and this process has played a major part in the development of these colonies. Part of this capital was imported and part was accumulated by non-Africans who saved part of the incomes they created. Nevertheless, certain obstacles have impeded a heavier inflow of capital. Though the low level of local capital leads to attractive rates of return, it also increases the difficulties of the foreign firm establishing itself in West Africa. The initial capital requirements and risks are high, particularly in view of the necessity of granting advances to African intermediaries, of establishing business contacts and of setting up premises and stores up-country, where capital is turned over slowly. In recent years the difficulties have been increased by the high cost of buildings and the presence of various shortages and controls, which again raise capital requirements. The severe restrictions upon the immigration of non-Africans (especially Levantines) and the refusal to alienate land to them act as important deterrents to the inflow and internal creation of capital. Immigration policy has been a particularly serious obstacle. These and other difficulties of entry provide some security for firms already established, and reduce the pressure on them to seek out and exhaust all profitable opportunities, particularly those provided by medium- and small-scale activities. This in turn also retards the influx, growth and application of capital.

4. LACK OF EMPLOYMENT

In West Africa, as in many other comparatively undeveloped countries, there is widespread involuntary unemployment of unskilled or poorly skilled manual and clerical workers resulting from lack of resources, and especially capital, to set it to work. Unskilled or poorly skilled labour is unemployed owing to lack of other factors of production to co-operate with it in the productive process. The term 'unemployment' is now generally used to refer to another type of unemployment, that is, unemployment of labour in industrialized societies resulting not so much from lack of co-operating factors of production as from deficiency of aggregate demand and from various other influences discouraging investment and enterprise. This study is concerned only with the unemployment which results from lack of resources.[1]

Although its presence in West Africa is occasionally denied, there can be no doubt of the prevalence of unemployment in Nigeria, in Sierra Leone and in parts of the Gold Coast. There is no dearth of general evidence. Notices of 'no vacancies' are ubiquitous. A constant

[1] Although it is an aspect of the low level of co-operant factors of production, this type of unemployment and under-employment in under-developed countries is aggravated by the comparatively high rates (high by comparison with what can be earned in other occupations) at which wages for hired labour are maintained in certain occupations in these countries. It is a striking feature of many under-developed countries that money wages are maintained at high levels by institutional arrangements (such as international pressure, governmental measures or trade union action), while large numbers are seeking but unable to find work. This discourages the growth of activities relying on hired labour and encourages (or actually enforces on a certain section of the population) the pursuit of activities which do not use hired labour, or in which these high wages are not enforced, notably self-employment in agriculture, petty trading and domestic service.

stream of applications for employment reaches the mercantile firms, and this increases several times over when it becomes known that a definite vacancy has occurred or that an extension of activities can be expected. The inclination to trade even when only a few pence a day can be earned, the large internal migrations in both Nigeria and the Gold Coast (which are only partly seasonal), the frequent applications addressed to European visitors by their servants to find employment for friends and relatives and the short notice at which these applicants make their appearance—all these point in the same direction and suggest a widespread lack of opportunities for unskilled or poorly skilled people seeking employment at current wages.

I inquired specifically into this question, partly because of its great importance and serious implications for policy, and partly because its existence has been denied. Here are a few random examples of the results. I asked the manager of the tobacco factory of the Nigerian Tobacco Company (a subsidiary of the British-American Tobacco Company) in Ibadan whether he could expand his labour force without raising wages if he wished to do so. He replied that his only problem would be to control the mob of applicants. Very much the same opinion was expressed by the Kano district agent of the firm of John Holt and Company in respect of their tannery. In December 1949 a firm of produce buyers in Kano dismissed two clerks and within two days received between fifty and sixty applications for the posts without having publicized the vacancies. The same firm proposed to erect a groundnut crushing plant. By June 1950 machinery had not yet been installed; but without having advertised a vacancy it had already received about seven hundred letters asking for employment. The larger commercial firms in Kano usually receive about five or six written applications daily for employment, and in the groundnut season this might rise to twenty or more a day. The figures of applications are much larger in the south. I did not think it necessary to collect further detailed information, though I learnt that the European-owned brewery and the recently established manufacturers of stationery constantly receive shoals of applications for employment.[1]

Some of these applications are duplications, the same person applying for several posts; others presumably come from people already employed who want to improve their position; but this does not affect the general picture. Similarly, it is not immediately relevant how far these offers of labour are the result of lack of opportunity, and how far they reflect dissatisfaction with the emptiness of life in the bush. In Nigeria and

[1] This unemployment has not, of course, been caused by economic advance in West Africa, but it has been brought into the open by it. In a purely subsistence economy idleness tends to be regarded as part of the nature of things.

probably in the Northern Territories of the Gold Coast the former is certainly a major factor. The Ibo are greatly attached to their country and would not migrate to distant parts if they had opportunities in their native provinces.

The general lack of employment opportunities is not caused everywhere by the absence or shortage of the same type of resources. In the Eastern Provinces of Nigeria there is an insufficiency of suitable land; in northern Nigeria there is ample land but a dearth of capital and of local technical and clerical skill. Not only are physical resources unequally distributed throughout these territories, but the aptitudes of the different sections of the population differ markedly. In Nigeria the southerners have the advantage in enterprise, thrift, resourcefulness, literacy and ability to perceive economic opportunity; the northerners display greater sense of discipline, endurance and perhaps greater discrimination in the choice or acceptance of leaders. Whatever may be the reasons for these differences they are certain to persist for years and they may even become more pronounced.

This uneven scarcity of suitable productive agents has important corollaries. When internal trade and migration are restricted these scarcities are thereby made more acute and the lack of employment becomes more severe. When the activities of southern clerks and traders are openly or covertly restricted in northern Nigeria, the growth of employment, the formation of capital and the general development of that area are retarded for want of skill and enterprise, while the underemployment and overcrowding in the south are also aggravated.

There is a strong tendency towards fragmentation in the West African colonies, both in Nigeria and in the Gold Coast. It is partly the result of xenophobia and partly the result of clamour by interested parties. There is an increasing number of restrictions on the movement and employment of people and on the movement of commodities. The reasons for the increasing effectiveness of the pressure for these restrictions are analysed at some length in Chapter 3 below. Fragmentation of West African economies is certain to aggravate the lack of employment.

The controversial matter of immigration policy is also relevant to the lack of employment. The low level of capital and of technical and administrative skill can only be rectified satisfactorily at present by the introduction of foreign capital and personnel, both European (and possibly American) and Levantine. The former can supply a larger volume of capital and a higher level of skill; the latter can subsist at a much lower cost and on a lower turnover, and they can thus widen the market in the remote areas in which the former cannot operate. Immigrant capital and personnel are likely to be seen in a different light when it is realized that they provide work for the unemployed.

The political implications of this want of employment are far-reaching. The semi-literate or barely literate unemployed are the most inflammable political material. They have nothing to lose in a general disorder, either in the way of property or of employment. They are apt to be undiscriminating as well as poor. Those who are literate have much time available for the reading of inflammatory literature, spelling it out slowly. These are considerations of the greatest importance for official policy covering *inter alia* the framing and administration of immigration policy and the control of internal trade and migration.