

# MONEY MATTERS IN ECONOMIC DEVELOPMENT: SOME TENTATIVE EMPIRICAL EVIDENCE FROM NIGERIA\*

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## 1. Introduction

The major aim of this study is to find out how efficiently the Nigerian commercial banks operate their loan function and thus contribute toward the general economic development of the country. Implicit in this objective is the assumption that financial systems can contribute significantly to economic development. Not everyone will accept this assumption without question. Views on the role of financial institutions development can be said to lie on a continuum, at one end of which there are students who assert that financial institutions are neither a necessary nor sufficient condition for development and at the other students holding the viewpoint that financial institutions are not only necessary but sufficient basis for economic development. In between lie moderates who assign varying degrees of importance to financial institutions in the process of economic development. « In essence three main issues exist regarding the influence of financial intermediaries: first, their impact on the growth of savings, especially of the household sector; second, their role in the financialization of these savings (that is, savings in a financial form); and third their ability to ensure the most efficient transformation of mobilized funds into real capital »<sup>1</sup>.

This paper is divided broadly into three parts. The first part is devoted to a review of the literature and debate on the various aspects of the subject at hand. The second part deals with the analysis of data to investigate the evidence of the relationship between the monetary and real sectors of the Nigerian economy. Finally the third part concludes the paper with some notes on the policy implications of our findings for the Nigerian economy.

## 2. Finance and Economic Development

Schumpeter is generally acknowledged as the first proponent of the view that financial institutions are a necessary condition for, at least, the capitalist economic development. He asserts that for an economy to develop two conditions are

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\* This article is based on the author's on-going research on the subject of « Management of Advances in Nigeria: A Study of Commercial Banks Lending Efficiency ».

1. Bhatia, Rattan, J. and Khatkhate, Deena R. « Financial Intermediation, Savings Mobilization and Entrepreneurial Development: The African Experience ». *IMF Staff Papers* 22 (1975) pp. 132-158.

necessary and sufficient — financial institutions and the availability of entrepreneurship<sup>2</sup>. Among the more important followers of this view, though sometimes differing in emphasis, are Goldsmith<sup>3</sup>, Cameron et al.<sup>4</sup> and Patrick<sup>5</sup>. Goldsmith in his study of 35 developed and developing countries calculated the financial interrelation ratio (i.e. the ratio of financial instruments to the real wealth) for each in an attempt to determine the relative financial development compared to relative real development. He found that high financial structure development defined by a high financial interrelation ratio was also associated with high real development implying that financial development is a prerequisite or must go simultaneously with real development. Although Goldsmith's measure of financial structure development — the financial interrelations ratio — may be criticised on the basis of the fact that not only economic but political, and cultural factors as well influence the levels of financial structure development, the high empirical correlation between financial structure development and real development is suggestive.

By looking at the historical economic development of developed as well as developing countries, Cameron *et al.* were able to reach a positive conclusion on the role of financial institutions in development. Postulating that the functions of the banking system are (i) intermediation (ii) to furnish part or all of the means of payments or money supply, and (iii) the provision of entrepreneurial talent and guidance for the economy as a whole, Cameron summed up the general thinking or consensus of the team by saying that: « The way in which banks perform these functions may well determine the degree of success of the development effort. As intermediaries, they may vigorously seek out and attract reservoirs of idle fund which will be allocated to entrepreneurs for investment in projects with a high rate of social return or they may listlessly exploit their quasi-monopolistic position and fritter away investment possibilities with unproductive loans »<sup>6</sup>.

2 Schumpeter, Joseph A. « The Theory of Economic Development. (Cambridge, Mass: Harvard University Press, 1934). p. 70.

3 Goldsmith, R.W. « Financial Structure and Development ». (New Haven: Yale University Press, 1969).

4 Cameron, R. ed *Banking and Economic Development: Some Lessons of History* (New York: Oxford Univ. Press 1972).

5 Patrick, Hugh. « Financial Development and Economic Growth in Underdeveloped Countries ». *Economic Development and Cultural Change* 14 No. 2 (January 1966) pp. 174-189.

6 Cameron, R. ed. *op. cit.* p. 5.

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The basic Schumpeterian thesis was virtually unchallenged until the publication of the work of Gurley in 1967. In a study of the development process of socialist and developing countries he reached the conclusion that financial system development is not a necessary condition for development. His thesis rests on the important point that there are alternatives or substitutes for the role of financial intermediation in the process of development. Though differing thus substantially with the hitherto « established view », Gurley nevertheless admitted that financial institutions might be prominent contributors to development « when there is a decentralization of decision-making, specialization of savings and heavy emphasis on external rather than internal financing of investments »<sup>7</sup> which are features of capitalist economic systems. Gurley's conclusion is therefore true for a particular rather than a general case. For any of the substitute resource allocation mechanisms such as taxation to be employed in place of financial intermediation the eminent feature of socialist societies must be present i.e. centrally controlled planning. This condition precedent seems to dent the validity of his thesis. One conclusion to be drawn from Gurley's proposition is, however, that for those developing countries such as Nigeria that have chosen the quasi-capitalist path of development, it will be « ideal » to take the view of the necessity of financial institutions for development.

### 3. Some Empirical Evidence

These early works have kindled great interest in the study of the relationship between financial system and institutions and economic development in both developed and developing countries. Most of the empirical studies have set to investigate the role financial institutions have played in particular environments — a sort of ex-post appraisal. Not unexpectedly, most of these studies have been done as part of doctoral work of developing countries' students. Among these, to name a few, are Ojo (Nigeria), Taylor (Sierra Leone), Islam (Pakistan), Bourne (Jamaica), and Abdi (Eastern Africa). All without exception have concluded in the same vein as Taylor who wrote that: « From our study it is evident that the finan-

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<sup>7</sup> Gurley, J.G. « Financial Structures in Developing Economies » in *Fiscal and Monetary Problems in Developing States* ed. D. Kurivine (New York: Praeger, 1967) p. 104.

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cial system can make a valuable contribution to economic development if appropriate measures are taken, given the balance of payment constraint

- (a) to mobilize more domestic resources;
- (b) to deal with the problem of securities for loans and the special problem of securities for loans and the special problem of lending to a large number of small operators in the agricultural and small-scale industries sectors;
- (c) to improve the quality of investment so as to increase the productive capacity of the economy » <sup>8</sup>

Given the capitalist economic development strategy adopted in these countries and the pre-eminent positions of the financial institutions coupled with the inability and the lack of political will on the part of the governors to experiment with other options like taxation as Gurley suggests, these conclusions can be said to be inevitable.

The developed economies have not, however, been entirely left out. Griggs and Greenberg have also enquired into the roles being played by financial institutions in selected American communities. Whilst Greenberg's study was concerned with investigating the extent to which commercial banks in Philadelphia carry out their traditional and developmental functions, Griggs' work was concerned with the way selected bank lending officers are aggressive in lending to and otherwise assisting small scale and new businesses in Texas. Even for their own highly developed capitalist economy, both in their findings see an important role for their financial system in general, and commercial banks in particular, in their community's economic development process. Concluding for instance, Griggs notes that « the available information indicates that there is a positive relationship between the ability and willingness of commercial banks to lend credit and regional growth » <sup>9</sup>. However, it is noteworthy that Greenberg cautions; « a banking system is only one of many factors that influence economic activity, therefore, an optimal banking system (defined as one that allocates resources towards

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8 Taylor, A.B. « The Role of Financial Institutions in the Economic Development of Sierra-Leone ». Ph. D. Thesis (Unpublished). University of Glasgow (1973) p. 308. Of the same author: *Money and Banking in Sierra Leone*, (Milano: Finafrica, 1980).

9 Griggs, J.A. « The Commercial Banker and Industrial Entrepreneurship: The Lending Officer Propensity to Make Loans to New and Different Companies ». Ph. D. Thesis (Unpublished). The University of Texas at Austin (1971) p. 11.

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their most efficient uses) may be necessary but not a sufficient condition for obtaining full employment of a region's resources, attracting new resources and promoting technological change » <sup>10</sup>. In all of these recent studies both for developed and developing economies, one striking point is common. Most, if not indeed all, have been highly critical, justifiably based on the evidences revealed by their empirical work, of the role of the financial systems and the commercial banks in the different societies studied.

In spite of these studies, it will appear that this debate on the role of finance and its relationships to real development will continue for some time more. This is because the fundamental question at the centre of the arguments remains unanswered. Which causes or precedes the other — financial development or economic development? These two development processes in practice proceed simultaneously in a highly complex, interacting, and inter-dependent fashion. This makes the identification of any direction of causality, if indeed one is found to exist, difficult. Happily, however, the basic point is not in dispute; that is that « the relationship between the real and monetary variables is undeniable » <sup>11</sup>.

#### 4. Theoretical Relationship

This relationship has long been recognised by economic theorists in the growth models. The simplest and earliest known of these theoretical growth models is the now legendary Harrod-Domar model <sup>12</sup> represented by the following equations:

$$[1] \quad K = kY$$

$$[2] \quad \frac{dK}{dt} = sY$$

10 Greenberg, Carole Ann C. « The Role of Commercial Banking in Regional Economic Development: Philadelphia, 1945-1970 ». Ph. D. Thesis (Unpublished) University of Pennsylvania (1975) p. 1.

11 Porter, R. « The Promotion of the "Banking Habit" and Economic Development ». *Journal of Development Studies* Vol. 2 No. 4 (1966) p. 347.

12 See Harrod, R.F. « An Essay in Dynamic Theory ». *Economic Journal* 49 (1939) pp. 14-33 and Domar, Expansion, Rate of Growth and Employment » *Econometrica* 14 (1946) pp. 137-147.



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where      $K$  = Capital Stock  
               $Y$  = National Income  
               $s$  = Saving Propensity  
               $K$  = Capital-output Ratio

Equation [1] states that there exists a fixed relationship described by the capital coefficient (or capital/output ratio) between the stock of capital and production, and equation [2] merely expresses the theoretically expected equality between the rate of increase of capital stock and savings given that the two phenomena of a gestation lag and of depreciation are assumed away. Undoubtedly this simplified model is patently unrealistic having assumed away the influence of all factors impacting on the level of national income other than capital. For the sake of our present analysis, however, two important and relevant messages of this growth function are clear. One is the central role of capital in the production of the national income and the second is the dependence relationship between the two variables via the investment process ( $dK/dt$ ).

## 5. The Direction of Causality

As noted earlier the first empirical work to reach the conclusion of a positive relationship is that seminal study of Goldsmith<sup>13</sup>. Recent attempts have gone further to try and determine the direction of the causal relationship between the real and monetary sectors. The current leader of the Monetarist School is the chief proponent of the view that the causality runs from Monetary to the real sector; this being part of the on-going debate on whether money matters in economic activities. Beginning with his 1963 study with Schwartz, Friedman has consistently held this view<sup>14</sup>. By also inspecting the relationship between money and the Industrial Production Index for a US time series data, Friedman confirmed further this assertion, having found a high positive relationship between these variables<sup>15</sup>. Sims has advanced further than Friedman and other Moneta-

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13 Goldsmith *op cit*.

14 Friedman, M. and Schwartz, « A Monetary History of the United States 1867-1960 », National Bureau of Economic Research *Studies in Business Cycles* No. 12 Princeton (1963).

15 Friedman, M. « The Monetary Studies of the National Bureau », *The Optimum Quantity of Money and Other Essays* (Chicago, 1969). pp. 280-283.

rists by asking and answering the question « Is there statistical evidence that money is "exogenous" in some sense in the money-income relationship? »<sup>16</sup> The opponents of the view that the causal link between monetary and real sectors runs from the one to the other had argued persuasively to the effect that « money might equally well react passively and very reliably to fluctuations in income »<sup>17</sup>. Sims' study was aimed at clearing the air by determining the direction of causality between these sectors. With the aid of highly sophisticated regression analysis using US time series data, Sims concluded that « the main empirical finding is that the hypothesis that causality is unidirectional from money to income agrees with post war US data, whereas, the hypothesis that causality is unidirectional from income to money is rejected »<sup>18</sup>. This study has been replicated, for the Canadian economy separately by the pairs of Barth and Bennett, and Sharpe and Miller. The first two reached a contrary conclusion after their analysis saying that « although Sims' result for the United States supports the monetarist view of the role of money in the economy, our finding for Canada offers no such support »<sup>19</sup>. Sharpe and Miller also using Canadian data got results that contradict this Barth and Bennett conclusion and support Sims'. Thus they wrote that « contrary to the Barth and Bennett results, the Canadian case conforms to Sims' result for the United States. The results are not conclusive but unidirectional causality is shown to exist between M, and GNP and it runs in the direction suggested by the modern quantity theorists »<sup>20</sup>.

## 6. Patrick's Demand Following and Supply Leading Concepts

A new and interesting dimension to the debate on the relationship between the real and financial sector of an economy was introduced by Patrick in his 1966

16 Sims, C.A. « Money, Income and Casualty ». *American Economic Review*, September 1972 p. 540.

17 *Ibid.*, p. 540

18 *Ibid.*

19 Barth, James R. and Bennett, James. « The Role of Money in the Canadian Economy — an empirical test ». *Canadian Journal of Economics*, May 1974 p. 310.

20 Sharpe, Barry C. and Miller, Michael B. « The Role of Money in the Canadian Economy ». *Canadian Journal of Economics*, (May 1975) p. 290.

paper <sup>21</sup>. This he did by the enunciation of the concepts of demand-following and supply-leading finance. By this phrase he refers to the role of financial institutions in the process of development as either being passive and merely reacting to the demands for financial services of the sector (demand-following) or positively active in devising and providing financial services for the real sector in anticipation of demand for them (supply-leading). Historically, Great Britain's example is generally claimed to epitomize the demand-following type of financial institutions development. On the other hand Japan and Germany provide examples of supply-leading financial development in which financial institutions are involved in industries not only as bankers but also as entrepreneurs. Patrick, however, did appreciate and note the important fact that these phenomena are not likely to be static and unchanging all through the different stages of economic development. He thus remarks that « before sustained industrial growth gets under way, supply-leading may be able to induce real innovation-type investment. As the process of real growth occurs, the supply-leading impetus gradually becomes less important and the demand following financial response becomes dominant » <sup>22</sup>.

In a brief but incisive empirical analysis of the role of financial institutions in the economic development of Hong Kong, Stammer (in a follow-up to Patrick's work) found and confirmed these phenomena of demand-following and supply-leading financial development. He however, qualified Patrick's generalization with regard to the need for the development of new financial institutions to match increasing sophistication of economic activities. He points out that Hong Kong « changes in the structure and operations of existing financial institutions have been far more important than the development of new intermediaries and the emergence of a complex financial market » <sup>23</sup>. What in practice happens largely « depends on whether existing institutions are willing and able to expand their functions to create or respond to the demands for new financial services; if not new institutions will spring up. Willingness depends on perception of opportunities and on attitudes towards risk. The ability is constrained not only by avai-

21 Patrick, Hugh. « Financial Development and Economic Growth in Underdeveloped Countries ». *Economic Development and Cultural Change* Vol. XIV No. 2 (Jan. 1966) pp. 174-189.

22 *Ibid.*, p. 177

23 Stammer, D.W. « Financial Development and Economic Growth in Underdeveloped Countries: Comment ». *Economic Development and Cultural Change* Vol. 20 No. 2 (Jan. 1972) p. 324.



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liability of resources, but more importantly, by the legal-institutional structure »<sup>24</sup>. The central theme of Patrick's analysis is not, however, in dispute, that is that there is an important role for the financial sector at a certain stage of the development process and that this role is growth-inducing. This « positive growth-inducing aspect of supply leading financial development is attributed to its allocative efficiency and to its encouragement of entrepreneurship »<sup>25</sup>. More than any substance of the debate, it is this « agreement » that is of paramount interest to us here. This is because we envisage a role for the commercial banks in Nigeria's economy development in view of their unique position in the nation's financial system.

## 7. Financial Repression and the Structuralist Hypotheses

Before concluding this analysis it will be instructive to mention two widely discussed hypotheses of the role of finance in economic development. These are the Financial Repression Hypothesis and the Structuralist Hypothesis. The leading proponents of the financial repression hypothesis, unlike most other writers on the subject, are categorical on the role financial system and institutions play in the development process. They assert that it is nothing but growth-inducing except, of course, they are repressed. According to these apostles of financial repression hypothesis — Cameron<sup>26</sup>, McKinnon<sup>27</sup> and Shaw<sup>28</sup> — the sources of repression are government legislations and policies such as legal restrictions on activities and interest rate policies that distort the full operation of the market mechanism in fixing prices for financial resources. These repressions, they claim, show their effects on the limited savings generated because of interest

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24 Patrick, Hugh. « Financial Development and Economic Growth in Underdeveloped Countries: Re-play ». *Economic Development and Cultural Change* Vol. 20 No. 2 (Jan. 1972) p. 327.

25 Abdi, A.I. « Commercial Banks and Economic Development: The Experience of Eastern African » (New York: Praeger Publishers, 1977). p. 19.

26 Cameron, R. *et. al.*, *op. cit.*

27 McKinnon, R. « Money and Capital in Economic Development » (Washington D.C. Brookings Institution, 1973).

28 Shaw, E. « Financial Deepening in Economic Development ». (London: Oxford University Press, 1973).

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rate ceilings on deposits, limited loan resources because of loan rate ceilings and sectoral allocation guide rules; and also on the continued existence of rural and modern financial sectors — the so-called « financial dualism ». These advocates of the free interplay of market forces, undoubtedly sound convincing on theoretical grounds but on the practicality of their argument they are less so. One reason for this is that they all based their studies in advanced countries and went on to interpret the result without sufficient qualifications for the developing countries with entirely different environments. The environments differ not only in variety and volume of financial instruments and institutions but also in the interrelations of the different subsectors and the sophistication of activities and operators. These writers apparently think « classical », visualising every financial environment as being perfectly competitive. This apparent false basis of their argument corrupts their conclusions as the economic and financial environments in the developing countries are far from being perfectly competitive. It is a fundamental misunderstanding and misconception of the background to lending in developing countries that can lead to the suggestion that re-aligning interest rates alone will wipe out financial dualism. The fact is that the rural/traditional lenders are more flexible in their approach and this they can do because of the excellent knowledge of their customers and of the lending environments' socio-economic factors, they possess. Similarly, re-alignment of interest rates may not automatically induce savers in these economies to use modern financial institutions for savings either. This is because of the long list of inconveniences associated with such a change. Consider a saver who has to spend one naira in transport and set aside half-a-day or more to reach a bank to save only twenty naira. Finally, nowhere in the Western World, known to this writer, is there complete and unfettered use of loan resources by the commercial banks in particular — the most capitalistic and free economies inclusive. The reason is simple. Credit is so central to economic activities, which in turn is potentially politically sensitive, that no government wants to abandon its allocation and use to the price mechanism without some sort of intervention from time to time. In developing countries with imperfect markets, inadequate information and painfully insufficient resources, the need to « administer » the allocation of financial resources through interest rate structuring and credit guidelines becomes even more compelling.

The second hypothesis — the structuralist hypothesis — is based on the work of

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Gerschenkron. The kernel of Gerschenkron's thesis is that the role (and the ability) of financial institutions in the economic development of a country depends on the structure of the economy at any particular time. Rather ambiguously he tried to classify countries at the threshold of industrialization in a list with the very advanced countries at the top and most backward countries at the bottom. At the top end of this list is Britain, midway Germany, and at the bottom is Russia, indicating down the line the degree of backwardness. Based on his historical analysis of the role of financial institutions at the point of European countries industrialization, he argues that in highly industrialized economies like Britain the role of financial institutions can be expected to be minimal since great reliance was placed on internal finance by the entrepreneurs. Germany on the other hand — the moderately backward economy — had to rely rather heavily on the financial institutions because of the limited resources available to enterprises and the needs of the large scale-units of business. The unimportant role for the financial system and the prominent role of the public sector in the development process of Russia is perhaps inevitable from his description of that country's economic and financial environment at the point of entry into industrialization stage: « The scarcity of capital in Russia was such that no banking system could conceivably succeed in attracting sufficient funds to finance a large-scale industrialization; the standards of honesty in business were so disastrously low, the general distrust of the public so great, that no bank could have hoped to attract even small capital funds as were available, and no bank could have successfully engaged in long-term credit policies in an economy where fraudulent bankruptcy had been almost elevated to the rank of a general business practice »<sup>29</sup>. Gerschenkron's description of Russia then can be repeated today for many developing countries. Although this description may fit most countries today, unfortunately his implied prescription is irrelevant for two major reasons. First, commercial banks in these countries already have a substantial strangle-hold on the financial resources of the economies as the main financial intermediary. Second, the governments of these countries, having elected the capitalist path of development, fashionably described as Mixed Economy, have not now the political will to undertake the unpalatable decision of centralising economic decision-

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29 Gerschenkron, A. « Economic Backwardness in Historical Perspective: A Book of Essays » (Cambridge, Mass. Harvard University Press 1962), pp. 19-20.

making. Apart from being politically explosive, the use of taxation in place of financial intermediation is not humanly possible given the abysmally low levels of income in these countries. Gerschenkron's analysis is nevertheless deserving of some commendation for putting the role of financial institutions in the general process of development in perspective and for identifying a role for the financial system at some stage of industrialization or development. However, we basically disagree with the implicit view that because of the enormous problems associated with financial intermediation in developing economies such as « business honesty », « fraudulent bankruptcy », etc., the only option or the suitable substitute mechanism is centralization of financial resources. Rather than accept Gerschenkron's alternative, « in many underdeveloped countries, the establishment and nurturing of financial institutions and markets have been deliberate objects of government policy, by widening the range of financial titles available and by making for a more developed capital market, it is hoped that these intermediaries will increase the rate of saving and encourage a more efficient distribution of investment fund. This attitude, at the very least, allows the financial sector more than an entirely passive role »<sup>30</sup>.

As noted earlier, most of the revealed historical and empirical evidences of the relationship between the real and finances sectors of the economy relate to developed societies. With particular regard to the role of commercial banks, which institutions constitute our empirical platform in this study, only very little has been done for either developed or developing economies. The best known in this class is that study by Abdi for the economies of three Eastern African countries Tanzania, Kenya and Somalia. Like most of its predecessors it is broad based, that is to say, it focusses on all aspects of the wider issue of financial intermediation and its impact on the real sector development. « The study concentrates on the operations of the commercial banking systems of Eastern Africa with a view of resolving a few key questions about their development and performance. Other questions include how well the banks have met some requirement, indispensable for economic development such as monetization of the subsistence sector and innovations in the services provided to both the monetary and non-monetary sectors »<sup>31</sup>. To answer these questions, he analyzed the three main functions of

30 Stammer *op. cit.* p. 318.

31 Abdi, *op. cit.* p. 2.



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these institutions in these countries — savings mobilization, lending, and the provision of banking services outside urban areas. The effectiveness of savings mobilization was measured by the time series analysis of the relation between bank deposits and money supply and bank liabilities and GNP; the extent to which the banks' loans and advances were allocated to the government's defined priority sectors also was used to gauge their performance and contribution to development. Finally, the extent of rural branching measured the banks conscious move to eliminate financial dualism in the economy and thus contribute to economic development. He concluded to the effect that on all criteria considered the commercial banks in these East African countries performed poorly due largely to « identifiable economic constraints » — inadequate loan demand, poor entrepreneurship and infrastructure and suggested a concerted effort on the side of both the institutions and the governments to eliminate these constraints.

## 8. Evidence from Nigeria Data

The above analytical review of the revealed evidence of some associational and directional relationship between the monetary and real sectors of the economy, we think, is a useful starting point for our study. Evidence of this association from empirical analysis of Nigeria data will however, provide us with a firmer and more authentic base. In the light of this, the time series data in Table 1 were analysed. Since our interest is limited to evidence of association between the real and monetary sector of the economy, correlation analysis was our obvious choice. The selected important (and available) variable in the sectors as in the table were correlated as follows:

- Money Supply and Gross Domestic Product
- Loans and Advances and Gross Domestic Product
- Loans and Advances and Manufacturing

The results of our computer runs are presented in Table 2. The first analysis between Money Supply and Gross Domestic Product (GDP) produced results indicating a very high degree of association with a correlation coefficient of 0.865105 (see Table 2). Next are the analyses between loans and advances and GDP on the one hand and Manufacturing on the other. These analyses produced

**Table 1**SOME MONETARY AND REAL STATISTICS:  
NIGERIA 1960-1975 (Nm)

Year	Money Supply	Commercial Banks Loans & Advances	GDP	Manufacturing
1960	240.8	104.0	2244.6	80.6
1961	243.0	120.0	2373.4	88.2
1962	252.5	153.0	2630.8	93.4
1963	264.7	178.9	2806.4	151.8
1964	305.0	244.8	2914.0	157.8
1965	316.9	242.3	3080.6	164.8
1966	344.8	298.0	3210.0	192.2
1967	312.4	274.9	3051.8	196.0
1968	328.1	225.7	3140.8	231.2
1969	426.8	242.7	3278.2	270.4
1970	608.4	351.4	3485.8	311.0
1971	628.9	502.0	9442.1	475.1
1972	700.5	619.5	11177.9	460.3
1973	827.1	753.4	11993.0	570.1
1974	1178.4	938.0	13135.5	626.5
1975	2044.1	1427.3	14410.7	638.9

Sources: (i) Central Bank of Nigeria, *Economic and Financial Review* (various issues)  
(ii) Federal Office of Statistics, *Digest of Statistics* (various issues)

**Table 2**

SUMMARY OF RESULTS OF CORRELATION ANALYSIS

VARIABLES	CORRELATION COEFFICIENT	F — VALUE	D.F.
MON → GDP	0.865105*	41.6453	1, 14
LA → GDP	0.930551*	90.4199	1, 14
LA → MAN	0.931840*	92.3225	1, 14

**Key**

MON = Money Supply (M2)

GDP = Gross Domestic Product

LA = Loans and Advances

MAN = Manufacturing

\* Significant at the 0.01 per cent level

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correlation coefficients of .930551 for Loans and Advances and GDP and .931840 for Loans and Advances and Manufacturing. It is noteworthy that all these coefficients are significant at the 0.01 per cent level.

## 9. Conclusion and Policy Implication

Although these results are not in anyway conclusive nor do they indicate any directional causality, the high correlation coefficients obtained are positively suggestive of some strong association between the real and the monetary sectors of the Nigerian economy.

The Policy messages of our analysis above are perhaps obvious enough. Given the political and economic path chosen by the country, it appears we have no choice but to assign an important role to the financial sector in our economic development strategy. It must be noted, however, that at no stage of our development process has Gerschenkron's description of European economies been appropriate for Nigeria. Consequently, his views on the roles of a financial sector in given development situations can hardly be more than worthy of a cursory note. Given the fact that we operate a development strategy loosely described as « mixed economy » — in which an important role is assigned to the private sector — the financial system which is an economically « efficient » instrument for mobilizing resources in a quasi-capitalist set-up like ours, must be developed if the sector is to play its role effectively. Our financial sector is far from depicting a perfect market situation — there is no perfect (or adequate) information, the operators lack skill and experience and there is nearly complete absence of a financial press to inform the community. In these circumstances, financial intermediation can not be effective if orthodox. Unorthodox approaches such as borrowing short and lending long as the German banks have successfully practised — must be employed, albeit with caution. In sum our thesis (a distillation from the foregoing analysis) is that the monetary authorities and the « captains » of the financial sector should fashion and continuously remodel our financial system to suit our politico-economic strategies and our level of socio-economic development.

A strong relationship has been found to exist between the monetary and the real sectors of Nigeria. The development of the real sector provides the answer to most of our current problems — more food to eat, shelter for all, efficient social

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services, etc. This paradise can only be reached, in our circumstance, if the financial sector is developed and well oriented to provide the real sector with the appropriate support. Whilst we agree that money matters, it must be admitted that money is not the panacea for economic development. For instance, it is well known that development financing implies long-term financing in broad terms. A situation, such as we have in Nigeria, where financial institutions provide overdrafts, in the main, rather than term loans to private entrepreneurs, is a case of inappropriate supportive role of the financial sector. So whilst we urge financial institutions to assist private entrepreneurship (it is in their own long-term self-interest too) it ought to be emphasised that this call does not mean more in volume only but also better in the appropriateness and suitability of the assistance.

### **LES QUESTIONS MONETAIRES DANS LE DEVELOPPEMENT ECONOMIQUE: QUELQUES DONNEES EMPIRIQUES DU NIGERIA.**

#### **RESUME**

*Le rôle des institutions financières dans le processus du développement économique est une question controversée. En gros, il y a toujours eu deux écoles de pensée à ce propos. D'après l'une, les institutions financières ne seraient une condition ni nécessaire ni suffisante pour le développement économique; d'après l'autre, les institutions financières sont une condition non seulement nécessaire, mais aussi suffisante pour le développement économique d'un pays. Entre ces deux extrêmes, naturellement, il y a des groupes de spécialistes qui donnent une importance différente au rôle des institutions financières en vue du développement économique. La grande majorité des études à la base de ces opinions, incidemment, a été faite sur les institutions et l'expérience des sociétés développées. Puisque les pays sous-développés sont en développement, ces études certainement présentent des implications importantes pour leur politique. Et cependant, pour avoir une importance réelle et valide pour les pays en voie de développement, toute opinion à ce propos*



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*devrait avoir trait aux expériences de ces mêmes pays. Dans cet article on essaie, à l'appui de données locales, de mesurer, si possible, les rapports entre le secteur monétaire et le secteur réel de l'économie du Nigéria. Les résultats de l'analyse des corrélations révèlent qu'il y a un degré élevé d'association entre l'offre de monnaie et le produit national brut et entre les prêts et les avances d'une côté et le produit national brut et la production de l'autre, avec tous les coefficients de corrélation significatifs au niveau de 0,01%. Bien que ces résultats ne soient pas conclusifs et même s'ils n'indiquent aucun rapport de causalité, les coefficients de corrélation élevés qu'on a obtenu suggèrent positivement l'existence d'une forte association entre le secteur réel et le secteur monétaire de l'économie du Nigéria. A la lumière de l'orientation politique et économique du pays, il semblerait donc qu'il faudrait donner aux institutions financières un rôle important dans le processus du développement économique. Pour leur permettre de jouer leur rôle efficacement, cependant, elles devraient être suffisamment bien structurées, organisées et surtout bien orientées.*

