

Economic Recession, Inflation, Appropriate Pricing and the Need for Price Control in Nigeria

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Abstract

This article examines the current impasse of inflation and extortionate prices of goods and services in the country. This article revealed that although the general impression given by suppliers of goods and services for the monumental increase in their prices is the current economic downturn in the country, this is actually a ruse. It is our contention in this paper that these businessmen have taken advantage of the prevailing situation to engage in product hoarding and extortionate pricing all in a bid to maximize profits and pass the buck to hapless consumers of their goods and services. It is the view of this author that in this extreme scenario, government intervention in the area of fair, reasonable and appropriate pricing of goods and services is imperative.

Keywords: Goods; Consumer; Marketing

Introduction

Nigeria officially entered a phase of economic recession on the 31st of August 2016.¹ However it has been acknowledged by most stakeholders that beyond this official announcement on this day, the country had dipped into economic recession much earlier before that day.² Whereas, the cause (s) of the present economic state of the country has become a matter of economic and political debate, it does appear that the political aspect of the debate has been more in the front burners more than the economic, administrative and even the legal aspects of the problem.³

In ignoring the administrative cum legal aspect of the problem/solution to the fall out of the present economic state of the country, government has unwittingly failed in its duty to mitigate the harsh effects of the recession. In effect, it has left consumers of goods and services at the mercy of shylock and profiteering businessmen who now use the excuse of the present economic state to inflate the prices of goods and services. It is no longer news that at every turn, prices of goods and services have skyrocketed and when pressed for reasons for this astronomical increment in prices, most suppliers of goods cite the increasing dollar-naira exchange rate as the reason amongst others. This patched up excuses which are better viewed as afterthoughts are used even in respect of basic food items and house hold items that are locally produced or sourced in the country.⁴ Therefore, the most rational inference from this is that there is the need for an urgent government intervention by way of price regulation in the market place. The rationale for this is that unless this is done, manufacturers and suppliers of goods and services will exacerbate the problem on ground by its marketing antics.

¹The Minister of Finance on this day acknowledged and announced that the country was officially in recession. See. Vanguard Newspapers, 31st August 2016

²Available data from the Nigerian Bureau of Statistics had indicated this trend as far as 2014.

³See Ngozi Oknojo-Iweala "Nigeria: Beyond Belief, Soludo's Article on Economic Management Deficit in Facts, Logic and Honour" Feature Article available on <http://allafrica.com/stories/201501281603.html> accessed on 12/09/2016. See also O.J Ajala et al., "Diversification of the Nigerian Economy Towards a Sustainable Growth and Economic Development" (2015) 3(2) *International Journal of Economics, Finance and Management Sciences*, 107-114

⁴It is so bad that basic food items like yams, plantain, melon, as well as house hold items like brooms, baskets, mortar and pestle etc that are produced locally have their price hikes justified on this basis

Conceptual Basis for State Intervention in Price Adjustments of Goods and Services

It is settled that one of the interest of the consumer that was deserving of protection is his right to a fair bargain, in essence he deserves to get the right quantity and quality of goods and services for the right or reasonable price⁵ No doubt paying the right price for the right quantity and quality of goods or services is the hallmark of a good or fair bargain. This point was succinctly captured by Kanyip in the following terms;

Consumers of complex goods and services are exposed on a daily basis to problems product safety, fair trade practices, product and services quality and dispute resolution. The available data reveals a wide range of factual complaints which consumers regularly make. They include fake and adulterated products, malfunctioning and poor quality products, defective and inherently dangerous products, foreign particles in drinks, extortionate and inflationary prices [1].

No, doubt the learned author belatedly identified extortionate and inflationary prices as an index for measuring a fair bargain, this certainly shows that in the deluge of consumer complaints often addressed by even notable researchers in the field, the problems of appropriate pricing has always taken the back stage.⁶ This may rationalized on the basis that in our free market economy and the presumption of freedom of contract, state intervention in the appropriate pricing of goods and

⁵B.B Kanyip, *Consumer protection in Nigeria; Law, theory and policy* (Abuja Rekon Books Ltd, 2004), 3

⁶This shouldn't be as our experience even with government price adjustments in the Petroleum sector and the problems of P.H.C.N Tariffs are constant reminders that the starting point towards consumer protection should and ought to be appropriate pricing

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Received November 08, 2016; Accepted December 27, 2016; Published January 02, 2017

Citation: Odion JO (2017) Economic Recession, Inflation, Appropriate Pricing and the Need for Price Control in Nigeria. J Glob Econ 4: 230. doi: 10.4172/2375-4389.1000230

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services may appear to be an overbearing posture⁷. However, with the realization of the weak and vulnerable position of the consumer and the absence of equality of bargaining powers, it became imperative that the state should intervene in price adjustments between the seller and the consumer.⁸ Whilst, justifying state intervention in consumer protection and price adjustment in the eighteenth century Britain. Brian Harvey and Debora Parry observed inter alia:

The concept of consumer protection to the thinking person, throughout the eighteenth century at least would mean a protection from excessive prices levied on primary commodities, protection from short measures, protection from 'common nuisance involving misuses of houses, streets, and bridges is a separate area of activity which must be investigated by Historian of public health.....'⁹

Herein Nigeria, the long title to the long title to the Price Control Act encapsulates the legislative intention behind the Act in the following terms;

An Act to re-enact the Price Control Act, prescribe stiffer penalties and to make better provisions for the implementation of the scheme

This no doubt sets the basis for state intervention in price adjustment and enforcement. Whilst the proponents of free market Economy and capitalism would question the right of the government in this regard, however for proponents of consumer protection, the presumption of the inequality of bargaining powers between the seller and the buyer is a good reason for such intervention¹⁰. Indeed, the argument for state intervention in the regulation of prices becomes more incisive in view of the fact that there are no free markets anywhere none the least in Nigeria. Whilst, it is acknowledged that direct state intervention in product regulation and price fixing may be an extreme measure, it is expedient to note that all the nuances of a free market and the effectiveness of the force.

The proponents of a free market economy focus presumptuously on a free market where the forces of demand and supply will be the ideal price modulator [2]. However, as it is now consistently argued, a middle ground between over-regulation through price fixing or an unregulated market place has been the prescription for competition law. Competition law is seen as a veritable form of indirect regulation in the market place. One aspect of competition regulation relevant to our discourse is the prevention of cartel ling, product hoarding, price fixing or syndication by manufacturers and producers of goods and services.

The relevance of Competition law to the protection of consumers of goods and services is underscored by the fact that there is a tenuous link

⁷See; Adam Smith (R.H Campbell, A.S Skinner, and W.B Todd. editors,' An inquiry into the nature and cause of the wealth of nations(Liberty Classics, Indianapolis, 1981 at p660 as cited in B.B Kanyip, "Consumers, Globalization and the paradox of protection' (2003) 2, Benue State University Law Journal, 14-34

⁸Interestingly, consumer protection started in England when the state intervened in fixing appropriate prices for staple foods like wheat and meat; See, Harvey and Parry; The Law of Consumer protection and Fair trading (London, Butterworths Publishers, 2000), 2-10

⁹Harvey and Parry, "Consumer Protection and Fair Trading", 2

¹⁰See the classic works of Milton Friedman, a U.S Economist and a Professor of Economics at the University of Chicago (1946-1983). A leading Monetarist ,his works include the permanent income theory of consumption and the role of money in determining events particularly the U.S Great depression. He was awarded the Nobel price for Economics in 1976. See also Dean Prosser, "The assault of upon the Citadel: Strict Liability to the Consumer" (1960) 69 Yale Law Journal 1099 at 1103 as cited in A.M Clark, "Product Liability, Modern Legal Studies" (London, Sweet and Maxwell 1990), 2

between competition law and consumer protection. In his view, both streams of law deal with distortions in the market. Whilst, competition law deal with such antitrust offences like price fixing or extortionate practices that distort the supply side, consumer protection laws address such issues like deceptive advertisement that distort the demand side of the market transaction. Therefore, a convergence of both streams of law is imperative for effective consumer protection.¹¹

Arguments for the infusion of competition law in consumer laws have often brought to fore the arguments for and against state intervention in consumer affairs by way of regulatory measures. Whereas proponents of competition law justify it on the need for the state to avoid interference in private undertakings, the opponents of competition law justify their stance on the need for the state to maintain a stranglehold on such private undertakings.¹²

The proponents of competition law argue that where there is a perfect market, it is the consumer that would be at the saddle of such a market, this is because , he would invariably determine the type of goods to be manufactured and sold by manufacturers as well as the nature of services to be provided by service providers. The argument is that manufacturers and suppliers will bicker to the taste and demands of the consumer in order to remain in the market and sustain the consumer's patronage.¹³ Invariably, the strength of the consumer is tied to the assumed perfection in the market place. The benchmark for identifying a perfect market is articulated by Ramsay to include the following:

- There are numerous buyers and sellers in the market, thus eliminating the possibility of a dominant actor in the market
- There is free entry into and exit from the market
- The commodity sold by each seller is homogeneous
- All the economic actors in the market have perfect information about the nature and value of the goods in question
- All the cost of production of the goods are borne by the producer and all the expected benefits are enjoyed by the consumer.¹⁴

Clearly, these indices of a perfect market are enormous and often not possible in practical terms. Accordingly, it has been argued that the whole idea of a *free market* which is often the basis of a perfect market is presumptuous. This is because it is based on the assumption that these indices outlined by Ramsay will ever be present and that the consumer himself is smart and knowledgeable enough to make the informed choices.¹⁵ However, in spite of these criticisms, the proponents of a free market justify their views on the basis, that irrespective of the choice made by the consumer, the laws enacted by the state must respect this choice and protect him from the fallouts of such choices. The state

¹¹T. Leary "Competition Law and Consumer Protection Law: Two Wings of the Same House" (2007). 72 *Antitrust Law Journal* 1147 at 1147-1148, See also Tim Frazer, "Competition Policy after 1992: The next Step" (1990) 53 *Modern Law Review* , 609 -633. SnyderFrancis " Ideologies of Competition in European Community Law" (1989) 52(2) *Modern Law Review*, 149-177

¹²See C. Fried, *Contract as Promise: A Theory of Contractual Obligations* (Cambridge, Mass, Harvard University Press, 1981) 34

¹³See I. Ramsay, *Rationales for Intervention in the Consumer Market Place* (London, Office Trading, 1984) 12

¹⁴Ramsay, *Rationales for Intervention in the Market Place*, 15-16

¹⁵See A. Hutchinson "Life after Shopping from Consumers to Citizens" in Iain Ramsay(ed), *Consumer in a Global Economy* (Aldershot, Dartmouth and Ashgale, 1997), 25-31

should not subrogate itself to the position of the consumer neither should it make the choice for the consumer nor attempt to impose its will on the consumer. It is only in this way that the concept of consumer sovereignty can be guaranteed¹⁶.

However, the proponents of state intervention argue that without state regulation, there will be no perfect market and the consumer would remain imperiled. They argue that the state should not be seen as an alternative to a free market or a usurper but a complement to a perfect market. In the words of Hutchinson: 'Without the State willing or able to define and protect property rights, enforce contracts and prevent involuntary transactions, maintain a circulating medium and curtail monopoly and anti-competitive behavior, there is no market in any real or meaningful sense...'¹⁷ It has equally been argued that in spite of the regulatory efforts of government a perfect market remains illusory, accordingly private law as a basis for protecting the consumer fails in that regard. Hutchinson and Weatherill have described the idea of a perfect market as 'alluring as it is unrealistic'¹⁸ and Cranston has described the free market economist as 'the foolish man who built his house upon the sand'¹⁹

Accordingly, the role of government is to ensure that laws are enacted to ensure that the market is free and devoid of the imperfections highlighted earlier. This is where the campaign for the link between competition law and consumer protection become incisive. It is now trite that the market will fail in the absence of competition. Accordingly, it has been asserted that if the market is to function properly, no individual firm or group of firms should be able to influence price. It has equally been asserted that the notion that rival suppliers in the market will dance to the dictates of the consumer will not be possible unless the State is allowed to bring its feet down and ensure that there is competition in the market. This is where the convergence between the proponents of a free market and the proponents of state intervention can be discerned [3].

An Overview of the Price Control Act

One of the direct measures towards the attainment of the objectives of the Act is the establishment of the Price Control board. The board is composed of twelve members consisting of a Chairman and Chief Price Controller, a representative of the Federal Ministry of Industries, the chairman or a representative of the productivity prices and incomes board, the chief statistician of the Federation, Six representatives from six states as nominated by their respective Governors, one representative of Consumer associations in Nigeria, Two representatives from outside the civil service of the Federation or the States.²⁰ Whilst, the board is a general policy formulation body, the technical and direct implementations of these policies are entrusted to the various Price Committees of the respective states.²¹

The Act is not of general application to all goods, rather section 4(1) and (2) thereof subsumes the limited scope of the Act by reference

¹⁶See S. Breyer "Typical Justifications for Regulations for Regulation" in S. Breyer, *Regulation and its Reform* (Cambridge, Harvard University Press, 1982) 32

¹⁷Hutchinson, "Life after Shopping from Consumers to Citizens", 31

¹⁸See G.G. Howells and S. Weatherill, *Consumer Protection Law* (Aldershot, Dartmouth and Ashgate, 1995), 1

¹⁹See also R. Cranston "Consumer Protection Law and Economics Theory in A.J Duggan and L.W Darvall (eds) *Consumer Protection Law and Theory* (Sydney, The Law Book Company, 1980) 243

²⁰See section 1(1) of the Act

²¹See Section 2 (1) –(5) of the Act

to the schedule to the said section. An appraisal of the said schedule reveals that basic staple foods like milk, salt, sugar, basic means of transportation like Bicycle and its spare parts, Motor cycle and its spare parts, Motor vehicles and spare parts and petroleum products are listed.²² Thus from the onset the Act is of a limited scope although it remains to be seen how the prices of the items so listed have been regulated by the Board.

The general powers of the Board in the imposition and enforcement of prices on these goods so listed is succinctly addressed by section 5 (1) – (3) thereof which provides inter alia;

The Board may by notice published in the Federal Gazette;

(a) Fix a basic price for any of the controlled commodity in accordance with sub-section (2) of this section and

(b) Fix the permitted variation for that commodity in respect of any state in accordance with sub-section (3) of this section.

(2) The basic price is the price which in the opinion of the Board properly represents.

(a) In the case of goods produced in Nigeria, the cost of production of the commodity plus the manufacturer's profit and,

(b) In the case of imported goods, the duty –paid landed cost plus the importer's profit

(3) The permitted variation, in relation to any particular commodity is the amount representing transport and other cost plus the distributor's profit which in the opinion of the Board ought to properly be added to the basic price in order to represent a fair controlled price (wholesale or retail as the case may be) in any state.

From the forgoing, it is clear that there is a scientifically balanced mechanism for determining the fair and reasonable price of the controlled commodity; this together with the composition of the Board makes it impossible for arbitrariness in the determination of these prices.²³ The Act therefore proceeds on the assumption that the universality of the indices for determining these prices would make compliance therewith easy. Accordingly, by the tenor of section 6(1)-(5), violations or non-compliance with these determined prices is an offence punishable by various degrees of imprisonment and/or fines. Section 6 (2) encapsulates the penalties for non-compliance in the following manner;

Section 6(2): If any person contravenes sub-section (1) of this section in respect of any controlled commodity-

(a) He shall be guilty of an offence and shall,

(i) In the case of a retailer, be liable to a fine of not less than N200 and not more than N2,000 or to imprisonment for not less than six months or to both such fines and imprisonment,

(ii) In the case of a Manufacturer, wholesaler or major distributor, be liable to a fine of not less than N1,000.00 (One Thousand Naira) and not more than N10,000 or to imprisonment for not less than 12 months or to both such fine and imprisonment; and

(iii) The stock of the controlled commodity shall be liable to forfeiture.

²²However, sub-section 2 aforesaid gives the Board the power to add to this list or delete some items from the list, although in the existence of this Act in the last 34 years nothing of such has been undertaken by the Board

²³However, the inactivity of the Board in the last three decades makes it impossible to determine the level of acceptability of these prices

Section 6(3) – (5) of the Act makes further provisions for additional penalties for persons found liable for selling beyond the controlled prices. Specifically Sub-section 5 encapsulates the vicarious liability of any person who employs others or counsels them to sell any commodity beyond the controlled price.

The utility of these provisions and penal sections to consumer protection can be appreciated from the perspective that through state intervention the consumer i.e., the purchasing consumer is protected from the shylock tendencies of some sellers. What is however lacking in the context of our analysis is the will of the current democratic Government to set up the appropriate Price Control Boards and Committees to implement the set objectives of government in this regard. It is, however, instructive to note that these Price Control Boards were established and potent in the first republic and more recently in the short-lived military regime in the country between 1983-1985.

It is heart rending to note that over the years, no serious attempt has been made to set up these boards or committees, the fallout is the seemingly arbitrariness in price fixing by suppliers of major food items and other products including the controlled commodities.²⁴ Accordingly, the buyer is left at the mercy of the business convenience and trade customs of the sellers. More debilitating is the role now played by sellers associations and unions in the fixing of prices for basic consumer products. These Associations and Unions have effectively hijacked the powers and functions of the price Control Boards and Committees.²⁵ The negative effect of the usurpation of the power of price control by these bodies is the entrenchment of monopolies in the market with the attendant price inflation without the corollary of improved quantity or quality of the goods supplied.²⁶

Apart from the problems of exorbitant and inflationary prices, the Act sought to control the incidence of hoarding and the creation of artificial scarcity by the suppliers of goods. Accordingly, section 7 (1) (a)-(b) provides inter alia;

‘If

(a) A person carrying on a business in the course of which controlled commodities of any description are normally sold has in his possession in the course that business a stock of controlled commodities of that description and,

(b) That person or any employee employed by him to sell goods in the course of that business, when asked by any other person (referred in this section as ‘the buyer’ to sell any controlled commodity of that description or whether he or as the case may be, his employer has any such commodity for sale-

(i) Refuses to sell the commodity in question or denies that he (or as the case may be his employer) has the commodity or uses any words or gives any other indication calculated to lead the buyer to suppose that he (as the case may be, his employer) has not got the commodity or will not sell it

²⁴The upsurge in price fluctuation in the Country in the last ten years is alarming, an item could be sold for a particular price today and by tomorrow morning the price is increased without due notice or justification by the seller.

²⁵A recent study reveals that sellers or suppliers are compelled to join these Associations and must sell their goods at the Association’s fixed and exorbitant price. An attempt by a member or a non-member to sell below The fixed prices are usually met with sanctions.

²⁶However, it must be noted that it is only with respect to Rent Control and regulation of the communication networks in Nigeria that some measure of price control is visible, however, legislations herein are tied to the supply of services, and the absence of price control with respect to goods is a fundamental flaw.

(ii) Offers to sell commodity subject to a condition requiring the buying of any other goods (whether controlled commodities or not) or the making of any payment in respect of any other condition except delivery within a reasonable time, the person carrying on the business shall be guilty of an offence.

The import of these elaborate provisions amongst others is that at the level of legislation there exist appropriate safe guards against any act of hoarding and artificial scarcity, what remains missing is the implementation and enforcement of these lofty provisions. Here again, the seemingly inaction and/or failure of the price control boards and committees is once again exposed.

It is apparent that unless there is some form of Governmental intervention in preventing the hoarding of goods with its consequential scarcity; price fluctuation would remain in the market place. Accordingly, a notable commentator on consumer Protection observes inter alia;

A Price control mechanism typifies the attempt at this adjustment in power relations. Consequently, the thinking is that the consumer being weak and vulnerable needs the support of the law against the producer who can put his resources in place to manipulate prices through the interplay of forces of supply and demand, or through the exercise of monopoly power. What is therefore achieved by the price control mechanism is the availability to the consumer of necessities of life (essential goods and services) at reasonable or affordable prices... [1].

Implicitly, it is the view of the learned author that even where it may be inappropriate for Government to be directly involved in the adjustment of prices, it should as a matter of policy prevent hoarding and scarcity of goods as this is the best panacea for ensuring reasonable price regime for goods and services.²⁷

Price Control and the Control of the Present Trend of Inflated Prices in the Market

As observed earlier, the current economic downturn in the country has been exaggerated by producers of goods and services; they have consistently used it as an excuse to engage in product hoarding, price fixing amongst other underhand business practices. This is where Governmental intervention becomes imperative.

However, what seems debatable is the nature of such intervention, should it be a direct one in the manner of price fixing or should it be indirect through reliance on the dynamics of the market? It is our contention that having regard to the analysis above especially in the wake of the realization that there is no perfect market especially in present day Nigeria, direct intervention albeit on a temporary measure is desirable. This is where we believe that the Price Control Act and the institutions put in place for the enforcement of its provisions become necessary tools that can be used to protect the consumer.

By the tenor of the Act, it is the responsibility of the Price Control Board at the Federal level and the Committees at the State levels to monitor the markets in order to ensure that the regulated products are not sold beyond the approved price benchmarks. These benchmark prices have been appropriately described as the “controlled price” under the Act. The Board is given the powers to review the controlled prices by considering the following factors:

²⁷The effect of Government’s indirect role in price adjustments is seen in the Telecommunications industry in Nigeria, where the Government’s policy on liberalisation in the sector has helped stabilize prices of communication services in the industry.

(a) In the case of goods produced in Nigeria, the cost production of the commodity plus the manufacturer's profit

(b) In the case of imported goods, the duty paid, landed cost in Nigeria plus the importer's profit²⁸

Although, the regulated products under the Act is limited to the following goods for now i.e. basic staple foods like milk, salt, sugar, basic means of transportation like Bicycle and its spare parts, Motor cycle and its spare parts, Motor vehicles and spare parts and petroleum products are listed.²⁹ It is plausible to assume that if the Board or Committee as the case may be direct their regulatory powers in ensuring that these categories of goods are sold within the controlled prices, the current hardship in the land can be mitigated. However, as can be gleaned from the happenings on the ground, most sellers are going about their underhand business practices of inflationary and extortionate prices unabated.

In the same vein, it was not contemplated that this list of regulated products will be for all purpose, rather it is expected that the list will be reviewed and increased to accommodate more products from time to time.³⁰ Therefore, if this leeway was exploited at the auspicious time, products like rice, cement, beverages, confectioneries amongst others ought to have been added to this list by now. Even at that, what have been the efforts of the present Government to enforce the controlled prices with respect to the products identified earlier? Presently, there are no documented activities of the price control board at the centre at the committees at the state level aimed at enforcing this controlled prices. This is where the problem lies for now.

Recommendations

Having regard to the issues addressed in the course of this essay, it is imperative to make the following suggestions on the way forward:

It is suggested that government as a matter of urgency should re-constitute the price control board at the central level and charge them to monitor the prices of the regulated goods under the Act in order to ensure that sellers confine their prices to the approved benchmarks.

In the same vein it is suggested that at the state levels, the price control committees should equally be re-constituted and given the same mandate with respect to prices of goods in the respective states. In addition to the reconstitution of these committees, it is suggested that their inspectorate units be well funded and galvanized to visit the markets and all known trading points to ensure that regulated products are sold within the approved benchmark prices. This inspectorate unit should also ensure that the incidences of product hoarding, price syndication through cartels amongst other vices are prevented in the market.

These are short term measures; however a long term measure should be in the mould of an overhaul or review of the Price Control Act to first and foremost broaden the scope of the Act to cover more goods. This can be done by increasing the number of regulated goods under the Act to include basic domestic and household goods. In the same vein, it is suggested that the penal sections in the Act be reviewed to increase the fines or term of imprisonment imposed on offenders

²⁸See sections 4 and 5 of the Act

²⁹However, sub-section 2 aforesaid gives the Board the power to add to this list or delete some items from the list, although in the existence of this Act in the last 34 years nothing of such has been undertaken by the Board

³⁰See section 4(2) of the Act

under the Act, this is to ensure that there is sufficient deterrent to persons who may desire to violate the provisions of the Act.

It is believed that with these measure put in place, government can as a temporary measure and as a direct measure to take care of the exigencies caused by the present economic recession protects the average consumers from the real or imposed consequences of the problem.

Conclusion

We have in the course of this essay opened a vista for the reluctant acceptance of state intervention in the regulation of the prices of goods and services in the country. This was done against the background of our concession that state direct intervention in price fixing or regulation in an otherwise free market economy is perhaps not a lofty idea. However, our prescription for direct state intervention by way of price regulation is informed by our discovery that the harsh effects of the present economic hardships in the country can be doubed by any short term measure. The kind that protect the consumers from the business antics of suppliers and sellers of goods and services in the country, who have taken advantage of the current economic state to unreasonably and unjustifiably increase the cost of goods and services in the country.

However, in all this analysis we have not lost sight of the fact that a more lasting and holistic solution will be the enactment and enforcement of completion law in the country. A competition legislation backed by an enforcement institution will reduce the pressure on the state to intervene directly through price fixing and regulation even in a depressed economy as has being canvassed in this paper.

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