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President Babangida's Structural Adjustment Programme and Inflation in Nigeria

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ABSTRACT

The IMF-World Bank economic policy packages embodied in President Babangida's Structural Adjustment Programme (SAP) provide overt encouragement to the fostering of an unregulated, dependent capitalist development model, while allowing only a supportive role for the government in a refurbished economic environment of highly reduced government ownership and control of enterprises.

Inflation has assumed a doomsday scenario since the inception of the SAP in July 1986 (from 5,4% in 1986 to 40,9% in 1989), and is threatening to destroy the very fabric of Nigerian society. It is the principle price of Babangida's SAP measures, which include external debt management strategies, SFEM/FEM/IFEM, removal of subsidies on petroleum products and fertiliser, privatisation and commercialisation, trade liberalisation, and interest rate deregulation.

This SAP-induced inflation has resulted in adverse income redistribution, leading to increased personal insecurity and lessened personal satisfaction, while heightening interpersonal and institutional tensions and deterring investment and inhibiting consumer spending. Other costs include the depletion of external reserves; a worsening balance of payments position; the diversion of managerial talent from managing production, maintaining efficiency and innovating, in favour of manoeuvring and speculation for protection against (or benefit from) inflation.

This paper recommends abandoning the 'old-time religion' of orthodox policies in favour of 'shock treatment' embodied in herterodox policies, including monetary reform, exchange rate reform, tax-based prices policy (TPP), fiscal policy reform, etc.

Introduction

By 1983, Nigeria's shortterm trade arrears, amounting to over N4 billion, had accumulated while unemployment was aggravated and serious balance of payments

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deficits incurred. Nigeria, under the Shagari regime, had to apply to the International Monetary Fund (IMF) for a three year extended facility loan of US$2,3 billion. The IMF made seventeen conditions for such a loan, and negotiations dragged on through the Buhari regime to the Babangida regime until 1985 when, through public debate, the loan was rejected. Prior to the rejection, agreement had been reached on some conditions, but not the bitter pills of trade liberalisation, the removal of a petroleum subsidy, and the devaluation of the naira (Ogundipe, 1985). Following the rejection of the IMF loan, coupled with the traumatic economic crisis being witnessed by the economy prior to July 1986, the Babangida administration introduced the economic recovery programme (SAP) in July 1986.

The economic crisis involved the transformation of the economy from one dependent on agriculture to one heavily dependent on oil; widespread distortions and imbalances in the economy; heavy dependence on oil and imported inputs which rendered it highly vulnerable to external shocks; sharply declining foreign exchange reserves; a largely 'overvalued' naira; staggering external debt; alarming proportions of unemployment; balance of payments crisis; and the collapse of oil prices. The Nigerian SAP was designed to fit the standard IMF-World Bank structural adjustment package. It was meant to effectively alter and restructure the consumption and production patterns of the Nigerian economy, and to eliminate price distortions and heavy dependence on the export of crude oil and imports of consumer and producer goods. It is a programme which combines a nexus of measures to promote economic efficiency and longterm growth, with stabilisation policies designed to restore balance of payments equilibrium and price stability. The overall aim is to totally revamp the Nigerian economy. Indeed, as Obadan and Ekuehare (1989) noted, Nigeria's SAP is intended to discourage primitive accumulators, and to encourage capitalist accumulators in the economy. The emerging structure of dependent capitalism envisages only a supportive role for the government in a refurbished economic environment of highly reduced government ownership and control of agricultural and industrial enterprises.

The specific objectives of the SAP include:

* to restructure and diversify the productive base of the economy in order to reduce dependency on the oil sector and on imports
* to achieve fiscal and balance of payments viability over the period
* to lay the basis for a sustainable non-inflationary growth
* to reduce the dominance of unproductive investment in the public sector, improve that sector's efficiency and enhance the growth potential of the private sector (Phillips, 1987).

The main elements of the Nigerian SAP are (Federal Government of Nigeria, 1986):

* the strengthening of demand management policies

* the adoption of measures to stimulate domestic production and broaden the supply base of the economy
* the adoption of a realistic exchange rate policy through the establishment of a Second-tier Foreign Exchange Market (SFEM)
* the rationalisation and restructuring of the tariff regime in order to aid the promotion of industrial diversification
* progressive trade and payments liberalisation
* the reduction of complex administration controls and fostering reliance on market forces
* the adoption of appropriate pricing policies for public enterprises
* the rationalisation, commercialisation and privatisation of public sector enterprises.

The core policies of the SAP involve measures to (Okongwu, 1987):

* correct for the overvaluation of the naira through the setting up of a viable SFEM, coupled with adjustments to the official rate, and aimed at a convergence of the two rates as soon as possible
* overcome the observed public sector inefficiencies through improved public expenditure control programmes and the rationalisation of parastatals
* relieve the debt burden and attract a net inflow of foreign capital while keeping a lid on foreign loans.

The literature is full of definitions of inflation. Solow (1979), for instance, sees inflation as needing more and more money to buy a representative bundle of goods and services, or a sustained fall in the purchasing power of money. As Johnson (1973) notes, and for most purposes, inflation is generally and conveniently defined as a sustained rising trend in the general price level.

Inflation has become a leading topic of discussion in Nigerian families and the press as its effects penetrate more deeply into the nation's life. It has become something of a platitude to say that sharp, continuous increases in prices are among the most serious economic problems of our time. Indeed, the problem is so great (rising from 5,4% in 1986 to 16,2% in 1987, to 38,3% and 40,9% in 1988 and 1989 respectively, see Table 1) that unless it is brought under control inflation will destroy the very fabric of Nigerian society.

Tables 2, 3 and 4 respectively show the all urban, all rural, and combined rural and urban consumer prices from 1980 to 1989. In each case, and for most of the SAP period, all components of the index rose, and for most of them at a generally higher rate than in the previous year. The index for food has dominated the increase in the aggregated index for most of the period. Other major components of consumer outlay which recorded substantially higher rates of price increases include household goods and other purchases, clothing, accommodation, and transportation.

The trends in price movements were the same in both the urban and rural centres. In 1987 and 1988 the price level was higher in the rural centres than in the urban areas, but this trend reversed in 1989 when the average all-urban price rose substantially by 47,3% to 1 089,2 (1975 = 100), compared with 27,1% in 1988; while at 1 094,6 the average all rural price index rose by 40,1% compared with an increase of 39,9% in 1988.

It is my contention that the current inflationary trend in Nigeria is principally the price of Babangida's SAP - although this article is not intended to be, and should not be interpreted as, a disguised attempt to discredit the idea of structural adjustment. There is far too much poverty, political oppression, social friction, and disease in Nigeria (and the world over) for an 'anti-structural adjustment' thesis to be either justified or justifiable. Implicit in most of the arguments that follow is the notion that there are considerable potential benefits to be gained from a more rational approach to structural adjustment, particularly a more equitable distribution of its gains both nationally and internationally.

Before plunging into the complexities of this paper, a simple enunciation of the general matters involved in the analysis of Babangida's SAP and inflation in Nigeria is necessary. Basically, there are three separate (though interrelated) issues to be addressed or exposed in this contention, namely:

* the SAP-induced forces that stimulate the inflationary trend, the response to which is a general increase in goods and factor prices. This is a concern with the SAP *trigger-mechanisms* of Nigeria's current inflation
* the effects or *costs* of the SAP-induced inflationary situation
* some *innovative solutions* to escape a hyperinflationary situation.

SAP-induced causes of inflation in Nigeria

The literature identifies a number of theories of inflation, namely demand-pull, cost-push, structural, monetary, and imported inflation. The demand-pull paradigm suggests that inflation occurs when aggregate demand for goods and services is greater than the aggregate supply, such that the resultant excess demand cannot be satisfied by running down existing stocks, diverting supplies from the export market to the domestic market, increasing imports, or postponing demand. The cost-push school suggests that inflation arises from increases in the cost of the factors of production, especially rising wages emanating from trade union activities, and embodies a 'sociopolitical view' (Addison *et al*, 1980; 1981; Cobham, 1981). The structuralists explain the longrun inflationary trend in developing nations in terms of certain structural rigidities, market imperfections and social tensions in those nations, including the relative inelasticity of the food supply, foreign-exchange constraints, protective measures, a rise in the demand for food, a fall in export earnings, hoarding, import substitution, industrialisation, political instability, etc (see, for instance, Ghatak, 1983; Kirkpatrick and Nixson, 1976; Thirwall, 1974; Dutton, 1971).

Monetarists opine that "inflation is always and everywhere a monetary phenomenon" (Friedman, 1966:19), hence prices tend to rise when the rate of increase in money supply is greater than the rate of increase in real output of goods and services (Johnson, 1973). On the other hand, imported inflation arises from international trade where inflation is transmitted from one country to another, particularly during periods of rising prices all over the world. As Ojameruaye (1988) noted, inflation is usually the result of the interplay of many factors. This paper abstracts from such theoretical debates and identifies a 'menu' of SAP-induced causal factors of the current Nigerian inflation.

Specifically, the measures under the SAP that have triggered off chronic inflation include the external debt management strategies, second-tier (Foreign Exchange Market) operations, removal of subsidies on petroleum products and fertiliser, privatisation and commercialisation, trade liberalisation, and interest rate deregulation.

External debt management strategies

Under the SAP, three principal external debt management strategies were adopted, namely refinancing, rescheduling, and new loan facility agreements. However, from January 1988 a fourth strategy was smuggled in through the back door, the debt-equity swap option, or the debt-equity conversion scheme. Refinancing refers to a strategy for transforming shortterm debt obligations into longterm ones which are subsequently superimposed on existing longterm debt. Successful negotiations have resulted in signing refinancing agreements on trade arrears that have fallen due. Rescheduling, on the other hand, refers to the renegotiation of the terms of an outstanding debt, which depends on an agreement with the IMF to become effective (Oyejide *et al*, 1985). When a longterm debt is rescheduled only the terms of relevant maturities change, giving rise to a different projected debt-service stream, while the status of outstanding liabilities remain. If the associated interest payments are rescheduled, a new loan is assumed to be committed and disbursed (in principle), and the liability position is adjusted accordingly. So far, a number of agreements have been concluded and signed with individual countries, the London (about US$5 556,3 million by January 1 1990) and Paris clubs, and further negotiations continue. As Anyanwu (1988) demonstrated, refinancing and rescheduling exercises, among other things, might provide some scope to channel resources that would otherwise have been committed to debt-servicing into development projects. But they provide merely a fleeting respite, creating inflation in the domestic economy, since such monies are diverted to financing local programmes in the interim, while repayments soon become due at higher interest costs.

The new loan facility involves the procurement of new external loans, either for trade support, export development or as a stand-by facility. Since the inception of the SAP, a number of such loans have been secured from the World Bank (eg the US$452 million Trade Policy and Export Development Loan in 1986/87), the IMF (US$780 million stand-by arrangement), London Club, and bilaterally. Recently, increasing efforts have been channelled to securing more concessionary loans from the World Bank, the African Development Bank, and the European Investment Bank. As Anyanwu (1987b) observed, such new loans are wont to create fiscal irresponsibility thus feeding the inflationary trend as well negating the aim of putting a "lid on our external debt!". Indeed, with such loans, indebtedness becomes a self feeding process which, after a certain point, cannot be reversed but gains momentum, like an avalanche, at a compound rate - hence Nigeria's external debt rose from N42 226,5 million in 1986 to N227 139,12 million by September 30 1989 (or US$ 29 120,4 million, at an exchange rate of N7,8 to the US dollar). Such new loans increase the domestic money supply which directly feeds inflation.

The debt-equity swap involves the (Sanusi, 1987): "conversion of debt at face value and at prevailing exchange rate for the currency of the debtor country - the proceeds are designated as registered capital investment of the creditor in the debtor country and used strictly to finance an entirely new company, expand an existing one, or recapitalise portfolio investment". That is, it is the process by which institutions, corporate bodies and persons to whom Nigeria is indebted abroad exchange the debt for equity or shares in Nigerian enterprises. By the end of 1989, ten auctions had been held involving the redemption of promissory notes worth US$309,6 million redeemed at an average discount of 48%. Apart from the minor reduction in the nation's external debt, the debt-equity conversion scheme has adverse monetary expansionary effects or aggravates the inflationary spiral (Nair and Frazier, 1987). The induced increase in money supply, once released, is outside the control of the Central Bank, especially as a substantial portion goes to charitable organisations resulting in increased demand pressure and a higher general price level for goods and services.

It is generally agreed that changes in the money stock impact on prices in the shortrun. Excessive monetary growth stimulates aggregate spending and consequently output expansion, provided there are idle resources. However, if output is inelastic, due to technological limitations, foreign exchange constraints or low productivity (which is the rule rather than the exception in the Nigerian situation), monetary stimulus generates inflationary pressures. Indeed, in the period since 1970, the highest average rates of growth in the money stock were recorded in the period 1974-1977 and 1987-1988. These two periods have also recorded the highest average rates of inflation. The growth of the money stock averaged 55% in the period 1974-1977 and 30,3% during 1977-1988, while the inflation rate averaged 21% in the earlier period and 24,3% in the more recent SAP-period. Similarly, the slowdown in the average rates of growth of money in the period 1978-1980, to 25,1%, was accompanied by a deceleration in the average inflation rate to 12,8% (Ahmed, 1989). These go to confirm that the SAP-induced monetary growth has been fuelling inflation in Nigeria.

Second-tier (Foreign Exchange Market) operations

As Anyanwu (1989) observed, the SFEM/FEM/IFEM is a prescription for disaster that is fast destroying the foundations of the Nigerian economy. The consequent persistent exchange rate depreciation of the naira (from NI, 5691 to US$1,0 at the end of September 1986, to N7,8950 to US$1 by mid-February 1990) is welcome by our creditors since Nigeria has been forced to pursue a policy of pusillanimity in a vain effort to achieve a realistic rate for the naira. The continued naira depreciation at the SFEM/FEM/IFEM has worsened and continues to aggravate the inflationary situation in Nigeria (Anyanwu, 1987a). This is so because, since domestic industries depend primarily on imported inputs whose costs have risen via the naira depreciation, costs of production rise leading to higher prices (Ojo, 1989). In addition, the continued naira depreciation has encouraged the smuggling out of goods (especially food stuffs) leading to local scarcity and higher prices. It has also encouraged a brain drain, partly in an attempt to reap the benefits of naira depreciation, the remittances from which are mainly used for consumption activities, again aggravating local prices.

Removal of subsidies on petroleum products and fertilisers

As part of the IMF-World Bank requirement for a reduction in government expenditure, the subsidy on petroleum products (gas, petrol, kerosene, diesel oil, and fuel oil) was reduced in 1986, 1988, 1989, and 1990.

Such oil subsidy withdrawals have fuelled the inflationary spiral in the country. Apart from the general and persistent increases in the prices of goods, transport fares have skyrocketed resulting in lower living standards and an increase in the suffering of commuters, while hunger and starvation are ravaging, given that families spend about 50% of their meagre incomes (where they are employed at all) on fuel or wood and charcoal (Anyanwu, 1987c, 1990a). In addition, subsidies on fertiliser (NPK, Urea, and SSP) were reduced in both 1989 and 1990, resulting in higher farm production costs, lower output and higher prices of foodstuffs. Such a policy is contradictory for an administration that said to be committed to increased agricultural production as well as committed to increase 'non-inflationary growth'.

Privatisation and commercialisation

According to the Privatisation and Commercialisation Decree of 1988, *privatisation* is "the relinquishment of part or all of the equity and other interests held by the Federal Government or its agency in enterprises, whether wholly or partly owned by the Federal Government", while *commercialisation* is "the reorganisation of enterprises wholly or partially owned by the Federal Government in which such commercialised enterprises shall operate as profit-making commercial ventures and without subventions from the Government". Essentially, the central policy thrust here is 'user charges and cost-recovery principles'. With respect to privatisation, a total of 95,3 million shares, with a market capitalisation in excess of N142 million, have been offered for sale by the Technical Committee on Privatisation and Commercialisation.

Government shares in the National Oil and Chemical Marketing Company Limited, the African Petroleum Company Limited, and Four Mills of Nigeria Limited have also been sold, while the shares of thirteen insurance companies are being sold. Consequent upon the commercialisation of parastatals were tariff hikes - for instance NEPA hiked its tariff by 400%, while NITEL hiked its tariff by 900%. These price hikes have tremendously increased production and operational costs in industry, while many small firms have wound up because of unbearable production costs. The result is lower output and the passing on of the higher production costs to consumers as higher prices. Services and information are now extremely costly, and out of the reach of even middle-income earners.

In fact, according to Jose (1989), a calculation done for one company showed that the average electricity cost per kilogramme was 8 kobo in 1988 and rose to 123 kobo with the new tariff. The multiplier effect of tariff increases, as it affects materials and services used by manufacturers, had not been taken into account. It is not difficult to see how these increases affect the prices which the general consumer ultimately pays.

At the same time water rates, medical charges and educational levies have substantially risen due to commercialisation and cost-recovery programmes. There has been a general decline and higher costs in the social service and utility sectors, leading to inflation and increased misery of the unemployed. It is, therefore, not surprising that the water corporations in Nigeria, for example, have called for a special lower NEPA tariff if water rates are not to continue to escalate.

Trade liberalisation

Trade liberalisation, and the consequent competition for increased imports of inputs and manufactured items, has put pressure on scarce foreign exchange and led to increased costs of inputs of raw materials, spare parts, and manufactured goods. Increased costs of importation have also lead to higher service charges and poorer services. Shortages of inputs, such as spare parts for motor vehicles, inadequate supplies of chemicals in water schemes and drugs in hospitals, as well as books and other learning materials in educational institutions, have all resulted in deteriorating services and higher charges in the service sector. Trade liberalisation has also increased the exportation of most goods whose local supply is inadequate, thus creating local scarcity and hence inflation. This has informed the rather belated ban on the exportation of certain food items in their raw form from 1991.

Trade liberalisation, in the current Nigerian scenario, will probably feed inflation both in the medium and long term, since efforts to encourage non-oil exports (one of the principal aims of the policy) has not yielded the expected dividends. This is reflected in the fall of the contribution of non-oil exports to total exports from 8,84% in 1988 to 5,10% in 1989. Moreover, the volume of Nigeria's major export and revenue earner, oil, is determined by its OPEC quota, hence trade liberalisation is not expected to help matters in this respect.

Interest rate deregulation

On July 31 1987 the Central Bank of Nigeria, as part of SAP, announced the deregulation of interest rates. It also abolished (with effect from August 1 1987) all controls on interest rates, which are now determined by the forces of demand and supply. To prop up interest rates the Central Bank has since then tinkered with the rediscount rate and the liquidity ratio, upwards, thus setting the pace for commercial and merchant banks. Banks have over-reacted by pushing up interest rates (especially prime lending rates, now more than 40% in some banks) like they did in the bidding sessions under the SFEM. It has been observed that there is a misalignment of the various interest rates, especially the widening gap between deposit and lending rates, hence the belated though toothless Central Bank directive that the margins be narrowed within stipulated percentages. The precipitous rise in interest rates has rendered many enterprises insolvent, which is nothing but a boomerang on the banks. This has resulted in a dramatic increase in the level of investment, and hence a fall in output level, resulting in inflation (Anyanwu, 1987d). The most seriously hit are the agriculture and smallscale and building construction sectors. They are unable to stand the levels of competition or interest rates because of the long lag time before profits are reaped, and their inability to provide the needed collateral. The result is the stultifying of smallscale and agricultural enterprises, without encouraging savings.

In addition, persistent inflation generates expectations about the course of future prices and puts an upward bias on market interest rates as lenders seek to protect the real value of their funds. As the Governor of the Central Bank of Nigeria, Ahmed (1989), acknowledged, lending rates have been pushed to a height that threatens the life of the non-bank corporate sector and ultimately the financial sector as well. Ironically, the banks have paid relatively low rates on saving deposits, implying that the liquid banks are employing some collective market power to their immediate advantage. With efforts to narrow the wide gap between the lending rates and the rate on savings deposits the banks are also scheming to raise the lending rates, thus endangering investment and output which would have helped to lower inflation in the long run. To worsen matters, inflationary expectations discourage people from taking advantage of the relatively higher savings rates. They prefer to purchase physical assets whose values appreciate with inflation, but which are unproductive. This helps to put pressure on demand and hence fuel inflation further.

Effects (costs) of the SAP-induced inflation

The costs of the SAP-induced inflation are of two broad types: redistribution of income and wealth that serve no economic purpose, and reductions in the level or rate of growth of production. The specific costs are espoused along the following lines.

Income redistribution

The current chronic inflation has resulted in income redistribution in favour of businessmen and shareholders to the detriment of fixed income earners (particularly civil/public servants) and pensioners. Such income redistribution, whether among classes or individuals, has increased personal insecurity and lessened personal satisfaction (even on the part of the beneficiaries), and has heightened interpersonal and institutional tensions. They are thus destructive of the social and political fabric, and ultimately of economic efficiency. Even those who are not really hurt by the inflation think they are, since they regard their gains in money incomes as the result of their own cleverness, or friends in political power, or just good luck. They, therefore, regard the rise in the prices they pay as unjustly robbing them of what is rightfully theirs. Thus, the significant real cost of the SAP-induced inflation is what it does to morale, to social coherence, and to people's attitude toward each other.

Effects on aggregate demand (and hence on total production and incomes)

The current inflation has helped force up interest rates, thus deterring investment, and by reducing the real value of aggregate consumer wealth (such as government debt and money) has inhibited and distorted consumer spending. By raising domestic prices relative to foreign, the current inflation inhibits exports and stimulates imports thus depleting the nation's scarce foreign reserves and worsening the balance of payments position.

Effects on aggregate supply

Our current chronic inflation has tended artificially to raise the production of goods as opposed to human capital, hence firms are encouraged to carry larger inventories than they really need and to build plants and buy equipment sooner than really necessary. This creates inefficiencies.

In addition, scare managerial talent has been diverted from managing production, maintaining efficiency, seeking economies, and innovating, in favour of manoeuvre, speculation, and the search for protection against (or benefit from) inflation.

Our inflation destroys and weakens the usefulness of all types of market information which people accumulate merely through repeated transactions at a stable price level. Thus, with chronic inflation, every transaction requires new information gathering, to find the cheapest sources, the most suitable quality at the price, and so on.

Money and other deposit balances tend to be excessively economised, requiring more frequent settlement of accounts than is reasonable, etc, in order not to hold depreciating money.

Given that under our inflationary period, longterm contracts of all kinds involve greater risk, people refuse to enter upon them. They sacrifice the many real production efficiencies and economies which are made possible by such contracts as well as wasting resources in more frequent negotiations.

It has also been observed that in an attempt to cushion the effects of inflation and/or replace income eroded by inflation (hedging against inflation), moon lighting among civil servants is now on the increase, resulting in absenteeism and low output. Brain drain, and its evil consequences, has also reached alarming proportions (Anyanwu, 1990b). In the same way another hedge, drug pushing, is on the rise leading to increased money supply and demand pressure, accelerating inflation further.

Dampening effect on savings

Due to the inflationary situation, savers find that the value of their savings is being eroded and they are forced to add to their current consumption, hindering capital formation and the nation's economic growth. At the same time, inflation militates against the long term saving plans of consumers and becomes a factor in imposing a suboptimal life time consumption pattern upon the consumer.

Effect on asset preferences of the society

Inflation is causing a shift in the asset preferences of the society, as asset holders switch from money balances to real assets to preserve the purchasing power of their wealth. This effort to shed off money balances increases the velocity of money circulation and the speed of expenditure, thus fanning inflationary forces further.

Exacerbating inequalities in income and real wealth

Since all the factor incomes, except entrepreneurship, are contractual, the entrepreneurs have been able to add to their profits both in money and in real terms due to inflation. This results in increasing inequalities in income and real wealth. This is considered highly unjust in a modern social value system, and has the tendency to set off a chain reaction of price adjustments, wage demands, and financial instability.

Effect on monetisation of the economy

Monetisation of transactions makes possible a higher degree of specialisation, and hence a higher level of productivity than is possible in subsistence and barter systems. However, inflation in Nigeria has increased the risk and cost of using money, leading to adverse effects on the growth and efficiency of the economy by slowing up and even reversing the trend towards monetisation.

Complication of the task for policy makers

Current inflation has tremendously complicated, and continues to complicate, the task of government fiscal and monetary policy makers. Even when they believe that the costs of inflation are vastly overrated, the public does not. Thus inflation not only makes it harder for policy makers to diagnose the factors affecting aggregate demand, but it also forces them to do what may be regarded as 'silly' things. For example, inflation is said to be intolerable, but those things that might be able to deal with it are unthinkable because they involve some cost. At the same time, policy makers take other actions that clearly raise prices, a fact which they cannot afford to mention. This explains why many of our policy makers merely masquerade as credible and committed leaders when in practice and in effect they are not. Thus, one of the worst evils of our current inflation is the accompanying deterioration of the level of public discourse.

Policy recommendations (innovative solutions)

So far, the government's attempt to deal with SAP-induced inflation is to use the classical remedy of restricting aggregate demand by tight monetary policy, as demonstrated in the amendments to the 1989 monetary policy and the 1990 budget. Measures like the establishment of the Directorate of Food, Roads, and Rural Infrastructure (DFRRI), the Better Life for Rural Women movement, and the People's Bank of Nigeria, were expected to help increase food production and lower inflation. DFRRI, which is meant primarily to promote rural development, was set up in 1986 and has four broad programmes: rural road construction/

rehabilitation, agriculture, rural water supply, and rural electrification. Its activities have been criticised on several fronts, including false claims on roads constructed, poor quality roads, and poor funding, quite apart from not engaging in direct food production and so making little contribution to lowering inflation in the country (see Central Bank of Nigeria Annual Reports and Statements of Account, 1986 - 1989 on problems of DFRRI).

The Better Life Programme for Rural Women, initiated by Mrs Maryam Babangida and begun in 1987, encouraged women in the rural areas to form cooperatives, intensify commercial activities, and learn new skills and techniques to improve their standard of living. However, due to allegations of illegal expenditure of public funds (inflationary in itself), and the enrichment of rural and royal women, culminating in legal suits, the programme is being transferred to the newly created National Commission for Women. Thus, apart from glamorous urban fairs and the existence of Better Life cooperatives and literacy classes, it is difficult to see how the programme has aided or will aid in inflation reduction.

The People's Bank of Nigeria (PBN) was set up in 1989 to bring financial relief and a new economic deal to the poor but honest and hardworking masses. It grants between N50 and N2 000 to people in this group at a service charge of 5%. Though it is too early to assess PBM's contribution to inflation reduction, one may say that its activities are good on equity grounds, but it helps to increase money stock while favouring many service activities (artisan and related activities), hence both in the short and longrun its inflation-reduction impact will be minimal.

There is need to abstract from the orthodox stabilisation process and lean more towards heterdox policies with comprehensive, many sided, anti-inflationary programmes. It is better to spend the next decade arguing which medicine cured the patient than which of the causes killed him. We cannot afford to put all of our eggs in one monetarist basket.

Given that Babangida's IMF-World Bank supported SAP was seriously flawed on several grounds, and that Nigeria cannot succeed by adopting the competitive capitalist model, because of its characteristic inherent instability and in order to achieve selfreliant development objectives, Nigeria must draw up her own adjustment programme taking due cognisance of her peculiar conditions and class relationships. The policy implication is immediate dismantling of the current SAP, while the home-grown adjustment programme is made viable by satisfying the following conditions: removal of fundamental sources of continuing inflation in a credible and sustainable manner: carefully putting into effect a set of transitional measures; and ensuring the existence of a broad based political will and consensus to support the measures. Such support should be exploited while it lasts, providing a strong argument in favour of 'shock treatment' over gradualism. We need careful coordination between interventions in prices, nominal wages, and exchange rates, backed up by fundamental reforms, as happened in Argentina, Brazil and Israel (see Knight *et al*, 1986). Specifically, these measures include:

1. Monetary reform: Nigeria has to replace the naira with a new currency and name her new stabilisation programme after the new currency, say *Stable* plan. Such monetary reform will reduce expectations of future inflation sharply. This will increase the demand for money and reduce its velocity. Both employment and output will expand rapidly too. The current liquidity mop up operations are only helping to raise borrowing costs (interest rate) thus stifling investment and production.
2. Exchange rate reform: Both the Federal Government and the Central Bank of Nigeria have an obligation to manage the exchange rate of tue Nigerian currency efficiently and effectively, so as to maintain external stability and cure inflation. This does not mean returning to a rigid exchange control regime but fixing lower and upper bands for our exchange rates, taking into consideration the international values of the world's major currencies.

   In addition, this will go a long way towards generating an investment surplus that inflation would have otherwise swallowed, thus raising output and bringing prices down further. In the longer run, Nigeria should initiate moves towards an African Monetary Union, since acting collectively African states can exert greater influence on the price level while achieving a stable exchange rate regime.
3. Prices and wages policy: First, an unannounced and non-advertised annual wage increase benchmark has to be into place, rather than the over dramatised and much orchestrated four to five year revisions consequent upon trade union demands. Second, a tax-based prices policy (TPP) is required. This would involve an income tax surcharge of equivalent amounts on any company that increases its prices above existing frozen ones within any given year. The penalty tax revenues would be returned to the corporate sector as a whole through a reduction in company income tax rates, thus preserving the company income share of total national income, and mitigating any tendency on the part of companies to forward shift the penalty tax.
4. Fiscal policy reform: There is urgent need to instil fiscal discipline, as opposed to the fiscal irresponsibility of the past years, in government expenditure by initiating proper economic management, coordination and implementation. All non-productive activities and expenditure must be stopped or reviewed immediately. In effect, defence expenditure must be reduced. MAMSER's scope and operations must be reviewed, while the so-called 'better life' programme for rural women should be discontinued. Government cannot continue to be hypocritical in its fiscal reform measures

by 'robbing Peter to pay Paul'. This has been evidenced in the stopping of subventions to parastatals (public corporations), and in fact privatising and commercialising them, but diverting the same money to finance unproductive and uncoordinated programmes which have no benefit for the majority of Nigerians. Also, to improve parastatal management, a number of technocrats have to be appointed to key positions on their own merit rather than on the basis of federal character or 'god-fatherism'. In addition, more imaginative efforts to improve tax collection (such as surveys, auditing of tax returns, an efficient appellate systems, tax payer education, data banks, and computer use, etc) will help to reduce the budget deficit.

With respect to external debt management, Nigeria has to initiate the formation of a debtors' cartel. From the African perspective this would mean seeking multiyear rescheduling with 'locked' interest rates and favourable debt service, while negotiating debt-for-nature swaps. Such swaps would not only be an imaginative external debt relief measure, but also a new environmental conservation tool, since the IMF/World Bank-induced shortsighted economic measures to retire debt in Nigeria are helping to wear away the nation's natural resource base and undercutting the longterm economic productivity needed to lay debt to rest.

5. Monetary policy reform: Apart from bringing back financial regulation, the Government has to adopt a strict money growth rule undertaking not to finance the public sector by printing money or to finance deficits through external borrowing.
6. Committee on wage and price stability: The Government should establish a committee on wage and price stability to provide detailed and timely analysis of economic conditions in those markets and industries which are important to price stabilisation. In addition, it should publish factual information on wages (not increases), prices, capacity, and other developments in particular sectors or industries. The Committee should also hold occasional public hearings on major inflation developments as a means of improving public understanding and providing the public with an opportunity to make its views known. The Committee should provide an early-warning system by developing detailed industry studies to detect emerging bottlenecks, capacity shortages, and other problems that, if left unattended, would result in significant price increases. It is important to note that the activities of this committee would differ from those of the existing Productivity, Prices and Incomes Board (PPIB) which was set up in 1976 to provide guidelines on incomes - including wages, salaries, profits, dividends and rents - and to harmonise the policies on all incomes, especially wages and dividends and the level of prices generally. So far,

PPIB's activities have been merely advisory, while the powers conferred on it have been rendered ineffectual following the deregulation of prices (including wage negotiations). In addition, as Adeyeye and Fakiyesi (1980) observed, many private establishments continue unrestrained and unchecked to employ various means to circumvent the PPIB activities.

7. Incentives for increased investment and expanded capacity: Since the ultimate cure for inflation is flooding the market with goods and services at low cost, effective investment should be a key element of government's comprehensive tax reform and subsidy operation.
8. Commodity Reserves: Since the reduction of fluctuations in commodity prices helps to reduce inflation, to assure adequate commodity reserves the Federal Minister for Agriculture (along with his state counterparts) has to develop a programme that provides for an orderly build-up of farmer-held reserves of commodities during periods of high production and low prices. Here, adequate storage facilities is a *sine qua non*. Under specific conditions, those reserves of commodities will be made available as a means of providing a more stable supply of agricultural commodities.

Conclusion

The IMF and the World Bank economic policy packages, embodied in Babangida's SAP, provide overt encouragement to the fostering of an unregulated, dependent, capitalist development model in Nigeria. In this process the advanced nations are perpetrating the present inequitable international division of labour, selling their manufactured goods, securing raw materials and exporting their surplus capital with maximum benefits. While they preach deregulation, decontrol, free trade and the elimination of subsidies to poor nations like Nigeria, they themselves control their foreign trade, and maintain welfare schemes and various subsidies. Thus, a coordinated choice of several policy 'anchors', as discussed above, is one of the features that distinguish the heterodox experiment from the IMF/World Bank-supported Babangida SAP which has woefully failed, not only in Nigeria but in other countries that have swallowed the bitter pills. There is little doubt that such heterodox policies will create a low-inflation environment with the opportunity to remonetise the economy and create a favourable environment for growth and development.

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Table 1
Composite Consumer Price Index (CPI) (1975=100) and the Rate of Inflation (%) in Nigeria, 1980-1989

Year	CPI	Rate of Inflation
1980	204,8	9,9
1981	247,5	20,9
1982	266,5	7,7
1983	328,5	23,2
1984	458,4	39,6
1985	483,7	5,5
1986	509,7	5,4
1987	561,6	10,2
1988	776,5	38,3
1989	1 093,9	40,9

Source: Central Bank of Nigeria, **Economic and Financial Review**, various years.

Table 2
Consumer Price Index (All Urban Income Groups and Centres: 1975=100) 1980-1989

Year	All Items	Food	Drinks	Tobacco /K'nuts	Accom Fuel/ligt	Househd Goods/ Other Purchases	Clothing	Transpt	Other Services
1980	217,9	233,5	202,7	180,3	199,7	179,9	204,9	193,2	214,4
1981	263,1	303,0	220,1	184,4	219,5	194,5	219,5	194,9	239,5
1982	283,2	327,7	227,7	196,1	232,2	206,9	231,8	206,8	255,1
1983	339,8	401,0	233,7	236,2	270,7	281,2	266,9	235,0	303,6
1984	479,7	585,3	276,4	338,7	345,0	430,8	351,7	277,6	405,7
1985	493,8	575,7	303,5	439,7	372,1	501,5	447,6	281,2	454,5
1986	543,6	619,2	345,3	473,9	391,6	648,1	553,9	346,8	498,7
1987	581,6	652,5	360,4	515,6	414,4	723,9	623,8	363,4	527,0
1988	739,5	902,5	405,8	570,6	441,5	775,7	709,3	385,4	568,5
1989	1 089,2	1 265,1	663,8	845,2	565,4	1 183,3	993,1	554,7	732,9

Source: Central Bank of Nigeria, **Economic and Financial Review**, various years.

Table 3

Consumer Price Index (All Rural Income Groups and Centres 1975 = 100) 1980-1989

Year	All Items	Food	Drinks	Tobacco /K'nuts	Accom Fuel/ligt	Househd Goods/ Other Purchases	Clothing	Transpt	Other Services
1980	203,0	195,2	185,9	236,1	174,2	181,7	279,4	197,9	238,2
1981	245,2	243,9	189,1	276,0	166,7	194,6	326,9	202,9	288,8
1982	264,2	264,6	204,2	289,1	172,7	214,3	349,0	226,6	301,9
1983	326,8	326,4	236,0	329,9	235,2	234,7	415,8	276,2	364,8
1984	455,4	464,9	292,2	449,6	259,6	528,1	588,8	321,1	509,1
1985	482,3	487,7	390,7	564,0	241,8	547,7	633,1	367,9	634,3
1986	504,9	482,3	432,1	692,2	358,4	717,6	725,4	432,8	881,5
1987	558,8	526,4	471,1	802,8	373,0	855,2	810,9	494,0	1 084,5
1988	781,6	808,9	490,2	865,8	345,8	876,3	894,1	575,5	1 164,8
1989	1 194,6	1 130,3	709,5	1 111,2	492,6	1 502,0	1 312,7	779,6	1 287,7

Source: Central Bank of Nigeria, **Economic and Financial Review**, various years.

Table 4

Consumer Price Index (Combined Rural and Urban Centres and Income Groups: 1975=100) 1980-1989

Year	All Items	Food	Drinks	Tobacco /K'nuts	Accom Fuel/ligt	Househd Goods/ Other Purchases	Clothing	Transpt	Other Services
1980	204,8	199,9	188,0	229,2	177,3	181,5	270,2	197,3	235,2
1981	247,6	250,2	193,0	264,8	178,2	194,6	343,7	201,9	282,7
1982	266,5	272,4	207,7	271,7	180,0	213,4	334,6	223,9	276,1
1983	328,5	335,6	235,7	318,4	239,5	328,1	397,5	271,2	357,3
1984	458,4	479,7	290,2	436,0	270,1	516,1	559,7	315,8	496,4
1985	483,7	498,5	380,0	548,7	257,9	542,0	610,3	357,2	612,0
1986	509,7	499,2	421,4	672,7	362,5	709,0	704,3	422,2	834,4
1987	561,6	541,9	457,5	767,5	378,1	839,1	787,8	478,0	1015,9
1988	776,5	824,7	479,8	829,5	357,3	863,9	871,4	552,9	1091,5
1989	1 093,9	1 146,8	703,9	1 078,5	501,5	1 464,2	1 273,4	751,8	1 219,5

Source: Central Bank of Nigeria, **Economic and Financial Review**, various years.