Nigeria's financial system and the world economy today

by Sam Aluko

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1. As the chairman of the National Economic Intelligence Committee (NEIC) of the Federal Government of Nigeria, I send you the fraternal greetings of all the 14 members of the Committee. I apologize for my inability to be present at this conference to present, personally, my short address. This period is the culmination of the 1998 Nigerian government budget determination, at which NEIC is expected to play a role.

2. The National Economic Intelligence Committee was set up by law in 1994. It has the statutory duty to ensure the proper implementation and enforcement of the annual budget of the federal government and, in addition, ensure that the 36 states' and the 774 local governments' budgets are reasonably implemented.

3. Since September 1986, Nigeria has been embroiled in the execution of the World Bank-IMF Structural Adjustment Program (SAP), which, as usual, has relied heavily on the successive devaluation of Nigeria's currency (the naira), as a means of stimulating the growth of the Nigerian economy. One of the consequences of the Program has been a fall in the value of the naira (N) from N1=$1 in August 1986; N1=$0.30 in September 1986; N1=$0.10 in September 1990; N1=$0.04 in December 1994; to N1=$0.012 today. In short, before the IMF-World Bank intervention in the Nigerian economy in 1986, N1=$1, while today, N85=$1. Similar depreciation against all other foreign currencies—guilder, deutschemark, franc, pound, yen, and others—has correspondingly occurred.

However, due to the continued pressure from the NEIC and the support of the Head of State of Nigeria, there still exists an official rate of exchange of N22=$1, mainly for official transactions, about 20% of the total foreign exchange transactions of Nigeria. But the IMF-World Bank, and their Nigerian private entrepreneurs, mainly West Europeans and Americans, are waging a titanic battle to abolish the official rate of exchange and let the naira float in "response to the forces of demand and supply." That response may ultimately make about N500=$1 in the next few years, a level which the IMF-World Bank assume is the real market value of the naira! Ghana's cedi, which was of the same value as the naira and which in 1986 was equal to $1, is today 1,400 cedis=$1.

4. With the massive devaluation of the Nigerian currency has been a significant rise in the rate of borrowing. In 1986, the maximum rate of interest on loans was 11% and on deposits was 7%, a margin of 4% between borrowing and lending. By 1993, the maximum rate of borrowing rose to over 100% and of lending to about 60%, in spite of the fact that the number of commercial and merchant banks in Nigeria increased from 56 in 1986 to 120 in 1993, in addition to over 2,000 discount and finance houses, *bureaux de change,* community banks, and other financial intermediaries that came into existence after the introduction of the Structural Adjustment Program of 1986. Consequent upon the mismatch between the supply of financial institutions, the supply of money, the rate of interest, investment, and production, the federal government of Nigeria intervened through the 1994 budget by fixing the rate of exchange and the rate of interest, reducing the gap between the lending and the borrowing rates to 4%. In 1995, 1996, and 1997, owing to increased pressures from the IMF-World Bank and their Nigerian sympathizers, the federal government began to adopt a policy of guided deregulation of the financial intermediaries and the rates of exchange and interest. Today, while the rate of interest on deposits may be as low as 2%, the rate of borrowing is as high as 40% in some banks, with deleterious effects on investment.

5. While the naira continued to depreciate so disastrously since 1986, wages and other allowances for labor continued to move sluggishly upwards. In the public sector, for instance, which is the largest single employer of labor in Nigeria, wages and salaries had increased by less than three times since 1986, even though the purchasing power of the naira had fallen to about 1/85th. Thus, the average earning of the head of a Federal Government Ministry (Permanent Secretary), or a professor in a university, fell from about $12,000 per annum in August 1986 to about $700 per annum in August 1997. The level of public sector employment fell from about 15% of the economically active population in 1986 to less than 8% in 1997. In the private sector, many

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factories, small businesses, and trading activities had collapsed and closed down since 1986. Those that are still surviving are operating at a productive capacity of below 30% today, compared with about 70% in early 1985. The per-capita national income of Nigeria was about $550 in early 1986, compared with about $330 in early 1997. Nigeria has thus moved from being a middle-income country in 1986 to being about the 33rd-lowest-income country in the world today. Unemployment continues to soar, as more and more workers are retrenched in the public and private sectors of the economy. Misery becomes more evident as the standard of living falls, health facilities decay, and illiteracy rate increases.

6. I have dealt a bit at length on the financial and monetary situation in Nigeria, mainly because that has been the main focus of the Structural Adjustment Program of the World Bank and of those who, in Nigeria, seek to find remedies for the economic maladies of the country. Not much such premium has been paid on the effects of financial derivatives on production, investment, and the standard of living of the majority of Nigerians. Bankers, stock-brokers, economic speculators, and financial intermediaries continue to imitate their counterparts in Europe, America, and the Far East. They forget that only an insignificant percentage of the citizens of any country do and can benefit from financial manipulations and that, eventually, the greed of the few would eat up the needs of the many, and the economy is bound to collapse, as we are beginning to witness in Europe, America, and Asia.

7. It is heart-warming that this conference is being held in Germany, where unemployment is at its highest since before the early 1930s, mainly because of the factors which I have described above and the substitution of money markets for factory jobs, farms, and business ventures. This is because the developed countries have transformed the Bretton Woods institutions from being agencies for production and development in the less-developed economies, into making them depend almost entirely on the stock markets, exchange rates, interest rates, and other financial intermediaries, which make easy money and fortunes for the few at the expense of the many, thus causing worldwide social, economic, financial, and political instabilities and unrest.

8. The world seems not to have learned enough from the 1929 stock market crash, the financial market rumblings in the 1950s and 1960s, and the 1971 financial fiasco, when the Bretton Woods system finally broke down. The stock market crash of October 1987, and the most recent stock market crash of October 1997, including the ongoing financial and monetary crisis in the so-called Asian Tiger countries, which are similitudes of the American-European financial apex, might possibly begin to teach us that the therapy for combatting chronic depression does not lie in the current world monetary and financial system, nor in further currency depreciation, financial manipulation, and maladjustments. The therapy lies in fashioning out policies and programs that promote and develop the real resources of the respective countries and that help them to acquire and modernize their technical know-how and equip their citizens to increase their level of production and living standards for the achievement of peace, plenty, and freedom.

9. Such policies and programs, particularly in the developing countries, include:

a) increasing the level of mass literacy and formal education;

b) increasing domestic technical production through scientific research and investment;

c) improving the domestic and international exchange mechanism of goods and services;

d) the further reduction in the mis-use of the currency, the financial situation, and foreign exchange earnings, including foreign loans and aid;

e) increasing the level of domestic and foreign investment and foreign aid in the real and growth-promoting sectors of the economy;

f) promoting exports and paying economic prices for exports from the less-developed economies, without the "export or perish" syndrome that denies the domestic population their basic needs;

g) paying appropriate wages, salaries, and allowances to domestic workers, so as to stimulate domestic demand and the growth of the economy;

h) discouraging the flight of capital from the poorer to the richer countries, into secret accounts in Europe and America, by putting heavy taxes and penalties on such accounts;

i) protecting infant industries and the emerging economies from the dominant effects of those in developed economies; and

j) reducing the existing and rising debt burden, which further reduces the economy's capacity to earn foreign exchange and increase the standard of living of the debtor countries.

10. It is not enough for Europe, America, and their minions to preach democracy and fundamental human rights as preconditions for economic growth of nations. They must also remember that empty stomachs can seal the doom of even the most vibrant democracy. Germany had a taste of what I mean, during the depression of the 1930s. Many of the developing countries are, today, in worse economic hardship than has ever faced any European nation in history.

11. The National Economic Intelligence Committee acknowledges the collaboration between it and its colleagues of the Editorial Board of the *Executive Intelligence Review* (*EIR*) in the U.S.A. and in Germany in the past few years, during which time they had visited Nigeria, held discussions with the NEIC, and shared ideas, knowledge, and stimulation on the vital and thorny question of reshaping not only the economy of Nigeria, but also of the world financial and monetary system as a whole. May their shadows never grow less!