Can a New Buharinomics Save Nigeria?

Chukwuma Charles Soludo, CFR

African Heritage Institution (AfriHeritage), Enugu

Delivered at the 3rd Anniversary lecture of the RealNews magazine: Oriental Hotel, Lagos: 19th November, 2015

Contents

I: Introduction.

I gave my commitment to the management of RealNews magazine since late May to deliver this third anniversary lecture, and we agreed that given my tight schedule, I could just speak ex tempore or from speaking notes. However, I decided to write down my thoughts a few days ago for the avoidance of doubt. My apologies if you find this a bit tardy. I have taken liberty to slightly modify the topic to reflect my central message.

The timing of this lecture is auspicious—coming in the 6th month after the inauguration of a new administration, and also with a new federal cabinet now in place. Before the government rolls out its full agenda, this is a good time to begin our citizen duty of joining the ever continuous discourse on the economy.Our focus for now shall be pre-emptive and provocative--- to challenge the Buhari/APC regime not only to demonstrate that it can manage the economy better than the PDP but also that it can lay the foundation for sustainably shared prosperity in a post-oil economy.

Let me make three quick points to provide some context to our discourse. First, I supported President Muhammadu Buhari (PMB) over Jonathan not because I was convinced about the credibility of the APC manifesto (and I said so in my article in January this year) but for three reasons. I was convinced that the last economic team was bankrupting the economy and had no clue as to how to fix it. Second, PMB is the first president of Nigeria under a democracy to have seriously desired the job and struggled for it for over 12 years. To me therefore, he must have a few points to prove, and I was willing to bet on a man who purposefully wanted the job than otherwise. Third, I was convinced that it would be in the enlightened self-interest of the APC, once in power to do their utmost to keep power by delivering on the economy unlike the PDP which had taken power for granted. I am still confident that PMB can deliver change (although as I had indicated in my article in January, I didn't believe that any of the two parties could deliver on their manifesto) but he and his team now need to run at the speed of a 1000 km per hour. We must support them to succeed by contributing when we can, and criticising when we must—tough love!I am enjoying my status as 'an independent' (I don't belong to APC or PDP) and I therefore have the liberty to say it as I see it from the balcony!

Second, I am happy that the ministers are now in place, and I believe the president has assembled a team of eminently qualified and experienced Nigerians. A more important point is that it is a team of 'believers'—who share in the mission and vision of APC. So now that a strong team of 'believers' is in place, there can be no excuses!

Furthermore, I read in the media that the Vice-President, Prof. Osinbajo indicated that he is "responsible for the economy", and I believe President Buhari deserves great commendation for this fundamental delegation. No question, the buck stops on Mr. President's table. However, as I argued in my article published January this year – "Buhari vs Jonathan: Beyond the Election" (which Vanguard newspaper still posts on their website under a section captioned 'The Soludo Debate'), I believe the intention of our constitution is that the VP should be the 'coordinating minister of the economy'. Besides being the chair of the national economic council (NEC), our laws make the VP chair of major economic institutions of the federal government. Thus, once a president selects his VP, we should begin to have some ideas about the possible direction of economic policy akin to a party in the UK naming its Chancellor of the Exchequer. Ours is a peculiar institutional design but to the best of my knowledge, these provisions have been undermined in the past (I have thoughts on possible amendment to the constitution so that VPs are not automatic successors to the President in case of 'accident' and to shield the office from the distractions of day to day politics to focus on the economy and no more). President Buhari has repeatedly stated his focus on "re-building" our institutions, and where else to begin the process of systematic dialogue on the economy than the strengthening of institutions for doing so within government? There are other institutional structures it must create/strengthen to consolidate and sharpen what Nigeria desperately needs now: a War Room on the Economy!

The rest of the paper is organized as follows: In section II, we summarize a caricature of the baseline statistics on the economy that PDP bequeathed but which APC/PMB must improve upon. Section III shows that the 'old' Buharinomics of command and control is a tried and failed policy and won't work now. In Section IV, we hint at a few issues the new Buharinomics must take cognizance of if it hopes to build a sustainable, shared prosperity for Nigeria. We conclude in Section V.

II: Baseline Statistics: What is the APC/Buhari Government trying to 'Change'?

Every team serious about 'change' starts with a clear identification of the baseline from which it measures deviations/progress. Nigeria has had 16 uninterrupted years of democracy with the PDP controlling the federal government as well as majority of the states. APC is now in charge at both the centre and majority of the states. A minimum standard for measuring 'change' is the extent to which APC government beats the record of the PDP in measurable terms. As the saying goes, if you can't measure it, you can't improve/change it!

Government must strengthen the National Bureau of Statistics (NBS) and preserve its independence to produce and publish credible national statistics. It needs serious funding. I really wish our policymakers can be a little less careless or casual about the use of official statistics. I criticised the last government for relying on 'estimates' by World Bank staff instead of the NBS statistics. When I hear the narrative so far in the media by the new government regarding the economy, I take it largely as the kind of 'usual propaganda' new officials deploy to show that their predecessors "did nothing" and therefore lay the ground for claiming that they are "doing everything for the first time in our history". Fortunately also, there are many people as well taking a hard look at the numbers and recording scores. At AfriHeritage, we are developing a template for measuring government performance. As Nigeria has largely evolved into a two party state in a democracy, I prefer to frame the discourse on the baseline as 'PDP's legacy and the APC's challenge'!

Since it is the practice to blame the PDP for every ill that befell our country in the last 16 years (and there are many of them) it is also fair to credit them with the positive ones. According to data from NBS, one outstanding legacy of the PDP is that in 16 years it held sway, it more than doubled the GDP of Nigeria (indeed with average year-on-year GDP growth rate in excess of 6% over the past 12 years, the GDP actually doubled within the last 12 years. It met average annual growth rate of about 2% and raised it to 6-7%, led by the non-oil sector. Yes, non-oil sector, and the "diversification" reported in the recently re-based GDP happened within the last 16 years. Will the economy more than double in the next 12 years under the APC? For me, if only the APC can double the size of GDP from about $550 billion to $1.1 trillion in 12 -16 years, and further half the poverty index, Nigeria will indeed be on course to be one of the largest 10 economies in the world by the end of this century.

As at 1999 when PDP came to power, Nigeria was largely a pariah state still lucky to have survived as one indivisible sovereign, especially in the context of the struggle by NADECO and restiveness in many parts of the country. On corruption, Transparency International scored it 1.6 out of 10 and ranked 98 out of 99 countries in 1999. Nigeria was listed among four countries that were non-compliant on the anti-money laundering rules by the Financial Action Task Force (FATF). We could not service our external debt and relied on stressful rescheduling, with all the intrusive donor conditionalities. Poverty was estimated at 70%, and unemployment at nearly 20%. The 1990s will go down in our economic history as the decade of stagnation: when per capita income growth was zero. Average oil price in May 1999 when President Obasanjo took over was $15.24 while stock of reserves was about $5 billion.

After 16 years, several challenges remain and some have even worsened (especially insecurity). Although President Jonathan's regime had the worst economic management relative to the resources at its disposal, it must be stressed that tremendous progress was made in the aggregate 16 years of PDP government. Yes, it should have left more than $100 billion in reserves but left only $30 billion (still about six times of what it met). We also wish that Jonathan's team did not leave Nigeria with unprecedented rate of debt accumulation. But, according to statistics from NBS, the PDP handed over a $550 billion economy (largest in Africa and 26th in the world), with 7.5% unemployment rate (better than European Union, France, Sweden, Belgium, etc although the underemployment figure is much higher); 32%?? poverty rate (as claimed by the former Finance Minister, or 61%??: NBS needs to clarify this claim); a stock of reserves of $30 billion; GDP growth rate averaging 6% over last 12 years; a relatively more diversified economy, with ICT penetration from 0.2% to over 60%, and a new contributory pension scheme now with trillions of Naira in pension fund. Our external debt is down although total debt stock is escalating. Our Gini coefficient (degree of inequality) is not different from China's. Nigeria has consolidated and stronger banking system that currently finances both government debt and the private sector, with a relatively vibrant capital market. The capitalization of the Nigerian Stock Exchange grew from less than N1 trillion to N12 trillion as at handover. For the first time, Nigerian economy is now rated by credit rating agencies (Fitch, and Standard and Poor's). Even on corruption perception, Nigeria is far better today than in 1999, and PDP created the two major anti-corruption agencies--- ICPC and EFCC, and as at 2014 TI scored Nigeria 2.7 and ranked 136 out of 175 countries. PDP secured debt relief for Nigeria, thereby relieving Nigeria from the stranglehold of the IMF/World Bank policy conditionalities. APC does not have to negotiate with Washington on many economic policies. The list is long. The point therefore is that despite the fall in oil price,APC is starting from a much stronger base than PDP did in

1999and the challenge now is to do far better. In the coming years, Nigerians will be asking APC to show us their figures!

III: Avoiding the Mistakes of the "Old" Buharinomics

Nigeria desperately needs the moral force/Spartan discipline and leadership of PMB at this time to fight corruption, terrorism, and hopefully begin to reconstruct the values of a people gone astray. On the economy, it is not going to be an easy transition for PMB.Igbos have a proverb that one does not learn to use the left hand at old age, but my prayer is that for the sake of Nigeria, he would have to do so and quickly too. Many great world leaders have had to undergo this personal transformation to adapt and exploit the levers provided by how the real world economy actually works in order to prosper their people. The former socialist/communist regimes of China and Russia are making tremendous progress on the move to competitive market economies. Many of us started off differently, and I actually made a career (with several books and articles) as an unrepentant critic of the IMF/World Bank's structural adjustment programmes (SAP) in Africa even while doing my hard core economics work. But we have remained pragmatic intellectuals!

When PMB first came to power in 1984-85, the nation was as well in crisis. He did so much within the short time especially on anti-corruption and restoration of national discipline. He inherited a command and control economic policy regime and deepened it (capital, exchange, and price controls; import licensing; indiscriminate ban on imports, rationing of essential commodities; government ownership and control of so-called 'commanding heights of the economy'—banks and insurance, telecommunications, airline, refineries, roads and transport, even manufacturing companies, etc). I recall that it was something like a criminal offence then to be in possession of foreign currency. Exchange rate, interest rate, petrol price and several other prices were largely fixed. In the face of continuing shocks especially the fall in oil prices (in the face of huge debt service payments), relative prices were not allowed to adjust to restore internal and external balances. Rather, even more controls were imposed with all the gargantuan distortions in the economy (and industrial capacity utilization was largely below 20%) and as government could not pay salaries, massive retrenchment of workers was undertaken, but the economic crisis worsened and Nigeria was on the brink of bankruptcy. The economy imploded big time.Unemployment and poverty worsened. It did not work. The successor government faced little choice but to liberalize the economy under the structural adjustment programme (SAP) and Nigeria began the journey to a modern market economy. Of course, the journey has been chequered, and naturally is still a work in progress.

Since 1986, Nigerian economy has changed a lot and my reading is that there is a broad consensus on continuing progress towards a competitive (probably also compassionate) market economy framework. From the snippets of policy since the new government came, there is a growing perception of nostalgia, reminiscing of the 'old good days' pre-1986. There seems to be a growing tension between a tendency to return to the past versus a progressive match to the future. I am not sure how the new wine will fit into the old bottle. T

Let me illustrate with a few examples. First, there is this sense of ambivalence as to whether to remove petrol subsidy or not; and whether government is going to run refineries in competition with the private sector under a subsidy regime or deregulated pricing. I am convinced that PMB has the moral authority and legitimacy to quickly remove the subsidy and privatize the refineries. The fundamental case against subsidy removal is not economic: it is the fact that the citizens do not trust government to optimize the use of the proceeds for their welfare. If PMB does not deal with these issues NOW, I wonder when, if ever. Now that private refineries are coming up, it is time to privatize public ones. It should have been done years ago. The huge benefits are not only economic, but also an anti-corruption move. Let government produce a credible agenda of reforms for the sector and let us have another focused public debate on this subject. You may be amazed that even the so-called 'man in the street' now understands that it no longer makes sense. The fiscal cost of keeping it is unjustifiable and unsustainable.

Second, one hopes that the report in the media about plans to resuscitate the moribund Nigerian Airways is not true. One thing the economy cannot afford at this time of crisis is to invest scarce resources on prestige or white elephant projects when most federal highways are not motorable (certainly none in the South East is motorable) or when we need to be investing tens of billions of dollars per annum on critical infrastructure. Third, the treasury single account (TSA) is a great initiative, and I congratulate PMB for that. However, we don't have to return to the past of having every penny of government largely redundant in the central bank. For an economy desperately in need of stimulation, piling up idle cash at the CBN is not sound economics. We should deploy technology and transparent rules to implement a hub and spoke model of TSA whereby CBN is the hub while the commercial banks remain the spoke. Of course there are some benefits of keeping it at CBN, including possible anti-corruption outcome but as a proverb says, you don't set your house ablaze because of the irritation of a rat in the house. We can rid the system of corruption and realize all the benefits of TSA but still not starve the economy of the necessary liquidity.

Another minor point relates to communication and body language that jolts the market and undermines confidence in the monetary and financial system. When it was widely publicized on two different occasions within three months that "presidency directs central bank to …..", it got many players in the economy seriously worried. For sure, Central Bank is not a government unto itself, and despite the statutory 'autonomy' or 'independence' of the Bank, it must work closely with the Presidency and economic agencies to coordinate macroeconomic policy.Everyone knows that the central bank or INEC cannot survive without the support and active collaboration with the presidency but no one wants to hear that the president has directed INEC on how to conduct an election. There is a reason the APC promised in its manifesto to ensure CBN independence. A central reason is to give the market confidence that the CBN will always act professionally and independently to ensure price and financial stability. It is to avoid the Africa's Idi Amin phenomenon whereby the government of the day may 'direct' the central bank to 'print' money or to take other steps injurious to the economy because it wants to retain power. When the market knows or believes that the central bank is merely an extension of the presidency and takes daily 'directives' from there, the Bank loses credibility and its monetary policy committee meetings become meaningless.My fear is the precedence: we can never imagine how far future presidents can go in 'directing' the central bank on what to do with our commonwealth.

Responding to oil price shock: Exchange and capital controls as 'directive' of the Presidency?

For the better part of this year, the external shocks to the economy have been complicated or accentuated by a gamut of the "tried and failed" command and control policy regime: de facto fixed exchange rate, largely fixed CBN monetary policy rate, crude capital controls, veiled form of import bans through a long list of 'ineligible for foreign exchange', de facto scrapping of domiciliary account established by law, etc. At first, I thought this was the usual kneejerk response of policymakers to a 'sudden' shock. We tried a milder variant of this for a few months during the 2008/2009 unexpected/unprecedented global crisis (with global liquidity squeeze and massive capital flight) but even then, it was communicated as a 'short-term crisis response' and it was quickly dismantled. We now know what works and what doesn't even at a time of crisis. As one reads the confusing statements from government in the media: 'we won't devalue', 'we won't devalue for now', and the emotional debate about 'nationalism' around issues of import 'bans' and capital controls, one wonders whether it is still a 'short-term crisis response' or a permanent shift back to the old policy regimeof pre-1986. Even if the government initially intended it as a short-term measure, interest groups have emerged and are lobbying to make the policy shift permanent. To add to the confusion, the policy is communicated as a "directive" from PMB as widely publicised in the media. Really?

I can write a book on this subject, but for now let me make the following preliminary comments:

i): How a small, open market economy responds to terms of trade shocks and not trivial debate on 'devalue' or 'not devalue': Unfortunately, the debate around the issue has been wrongly trivialized as whether to 'devalue' or 'not to devalue' the Naira. Much of what I have read have little basis in theory or empirical evidence or even counterfactual analysis but a rehash of the sterile but polemical diatribe between 'neo-liberals' and 'neo-socialists', or simply selective partial analysis. This is not helpful and diverts attention from an otherwise serious policy issue.

The issue basically is how a small, open economy such as ours responds to (ever continuous) shocks in today's world. In the specific case of Nigeria currently buffeted by a terms of trade shock, with macro imbalances (especially fiscal and current account deficits) as well as supply side constraints, and with the economy skidding to a halt with rising inflation and unemployment, how should relative prices or asset prices (including exchange rate and interest rate) adjust to reflect as well as shape the economic fundamentals? External shocks do not kill an economy: the choice of specific policy regime is what can lessen or worsen the effects of the shock. How policymakers respond depends on the source of the shock (nominal/monetary vs terms of trade/real sector shock). If you do not allow relative prices to adjust when faced by a terms of trade/real sector shocks, then you put the full burden of adjustment on real variables or quantities (especially output and employment)--- and they will adjust with vengeance because you cannot fix price and quantity. Both economic theory and evidence from around the world are relatively unambiguous: faced with terms of trade shocks, countries with flexible exchange rate adjust faster and better and with less negative impact on growth and employment than those with fixed rate. Put differently, countries that allowed relative prices (including exchange rate) to become the key "adjusters" during terms of trade shocks have almost always done better than those that resorted to price (exchange rate) and other distorting controls.

*ii) From Nigeria's evidence, current policy regime is inconsistent with objective of growth, job creation and poverty reduction:*Since 1973, Nigeria has had episodes of positive and negative oil price shocks, and the impacts on the economy have depended on the policy regime. We can broadly distinguish two policy regimes: when relative prices/flexible exchange rate and quantities were allowed to adjust simultaneously versus a regime of relatively inflexible prices/fixed exchange rate and controls. A casual empiricism nevertheless reveals a powerful result (there are not enough data points to undertake rigorous econometric work, and so we do the usual 'before and after' evaluation).Whether you compare episodes of positive oil price shock or episodes of negative shocks, the regime of flexible prices clearly outperform the regime of fixed rates/controls. Just take an example of the 1981- 91 negative oil price shock with two different regimes of fixed prices/controls of 1981- 85/mid 1986 vs the SAP era of late 1986 to 1991. According to data from NBS, the economy did far better under SAP especially in terms of employment, output growth, poverty and in some years even inflation. Many people don't like to hear this but as one of my mentors, Prof. Emmanuel Edozien always says, you can't quarrel with statistics. Since 1999, relative prices have adjusted and this was central to the minimal impact of the global crisis of 2008/2009. The world economy experienced the 'great recession', and despite the collapse of oil price from \$147 to \$41 at some point, Nigeria still grew by over 6%. Compare with the experience of many other oil producing countries, and the difference in outcomes relates to the different policy regimes. Of course, things are a little more complicated but at least we need to insist that the debate be evidence-based.

iii)The current economic hardship is largelyour choice and not just oil price shock: The current slump of the economy was predictable and largely avoidable. Just as it happened in 1981-85, the economy has been on a tailspin. There is now about 4% growth shortfall relative to past trend, and this cannot be explained by fall in oil prices alone. For the first time since 1990s, per capita growth rate (on annualized basis) is now negative implying that poverty is also escalating; capital market has lost trillions, inflation and unemployment are on the rise. JP Morgan has delisted our local currency bonds and Barclays is threatening same, while the cost of borrowing for Nigeria rises. Foreign capital is on the run, while domestic savings is miniscule. It was 'headline news' when FG paid October salaries, while states are steeping in massive debt.

Policy choices entail costs and benefits, but the preference of one to another should be based on the "net positive effects", depending on the stated objectives. To sustain the current arbitrarily pegged exchange rate will require a steep rise in interest rate and squeezing of bank credit to the private sector. Alternatively, intensifying the ever opaque and distorting controls and 'bans' will also severely harm the private sector. I will be surprised if the productive sector is not already feeling the heat. The irony is that it is the small businesses (which have no voice or power) that are suffering the most. Many are simply being choked to death by the 'controls'.To repeat, the current policy regime is inconsistent with the objectives of creating jobs, growing income and reducing poverty!

iv) There are better ways of implementing capital controls if needed: Some commentators have sought to couch the debate in terms of a struggle between 'market fundamentalism' and 'state capitalism'. Again, this is distracting. Every economy is 'controlled' in one way or the other. The question is what kind of controls or regulations can be implemented to address observed market failures that will be credible, transparent, and without distorting or perverting the incentive structure so that we can have sustainably shared prosperity. Uncertainties about what will be in the 'black-list' tomorrow or next hurt capital flows, while the retroactive 'bans' on pre-existing commitments by banks and producers damage the economy.I support sensible regulations on cash transactions that prevent money laundering but not ones that obstruct the payment system. Some countries suffering from the disruptive effects of massive portfolio flows introduce some taxes on capital flows. We had speed bumps on capital outflow through mandatory holding period but this has been scrapped. We seem to be approbating with one hand and reprobating with the other.The point is to make the rules of capital flow transparent and credible and announce the transition period. We can't exacerbate the impact of external shocks with dramatic policy shocks.

v)Avoiding the Great Mistake of the 1970s: competitive REER is the issue. Perhaps a worrying aspect of the public discourse on exchange rate is the obsession with the level of nominal exchange rate rather than the real effective exchange rate (REER) or volatility of exchange rate. The question that matters most is whether the currency is overvalued or undervalued in real terms. Government has not shown that N196 per dollar as fixed for months now is the rate that maintains a target competitive real exchange rate. Let me make another strong statement: no developing country has diversified its economy in the last 40 years or so, especially into competitive manufacturing with an overvalued REER over an extended period of time. In the late 1960s and early 1970s, Nigeria was in every aspect comparable to Indonesia as agrarian societies before both experienced oil boom in 1973. Books and articles have been published describing Nigeria's 'great mistake of the 1970s'. Indonesia decided on a deliberate strategy to avoid an overvalued real exchange rate, while Nigeria fixed its nominal rate with overvalued REER. Our argument then was that we had nothing but oil to export and therefore would not benefit from a weak currency regime. Indonesia used weak currency to protect its infant industries from imports, thereby encouraging domestic production. After two decades, Indonesia's export of manufactures accounted for more than 25% of its exports while Nigeria's was still less than 1% as was the case at the beginning. More than 40 years since 1973, the debate in Nigeria has not changed, while our comparator countries and rest of the world have moved on. When it suits us, we cite examples of the East Asian countries and the newly industrializing economies, but conveniently ignore their real exchange rate strategy. Even the Communist Party in China knows better. Indeed, China and several Asian countries deliberately keep a weak currency (in real terms) as instrument to protect their economies from cheap imports, thereby creating a productive base for the exports in the future. In Nigeria, the logic is going in the reverse. Oil has indeed been a curse!

vi)Nigeria's experience of competitive REER and outcome: But Nigeria has also deliberately experimented with an undervalued REER even during an export boom (which is typically difficult because of so-called Dutch disease). As Governor of CBN, we deliberately maintained an undervalued REER, and even resisted IMF's advice to shore up the Naira (which would have brought the nominal rate to around N80 to a dollar instead of N117-N120). Of course, that would have earned us street populism given Nigerians emotional attachment to the level of the Naira. But I insisted on not repeating the 'great mistake of the 1970s'. This was the secret why we had the highest rate of reserve accumulation in our history (over $62 billion) even in comparison with other times of oil price boom (and lower average monthly oil price for the 60 months). It was also central to the massive capital inflows into Nigeria at the time such that the CBN became a minor supplier of forex in Nigeria: private sources of forex were dominant (many times we could not sell more than $20 million at auctions even when we wanted to sell $200m). This undervalued REER plus stronger banks following consolidation that could finance the emerging private sector were central to the observed 'diversification' of the economy since 2005. Our calculation is that if we did not do this, the exchange rate during the global crisis would have exceeded N500 per dollar (this story is for another day). The point here is that we have been through this road before, and also made conscious efforts to remedy past errors.

vii)Delayed or dysfunctional adjustment is costly: Crude controls to sustain an artificially fixed exchange rate create permanent uncertainty and the currency remains under siege: it becomes a dead weight loss to the economy! Fixing the rate and reliance on controls to sustain the peg is a casual way to prove to everyone that the currency is overvalued and discernible investors exercise their option to 'wait' or expect policymakers to frontload incentives to more than compensate for the future exchange rate risks they are taking today. In either case, investment and the much needed capital inflows into the economy wait or as is happening now, continue to flow out. It is an irony that in the global economy of today with surfeit of liquidity, Nigeria (with very low savings rate and desperately in need of foreign savings) is suffering from massive capital flight. What a paradox!

A fundamental issue many analysts miss in the case of Nigeria is the link between exchange rate and government revenue. Alternative paths to exchange rate adjustment could have pumped a few trillions of Naira in extra fiscal revenue into the economy and refuelled it. Even if it was just used to pay off the contractor debt, the economy would have been back on its feet. Since N196 is an arbitrary figure, why don't we fix it at N100 and see if any government in Nigeria will be able to pay salaries. This is a mute but powerful point about deciding the choice of the rate.

viii)Lobbying for forex as the new 'oil rent' in town?: We are literally back to a form of import licensing regime, and portfolio carrying 'agents' are back in town to 'lobby' for forex. While the arbitrary list of 'banned' items has left the economy haemorrhaging, those reaping the rents are lobbying to make their gains permanent, while others are lobbying to join the new rent industry. Oil rent is drying up and the new source of easy money is forex. With a black market premium of about 20%, a successful roundtrip creates instant jackpot. Furthermore, if a group can get items in their sector ‘banned’, they will reap the monopoly rent instantly. If you stretch the logic of the ‘ban’, it will be difficult to justify allocation of forex for anything. After all, you can argue that denial of forex should ‘force’ Nigerians to produce just any good for that matter at home or patronize substitutes. After all, during the Nigerian civil war, Biafran engineers were forced by the blockade to “invent” their own refineries, bombs, etc. So, why don’t we close our borders and seek to be ‘self-reliant’ in everything (whatever that means!). No, it is the power and influence of the lobbying groups as well as subjective preferences of policymakers that determine the content of the list. There is no objective basis, and I am sceptical of the ‘national interest’ argument. Let me illustrate with an absurd example. Going by the logic of the ‘bans’, why should Nigeria allocate forex for school fees, medicals and mortgage abroad when we have thousands of schools and hundreds of universities; hospitals etc? So, why not ‘ban’ school fees and medical fees as a way of forcing the elite to patronize our local schools and hospitals? What about mortgages abroad? These three items also cost billions of dollars per annum. We won’t ‘ban’ them because they are goods consumed by the powerful elite and policymakers. That is the problem with this kind of opaque policy regime. So, where do we stop, and who determines the list? As an anti-corruption government, APC/PMB must not be unwittingly creating institutions/processes that by definition are havens for corruption. This policy is creating instant briefcase millionaires while businesses especially SMEs are dying!

*ix)FiveMyths about the relationship between exchange rate/import ban and Nigerian economy:*When a lie is repeated very often, it starts sounding like the truth. Let me add some footnotes to some of the clichés in the public discourse. First, it is claimed that Nigeria is an import-dependent (consumption-dominated) economy and therefore a depreciation/devaluation will not be beneficial. It will take pages to argue against this fallacy but suffice it to say that it is tautological and superficial. I don’t know how many countries that do not ‘depend’ on imports, or where consumption does not dominate aggregate demand. Nigeria’s imports as a share of its GDP do not bear out the claim. Check out the size of imports of other countries. Furthermore, a corollary of this argument is that if ‘devaluation’ is harmful, then a ‘revaluation’ should be beneficial. So why don’t we just fix the rate at N1 per dollar? The issue is that real exchange rate is central to resource allocation in an economy, as well as capital flows, savings and investment. At the extreme, exchange rate and tariffs can combine to provide powerful protection to domestic production against imports. Exchange rate may not be the magic bullet that cures all ills but getting it wrong can cause major havoc to the macro economy.

Second, there are exaggerated claims about the inflationary impact. Inflationary impact depends on other complementary measures but the substantive issue is the sacrifice ratio---what degree of unemployment do we want to tolerate to achieve a 1% reduction in inflation rate?Evidence from episodes of ‘high’ currency depreciation does not bear out the exaggerated inflation fear in Nigeria.The Naira has depreciated by about 22% this year and the ‘increase’ in inflation has not exceeded 1%. Check out inflation figures during the SAP era when Naira floated for the first time with hundreds of percent depreciation. In one year inflation was 5.5%. Even with the massive liquidity injections during the global crisis of 2008/2009 (as every central bank did then) plus over 24% depreciation, the ‘increase’ in inflation rate was only 4%. The issue is whether it was worth the price for preserving employment and maintaining growth of 6%? Some analysts confuse the price level with its rate of change (inflation).

The third myth is that crude capital controls ‘save our reserves’ from being exhausted. I heard the same argument when we were about to migrate from the retail to the wholesale Dutch auction system (RDAS to WDAS). Many argued that our reserves would run out in three months, and I insisted that the opposite would happen, and we won. The market functions on reverse psychology and incentives. When you have the incentives for economic agents to bring their forex and they have confidence that your policy regime is transparent and sustainable, capital would flow in. On the reverse, when they know that policymakers are panicky, it is a confirmation to everyone that they have lost control and private capital runs. If people are unsure how they will take back their money as and when needed, they won’t come in the first instance. Crude controls become a race to the bottom: as private flows dry up, the pressure on official forex pool becomes unsustainable thereby leading to more perverse controls with all the distortions that kill the real economy. A vicious circle sets in. If the current policy regime continues, I can bet that policymakers will soon be under pressure to expand the list of items to ‘ban’. It is simple logic.Alternative adjustment paths could have led to stability in exchange rate and reserves without the distorting controls and bans.

The fourth myth is that if we don’t fix the rate, the currency will depreciate without bound. It is a funny arithmetic. Well, incomes and money supply are not infinite and so the argument is untenable. As you hit the liquidity ceiling, the currency will stabilize and might even start appreciating (in nominal terms). I believe the TSA as implemented, together with a few other measures would since have stabilized the Naira without the capital controls.

The fifth myth relates to import ‘bans’. It is claimed that a country like Nigeria should not import things that it can produce, and that bans will help the economy.Well, this is not just a theoretical debate. Nigeria and the world have more than 50 years’ experience to draw from. It surely appeals to the emotion but that is not how the world works. Otherwise there would be no World Trade Organization (WTO) to which Nigeria is a member, and there will be little trade among nations. Nigerians forget that the major importers of our oil are themselves oil producers. The US has higher oil reserves and produces more oil than Nigeria and yet for many decades it was a major importer of our oil. China is also an oil producer. Imagine if most countries to which we export decide to ‘ban’ Nigeria’s oil on the ground that they ‘can produce’ it (in quest of their own ‘self-reliance’). The debate in the world is how countries like Nigeria can build competitive advantages to produce quality, cheaper goods than others. Besides, analysts need to study episodes of ‘bans’ in our history and show the sectors/industries that emerged and survived under the protection of ‘bans’. There are several concessions and non-tariff barriers (NTBs) available to us under the WTO and other bilateral agreements that we are not even exploiting. With poor electricity, costly finance, little research and development (R& D), decadent infrastructure, insecurity, policy inconsistencies and mostly unemployable graduates of the educational system, does Nigeria now hope to 'ban' its way to prosperity?

x)Clarity on government objectives and CBN to return and focus on its mandate: Government needs to clarify the confusion on its policy regime: is exchange rate an objective, or an instrument or simply a price? Sometimes, you hear officials explaining the 'agenda to strengthen the Naira'--- does this mean we are going into exchange rate targeting? Are we going to target the level of the nominal rate (and what is the target rate?; how do we pick the rate to target)? More specifically, how did we determine that N196 is the 'appropriate' level? Why not: N1 or N50 or N140 or N200 or N230, etc? If we are emotionally against 'high' figures as exchange rates, why not redenominate the currency--- take away two zeroes and at current rates, exchange rate will instantly range from N1.96 to N2.33 to one dollar? Alternatively, are we targeting the real exchange rate? Between exchange rate, interest rate and inflation, we need clarity as to which one(s) is/are objectives and which one(s) is/are instruments. I do not want to join in criticising the Central Bank because it is not even clear whether the policy regime is from CBN or 'orders from above'. A proverb says that you don't tell the king that he is wrong. You rather tell him 'Our father, please take a second look at the issue'. That's all I can say for now!

If it is true that CBN was simply "directed", then it has been put in a rather untenable situation. But if CBN indeed crafted this policy, then reasonable people will have serious cause to worry--- even with our recent experiences? Currently the CBN suffers from the classic Tinbergen's problem: it has far fewer instruments than the myriad of (sometimes confusing) objectives on its plate. Now that the federal cabinet is in place, I earnestly pray that CBN will return and focus on its mandate.The fifth function of the central bank is to provide economic and financial advice to the federal government. The CBN should lead the charge and advise government on a coherent and internally consistent policy strategy. The current one is not the kind of policy that 'will work with time or in the long run'. This is one example where, as Maynard Keynes reminded his critics in the 1930s, "in the long run, we are all dead"! Sometimes on public policy issues, sheer ego can stand in the way of self-correction. We quickly corrected ourselves during the 2008/2009 crisis. I believe the APC/PMB team loves Nigeria enough that faced with superior facts or logic, would make necessary changes. Besides, it is still morning on creation day.Enough said for now!

IV: Towards a "New" Buharinomics

At the end of this century, Nigeria is projected to be the country with the highest gain in its population (close to one billion and third most populous country) and has the potentials to become one of the largest 10 economies in the world. But it could also unravel. The time is now, and the choice is ours. Again, history beckons on PMB--- as the president who came "at the wrong time" according to him but one who seized the opportunity to make history. This year, 2015, is the first year of our second 100 years as a country, and fortuitously Nigerians chose a new leadership this same year – APC/PMB-- to lead the charge. The challenge is whether the 'change' will be fundamental and as the title of a book suggests, 'built to last' or will be merely tinkering at the margins.

Nigerians and the world are waiting for the big ideas (Agenda) that will drive this change. The APC/PMB leadership comes with two unique opportunities or challenges depending on how one sees them: first, from all prognosis of the future of oil, this government has the chance to lay the foundation for a post-oil economy. This won't be a coffee party, and requires bold (out of the box) ideas with execution precision. Second, it will be the first government challenged to embark upon disruptive economic change but without the external agencies of coercion and reward. Under SAP, the need for debt rescheduling forced Nigeria to embark upon the IMF/World Bank sanctioned adjustment; while our quest for debt relief led us to embark upon the first IMF's Policy Support Instrument—PSI). Debt relief has bought us increased policy space, and Nigeria is largely free from the intrusive IMF/World Bank conditionalities. The challenge is how we use such new found 'freedom' or 'policy independence'. Can we truly discipline ourselves to take tough choices or use it as license to be suicidal and take us back to the pre-debt relief era?

There must be something in PMB's natal chart that keeps bringing him back to power as oil prices collapse and the economy/country is in crisis. After his first stint 30 years ago, I believe God has given him a second chance to correct the economic 'mistakes' of his first coming and perhaps finally lay the foundation for a truly great country. For me, the 'mistake' to correct is to abandon or reform the 'old Buharinomics' of command and control economic system. Times have changed, and Nigerian economy is different. Every leader in the world is also adapting to the changing world. Countries such as India, China, Russia, etc are fast learners and trying to beat everyone to the 'game'. We must pragmatically play this 'game'.

Our goal in this lecture is not to outline the elements of the "new" Buharinomics. We expect PMB and his new cabinet, especially the team on the economy, to unveil it soon. Thereafter, we can join the debate. Our central argument so far is that it has to be 'new and bold', and surely dismantling several of the policy concoctions that are badly hurting the economy now should be the starting point.

There are a few issues I would however wish to draw the attention of the team as they craft the 'new' agenda. In thinking about the competitiveness of an economy, I use an architectural framework that organizes the issues around the meta-level; meso-macro level; and micro level. Let me highlight a few salient issues on the meta level and meso-macro level.

a) Building to Last--- meta-level socio-political governance infrastructure

The castle of the new Buharinomics cannot be built in the air. There is a proverb that one must first secure the ground before struggling for the mat. Unfortunately, the ground on which we hope to construct our 100 storey building of hope is shaky and shifting. Nigeria is at war with itself, and is currently on the 'High Alert' list of Failed/Fragile States. When the Funds for Peace (US) first published its 'Failed States Index' in 2005, Nigeria was ranked 54 out 76 countries--- and Nigerians screamed to high heavens to condemn the ranking. Every year since then, our ranking has deteriorated and in 2015, Nigeria has been ranked 14 out of

178 countries (the first 13 are: 1. South Sudan; 2. Somalia; 3. Central African Rep.; 4. Sudan; 5. Congo DR; 6. Chad; 7. Yemen; 8. Syria; 9. Afghanistan; 10. Guinea; 11. Haiti; 12. Iraq; 13. Pakistan). As one studies the 12 clusters of variables used in constructing the index, we are challenged to ponder the outlook for the sustainability of change. Surprisingly, this ignoble status of Nigeria as a 'High Alert' failed state (bequeathed by PDP) does not even feature in our public discourse.

But no sustainable economic progress can happen in this context. The sustained June 12 protests largely contributed to the economic stagnation decade of the 1990s. The North East economy was grossly degraded in a matter of months. The South East has been desolate with kidnappers holding sway and most of the elite largely in 'exile', and now a resurgent movement for Biafra. Thus, whether it is Boko Haram and its quest for a Caliphate (with over 1.5 million internally displaced persons (IDPs); calls for Oduduwa country; increasing tension between the Fulani herdsmen and their 'hosts'; the resurgence of Biafra; etc, there is something we can no longer ignore.

The previous governments lived in denial but there has been a simmering undercurrent and threat to long term sustainability. We have arrested, detained, imprisoned, even gunned and bombed the 'agitators' but the agitations rather rise in direct proportion to the use of force applied. Conventional approach of deploying force and fear have not worked, and probably won't. We have sought to drive the conversation underground. Oil boom has bought us some apparent peace of the graveyard and yet our yearly ranking deteriorates. As we transit to a post-oil economy with all the hardship that comes with the drastic adjustment for a people/elite already glued to certain entitlements, I don't know how the dynamics will play out. It is now time to do what people do in a democracy: dialogue and negotiate openly! Yes, it is time for a Commission to coordinate the open national conversation. I believe that the late Ahmadu Bello was right when he disagreed with Nnamdi Azikiwe, suggesting that we should rather seek to 'understand' rather than pretend to 'forget' our differences. I will add that we should work hard to urgently design institutions to address those differences/grievances in a transparent manner. It will be the first sign that we want to 'build to last'.

A2) Institutions for a competitive, productive economy?

It is evident that PMB cares deeply for systemic change, especially national discipline and anti-corruption.These are critical. But some might argue that to an extent these are symptoms of a dysfunctional system design. Let us get to the roots! Nigeria's unitary federalism with its perverse fiscal federalism is designed to share and consume primary resource rents. Easy money from oil kept the parasitic elite together – united by the sharing business. As we seek to transit to a post-oil economy, to what extent can a system designed for consumption become efficient for production? The perverse incentives embedded in our constitution penalize hard work and enterprise. A national economy cannot be competitive if its constituent parts are not competitive. The last national conference report does not go far, but it provides a starting point. To jettison it without a better alternative will be a historic mistake.

B: Macro-meso level issues:

Let me raise a few issues to consider in the design of the 'new' Buharinomics.

i)Efficient and competitive market economy with a human soul (or what Komolafe calls 'social conscience'). Nigeria has come a long way in developing a market economy and still has a long way to go. If it is not broken, don't mend it! President Obasanjo once narrated his conversation with the late Prime Minister of Singapore. He asked the late Li Kuan Yew to explain the Singapore's miracle to him. According to Obasanjo, Li Kuan Yew told him there was no miracle: all they did was that they got a few things right and kept doing them for an extended period of time. There is a lesson to learn here. The 'new' Buharinomics must resist the temptation of most new governments to think that their mandate is to discredit and replace everything they met. Reducing uncertainties and cost of doing business as well as maintaining macroeconomic stability remain critical first steps.We must avoid 'state overload'. In a regime of weak institutions, entrusting the bureaucracy with excessive discretion to pick winners is a breeding ground for corruption and crony capitalism. From Nigeria's political economy and experience so far, it needs to become a slogan that "government in business is bad business"!

ii)Fix the broken public finance: This is the elephant in the room. I don't envy our new Minister of Finance who must fix the public treasury. As I listen around, I can hear a sonorous song by all the governments in response to the current crisis and its popular refrain is: 'give us more money to spend'! Given the short-term electoral cycle, it is evident that most governments want to avoid the painful adjustments required to put back their public finance on a path of sustainability because that could offend voters and make them unpopular. Everyone is relying on increased taxation and borrowing. But the previous government loaded the public finance with an overload of debt at a time of unprecedented oil boom. The leg-room for more debt is there but definitely not much. The PMB team must not treat this oil price shock as temporary and believe it can borrow its way out of it. We must plan for the long haul and also keep an eye on the balance sheet of the central bank and commercial banks vis-à-vis public debt. I worry more about the crowding out of the private sector as governments compete with it for debt.

The APC/PMB government must establish its reputation on public finance. Is it going to be the tax, borrow and spend party or a wealth creator? How does it intend to reorganize government to free up resources? How does it intend to negotiate or deal with the vested interests in preserving the status quo, especially the national assembly? State government debt is a time bomb for the nation. The new team must take a serious look at the Fiscal Responsibility Act--- it needs serious review and tightening otherwise 'state bailout' will become a permanent feature of our public finance.

I have read a lot of wonderful proposals about a welfare system--- conditional cash transfers, unemployment benefits, social investment, etc. Great ideas! Do we need it? Yes we do. Can we afford it at this point in time? I am not sure. I have just a few words of caution. First, we must avoid the pitfalls of the Western welfare system that has become a trap for many (created generations of indolent, entitlement-dependent, non-working households).

Government must avoid institutionalizing the “dash” culture (a culture where people expect something for nothing). Once you start, a welfare system is not easily reversible. While we struggle to wean Nigeria off the oil rent, we should not replace it with another entitlement culture. Second, we must do the math properly and avoid the Jonathan’s open air announcement of wage increases before anyone tried to crunch the numbers. The result was that for five years, the total recurrent expenditure exceeded total government revenue. Every penny of capital spending was borrowed. Can APC/PMB reverse the trend and ensure a recurrent expenditure of no more than 80% of total REVENUE, or alternatively a recurrent of no more than 50-60% of total budget? Where is the statistics to use for this welfare payment? We know how states manipulate the school enrolment figures to get more money from Abuja. There is work to do before you roll out, please.

We recognise the dilemma. There is pressure to fulfil campaign promises (which are largely untenable and could bankrupt the country) versus trying to pick the pieces and put them back on a sustainable path. In my article in January, I stated that none of the two parties would deliver on their promises given the state of our public finance--- except of course it wants to be suicidal in tipping us off the fiscal cliff. The APC/PMB team needs to weigh this carefully.But let us be honest: how many Nigerians voted for PMB because of the APC manifesto? My reading is that the last presidential election was more a referendum on President Jonathan’s tenure and a little bit about Buhari’s moral force as well as the powerful coalition (under a two party system) that propelled APC to power. It is time to go on a retreat: roll your sleeves and with your laptops, and start crunching the numbers. So far, they don’t add up, but your mandate is to make them add up. Already, you have done a good job of convincing the public that you met a ‘total rot’, and so we can understand if you tell us you can’t deliver on those promises (although many of us knew from the beginning). Just come clean and move the country forward. After all, even during the oil boom, the PDP never delivered on its election manifesto as well (compare the various glossy election-time manifestoes with the actual programmes implemented). Someday, we shall get there but for now, you need to get us out of the crisis. The critical first step now is to regain the lost momentum on growth, and then crunch the numbers on the ‘social spending’ before taking a plunge. It is better to err on the path of a delay than to rush in and rush out.

iii) Declare National Emergency on Industrialization

The new Buharinomics must articulate the five big ideas/programmes to drive the vehicle of change. Where are the iroko trees of the change mantra? Let me suggest that one of them should be a national emergency action on industrialization. Nigeria’s urbanization rate at 5.2% per annum is one of the highest in the world, and with a rapidly growing population and millions entering the labour market every year, creating value-adding jobs for these clustering urbanites will be a fundamental challenge. We must maximize the potentials of every sector in job creation including the hitherto dormant solid minerals sector and then accelerate the transformation of agriculture. But the overarching emphasis of the APC manifesto on solid minerals and agriculture as its own ‘new economy’ is misplaced. An Igbo proverb says that a person who sells a dog and buys a cat still has a squatting animal in his house. Oil, agriculture, and solid minerals are all primary commodities subject to extreme volatility. If job creation is the central objective, both sectors won't deliver much over the medium term. Indeed, as we modernize agriculture and its productivity rises, total employment in the sector declines. Manufacturing and services remain the key for the future.

It will task our policy and execution entrepreneurship to the limit to break into the club of the newly industrializing countries. China is now running out its rural cheap labour and manufacturing wages are beginning to rise. To continue to compete, Chinese firms will have to relocate to cheaper cost locations (just like the Japanese firms relocated to many East Asian countries in a phenomenon called the 'flying geese model'). Nigeria must position itself to be the preferred location for these flying geese. We need bold targets, a plan, and actions. For 53 years since the first national development plan, we have tried all kinds of strategies to industrialize (including nationalization, indigenization, self-reliance, import-substitution, free market strategy, etc). There are ample lessons from the rest of the world and from our own history. We should build on those lessons to now set and implement an ambitious national plan to industrialize. Indeed, emphasis on solid minerals and agriculture could become integral part of the industrialization strategy--- as we should aim to export only processed minerals and agricultural produce. For example, can APC set a 20 year audacious agenda (2035) for Nigeria to achieve manufacturing as share of GDP in the region of 30%, and for manufactured exports to account for at least 20-25% of exports?

It is a doable target, requiring activist governments at all levels as promoters. To work, Nigeria would have to unleash state and regional competition. Attempt to drive it from Abuja will fail as usual. The starting point is to constitute urgently a team of out-of-the box thinkers to come up with a seemingly 'crazy plan'. For example, the Federal government might have to rethink its monopoly rights over solid minerals. If I have my way, I would immediately remove all fees/commissions on capitalization of manufacturing firms; instantly reduce corporate tax on manufacturing to 10%--- to signal the national focus to the world; and states to retain 50% of all corporate taxes from their states as own revenue. I honestly believe that we should seriously debate the tax code and tax rate. I have a view that we should actually drastically reduce corporate tax rate at this time: it is too high (let's debate!). I am just thinking on my feet, but a little further reflection will suggest several 'simple' but powerful policy changes that can ignite action beyond the 'usual' catalogue of constraints to be removed. Manufacturing as a share of GDP is miniscule and hence the initial fall in tax revenue will be insignificant but the revenue will be huge in the future as the sector explodes. We can limit the national honours in the next five years to appreciate people who have excelled in creating wealth and jobs. Nigeria needs a war room and trading floor in the Ministry of Industry, Trade and Investment (akin to what Ron Brown had in the US under President Clinton) and we need to dismantle the huge public bureaucracies and give private enterprise a breeding space to prosper and create jobs.The above is just illustrative, but many of the ideas that will unleash a boom will require changes to the constitution.

The new Buharinomics must take a position on the EU-ACP Economic Partnership Agreement (EPA). How will the ECOWAS common market prosper in the face of EPA? We had a vision for our Naira to become the de facto ECOWAS currency and I am convinced that Nigeria will ultimately return to a variant of our four-point strategic agenda for the Naira, including redenomination of the currency. As we envisioned under the Financial System Strategy, 2020, Nigeria can and must become Africa's financial hub. Government must expedite action in setting up the international financial centre.

iv) Developmental Exchange rate strategy:

At the heart of the new Buharinomics should be an exchange rate strategy that avoids the great mistake of the past. The market for nominal exchange rate in Nigeria is an imperfect market given the position of government as dominant supplier of forex in most cases. Thus, a 'market determined exchange rate' in the circumstance is both an art and a science. It requires a great deal of skill to get it right. The objective however is to have a stable (not fixed) nominal exchange rate that avoids an overvalued real exchange rate. We must have a path of REER to target, and skilfully manage the evolution of the nominal exchange rate to maintain a competitive real exchange rate. In other words, nominal exchange rate adjusts to maintain a competitive REER. We can learn a lesson here from the Communist Party in China. This strategy is critical for the success of the industrialization objective, reserve accumulation, capital inflows, internal and external balance, and several other macro objectives.

It is in the light of the above that I believe that the current debate on exchange rate is the wrong debate.Debating whether to 'devalue' or 'not to devalue' means we have already accepted a 'fixed' exchange rate system (since devaluation means moving from one fixed point to another). Are you devaluing from N196 to what, and for how many hours/days/weeks will it remain fixed? It is the wrong debate. Our position is that Nigeria should maintain a flexible nominal exchange rate system that avoids an overvaluation of the real exchange rate. We have done it before, with great benefit to the economy. The de facto fixture of the exchange rate at N196 is a great mistake.

V: Conclusion:

Let us conclude. A fundamental challenge to the APC/PMB team is that their's is an agenda with a deadline. It has basically three annual budgets and no more than 7,000 hours (if it works 8 hours a day) for Nigerians to SEE the change. As the saying goes, you don't have a second chance to create a first impression. It is going to be a thankless job as no one gets applause for managing an economy in a crisis. But that is what Nigerians employed them to do. Some elected officials make the mistake of postponing fundamental changes until their second term. It backfires often. My advice is to install all the pillars of the disruptive change in the first year and do all the battles and bargaining with relevant interest groups. If the change is a credible one, by the third year, the pain might have turned into gain. With the full team in place now, we must now turn the page from the Book of Lamentations, and give the people hope that soon, they will start singing from the Psalms of David. For the rest of us, we can only work, watch, and pray that the new Buharinomics can indeed usher the change that Nigeria needs.