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AN OVERVIEW OF THE ECONOMY

WITH EMPHASIS ON EMPLOYMENT AND SOCIAL ISSUES

Mr. Chairman

Distinguished Guests

Members and Friends of HBSAN

The 1989 Pre-Budget Review Workshop has come at a time when very sober reflection about the economic realities facing the nation and rededication of resolve to see SAP through to successful fruition are both sorely needed. Once again, the bottom has dropped out of the crude oil markets and so economic policy makers must face up to increasingly limited and uncertain resources available to fund Nigeria's economic development.

My assigned task is two fold. First, to examine recent economic trends and developments within an overall global context so as to set the stage for formulating useful inputs into the 1989 Budget process. Secondly, there is an added dimension, that of placing this economic overview in the context of the broader, long term perspective of employment and social issues.

This second dimension is particularly appropriate since the outcome of SAP (or its successors) will increasingly depend on the public's willingness to continue shouldering sacrifices and cuts in living standards until sufficient investment funds are attracted to economic ventures which can trigger sustainable growth. Continued sacrifices will require the public to see some "light at the end of the tunnel" and to have faith that the economy is being managed in the public interest.

Paper delivered at the Harvard Business School Association of Nigeria 1989 Pre-Budget Review Workshop on Tuesday, 11th October, 1988.

My plan is to break this topic into four parts:

(1) brief assessment of the current Nigerian economic scene,

(2) analysis of the major economic forces at work,

(3) definition of the key economic issues to be faced, and

(4) discussion of the related employment/social context within which economic policy must be developed.

My task therefore is to set the stage for a realistic look at the Nigerian economy within the broader social context. My main message will be that the enormous potential of the Nigerian economy can be unlocked by continuing to unleash the private sector and free market forces plus managing the economy in the public interest.

CURRENT ECONOMIC SCENE

Assessment of the current economic scene has been made infinitely easier by the timely publication by the CBN Research Department of "Developments in the Nigerian Economy During the First-Half of 1988." I will quote liberally from this source and wish to commend the CBN for this useful addition to the analytical tools available to those interested in the Nigerian economy.

Lets keep our assessment brief by focusing narrowly on four policy objectives of the 1988 Budget and then commenting generally about the Budget Deficit and Balance of Payments situation.

The overriding policy objectives of the 1988 Budget were -

(1) economic reflation,

(2) economic growth,

(3) control of inflation, and

(4) employment generation and economic welfare.

Taking reflation and growth together, we see some positive developments according to CBN in the first-half of 1988. The productive sectors expanded appreciably. Agricultural output increased by 3.7% versus first-half 1987, while industrial production and mining output grew by 8.3% and 11.5%, respectively, over the comparable 1987 period. In recent months, we have had rather mixed news with very favourable rainy season offset by increasingly troubled crude oil markets.

Reflationary programmes were left entirely to the public sector and focused largely on non-capital items unlikely to generate significant ongoing linkage to the rest of the economy. As anticipated by Chief Shonekan in the 1988 HBSAN Budget Review Workshop, government also required some lead time to gear up to higher spending levels and its focus of certain spending on imports has not, of course, served to stimulate the domestic economy.

The inflation scene worsened significantly from the past exemplary control exercised during the early days of SAP and SFEM. Consumer prices recorded sharp increases in the first five months of 1988 by rising 15.7% and 23.9% over the averages of the last five months and first five months of 1987, respectively.

The food index was particularly hard hit. It rose 21.6% and 32.5% over the last five months and first five months of 1987, respectively. The food element was, in fact, largely responsible for the overall sharp rise in the consumer price index.

The two major reasons for these strong inflationary pressures were the poor harvest brought on by drought conditions and government's reflationary policies, including freeing up of wage and salary markets. This audience will readily recall that these forces were at their peak in March/April of this year and led to public opposition to petrol subsidy removal - which in my view is an essential step in any sound economic programme but which equally illustrates that the public will set limits beyond which it will not be pushed.

Probably, the good news on the inflation front is that there was virtually no sign of reoccurence of supply problems which have been a chronic illness in the economy previously and for which SAP has provided a complete cure. This fact, at least, bodes well for less inflationary pressures ahead.

Our fourth and last policy objective was that of employment generation and economic welfare. On this front, progress has been meagre, at least according to available statistics which I believe bear out most of our own observations as does the increasing evidence of public disillusionment with SAP.

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In the first place, unemployment cannot be seriously reduced by the National Directorate of Employment Scheme which has been targeted to open up about 25,000 new jobs during 1988. Welcome as these new jobs are, these gains could be largely offset by retrenchment likely to take place within the public sector as commercialization and contraction of government spending accelerate in the future. More importantly, as I pointed out at the 1987 HBSAN Budget Workshop, Nigeria faces a huge employment generation problem. I estimated then that Nigeria needs to add nearly one million jobs annually at the current rate of population growth.

We are well aware that graduate unemployment is at high levels as is underemployment. Further, available unemployment figures (for "lower grade" workers registered at unemployment exchanges in the first quarter 1988) indicate a sharp 22.5% increase over the comparable 1987 period.

We also know that industrial relations have worsened during 1988 with Government intervention in the organized union movement and with 66 trade disputes, involving 49 work stoppages, being recorded in the first 6 months of 1988 vs 7 in the same period of 1987. Perhaps these events have been small prices to pay for a return to free wage and salary negotiations but they do indicate, as was made clear during the petrol subsidy controversy, that employment and employee welfare issues are increasingly critical for this government to address.

Lets now briefly review the mid-year figures for Government Finances and Balance of Payments before getting into further analysis.

Key Government Finances data are as follows -

	1988 (Jan-June)	1987 (Jan-June)	% Increase
Revenue			
Total Federal Collected Revenue	N13,086 m	N 8,969 m	65
Oil Revenue	10,654 m	6,421 m	66
Federally Retained Revenue	7,598 m	5,722 m	33
Expenditure			
Federal Expenditures	13,043 m	6,972 m	87
Deficit	5,445 m	1,250 m	336

This alarming increase in deficit (which was targeted at N8,586m in the 1988 Budget and now threatens to exceed N10,000m) is largely due to increased funding of state governments, payment of internal and external debt charges, and increased outlays on administration, economic services, and social and community services. Without going more deeply, let us simply record that the budget deficit at mid year has been increased by N1,153m, representing a revenue shortfall of N257m and expenditure excess of N896m.

When one recalls the January - June 1986 deficit was only N386 m, this year's mid-year deficit of N5,446m (which represents over 70% of Federal Retained Revenue) appears to be sufficiently out of control to indeed bring this audience to sober reflection.

The Balance of Payments picture is just as sobering as the position weakened considerably at mid year versus mid-1987. To quote the CBN report referred to above, it states on page 6 that -

The BOP picture is also sobering as the mid-year position weakened considerably = N6,600 m. vs. N2,843 m.
. overall deficit = 6,600 m. vs. 2,577 m.
- debt service → 10,883 m vs.
. funded by → N6,450 deferral of debt payments + N1,119m drawdown of external reserves.
. current account was favourable → N6,600 m. vs. N2,843 m.
→ improved trade position partly offset by ~~def~~ worse deficit in services, investment income + unrequited transfers

"The overall deficit stood at an estimated N6,599.9 million compared with N2,842.8 million in the first half of 1987. This deterioration was traceable to scheduled debt service obligations which amounted to N10,883.0 million in the period compared with N2,576.5 million in the comparable period of 1987. The current account, however, recorded an increased surplus compared with the same period last year. The overall deficit was financed by the deferment of N6,449.5 million due as debt service payments, and the draw-down of external reserves by N1,118.9 million."

"The current account recorded a surplus of N3,224.2 million in the period compared with N2,450.1 million in the first half of 1987. The merchandise trade account recorded an increased surplus over the first half of last year. However, this was partially offset by widening deficit on services, investment income and unrequited transfers. The merchandise trade account showed a surplus of N8,616.0 million in the current period compared with N6,191.3 million in the comparable period of 1987 while the deficit on services, investment income and unrequited transfers amounted to N5,391.8 million compared with N3,741.2 million in the first half of the previous year."

External assets at mid-1988 stood at N8,832m ($2,048m) versus N5,610m ($1,406m) at mid-1987 and N7,962m ($1,923m) at year end 1987.

The good news on current account is being offset by inability to service (or so far to reschedule) debt obligations and the good news on external assets is modest comfort given the recent break in oil prices. Nonetheless, debt rescheduling and cutback on imports could bring a significantly improved BOP situation in the next few years, particularly since the World Bank and Japan have $500m and $200m loans waiting in the wings once the IMF letter is renewed.

To recap, 1988 has thus far witnessed a reasonable level of growth accompanied by cost push inflationary increases, little or no improvement in the employment situation, enormous increase in Federal Government deficits, and mixed news on the balance of payments/external assets front. Even without the recent oil price collapse, the picture is sobering and calls for realistic assessment of Nigeria's policy options as part of the 1989 Budget process.

ECONOMIC FORCES AT WORK

An equally brief analysis of the major economic forces at work (in their global context) will help us narrow down the policy options available and define the key economic issues which should be the focus of today's discussion.

Lets deal briefly with eight forces at work -

- world economy
- oil markets
- non-oil export markets
- foreign exchange
- external debt
- foreign investment
- commercialization/privatization
- globalization of markets

World economy - the current outlook is not particularly threatening to Nigeria since forecasts are for relatively strong economic growth for the OECD countries in the 2.5 to 3.0% range for the rest of 1988 and throughout 1989. This relatively good news should not provoke complacency, however, since the major countries (G-7) have their own preoccupations to sort out - particularly the U.S. as it faces adjustment of its twin deficits in its federal budget and current account; Japan and Germany as they respond to pressures to expand their domestic economies and "invest" their large trade surpluses; and the various trading blocs (including the GATT negotiations popularly called the Uruguay Round) as they try to work towards increasingly free trade policies without taking a detour towards protectionism. While the LDC debt crisis was still a "hot" topic at the annual IMF/World Bank meeting, the G-7 countries are still

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far apart as to solutions, so we cannot count on any major breakthroughs in the near future. There also is no apparent relief from the overall downward pressure on commodity prices and, if anything, the increased competition from the Far East (particularly the NIC's) can only be expected to intensify. In fact, with the single exception of ODA funding, the global economy can only be expected to be increasingly competitive and demanding in its dealings with Nigeria and other African countries generally.

Oil Markets - the recent break in the oil markets is only one more evidence of the global trends at work. Global oil markets have declined as a percentage of total energy consumption, while oil consumption is growing marginally and only recovered in 1987 to 1980 levels. Non-OPEC countries have gradually eroded markets once served by OPEC. All of this has led to recent moves by selected OPEC members to retreat from policies which protected both volume and price and to shift to policies which build market share and entrench oil prices at a lower and volatile level which will return the competitive advantage to those countries with the largest reserves and lowest cost production.

This shift continues to drive a fundamental restructuring of the world oil industry, which is producing shifts and adjustments in the strategies of all participants - producing countries, consuming countries, and private companies alike. While Nigeria is in excellent position to defend or even enhance its market share, most industry observers do not see a price recovery until well into the next decade. We must recognize that Nigeria faces an externally controlled market for its major foreign exchange earner and it is not pragmatic to count on a substantial recovery from today's depressed levels. Today's levels incidentally will provide Nigeria somewhat less than $4,000m net FX earnings versus the $5,500m level counted on in the 1988 Budget.

Non-oil export markets - while the downward pressure on commodity prices generally continues to be the trend, there has been a steady, sustained growth in world trade virtually without interruption since World War II and particularly favouring industrial products (including processed commodities). The recent economic success stories - South Korea, Taiwan, Singapore, Malaysia, etc. - have simply copied and improved on the success formulas of Japan and W. Germany. The major lesson learnt is that successful economies develop outward oriented economies which favour exports based on a sustainable competitive advantage and then force domestic savings, investment and living standards to be structured to support the desired growth and export targets. This formula sounds somewhat oppressive (and certainly is the reverse of Nigeria's experience up until SAP was introduced) but it is increasingly evident to all observers that the results speak for themselves.

In fact, one of my partners recently returned from the Seoul Olympics with the observation that he had learned two lessons. First, that sports was a major business and that any nation or individual wanting to win gold medals must compete at a worldwide standard of organization and performance if they were to have any chance of success. His second lesson was that, judging from the South Koreans, this same Olympic drive for success had to be carried over into the arena of economic and business competition for any country (including Nigeria) to be successful today.

In my view, these lessons are the right ones and they simply underscore the need for competitive non-oil exports if Nigeria is to earn the foreign exchange required for its economic development.

Foreign Exchange - Nigeria's need for foreign exchange is obvious and the lesson of SFEM is that adequate supply is available for all Nigeria's needs provided the FX rate is allowed to be determined by free markets. Recent policy moves have, however, tended to indicate the return to the days which encouraged imports and discouraged exports. Attempts to jawbone FEM and to keep the autonomous rate under N6:$1 simply starve the economy of needed foreign exchange and undermine the basic foundations of SAP. Such policies encourage imports, air travel, round tripping between FX markets, etc. while holding back exports, foreign investment and return of flight capital. Such policies should be looked at realistically, setting aside pride and optimism about crude oil prices, and steps should be taken to return to free market solutions which introduce incentives and maximum competition so as to attract foreign exchange at the lowest possible rates. In a floating rate global market, there is no other strategy likely to meet our needs.

External Debt - the past ten years have seen Nigeria go into debt to the tune of some $26,000 m and to now face the consequences during a period of declining oil revenues. The result has been SAP - a Nigerian solution - which has largely rebuilt credibility with foreign lenders and with key ODA sources such as the World Bank. It appears that rescheduling of $5,300m debt and ODA loans of $700m have been recently finalized, subject only to renewal of agreements with IMF on the Nigerian economic programme. It is clear that Nigeria is being treated at least as favourably (if not preferentially) compared to other high debt developing countries. It is also clear that new debt will not be forthcoming without a clear programme acceptable to the lenders.

With daylight now appearing on the horizon, it should, therefore, be timely to ask what is the role which future external debt should play. Part of the answer will, of course, remain in the hands of the foreign creditor, particularly as to terms and conditions. For example, we can probably expect major public sector projects to be increasingly financed on a project basis with revenues earmarked specifically for debt retirement.

As Nigeria gradually retires or reduces its debt burden, new external debt will increasingly become available and this policy issue more important to define. The resulting debate can become complex but my view is that the simple approach of borrowing externally for only those economic projects which can stand on their own feet without government guarantees will prove to be the best approach for all parties concerned.

<u>Foreign Investment</u> - the alternative to external debt has been discouraged for at least the past decade. Foreign investment is not coming to Nigeria for very simple reasons. Nigeria's current incentives and investment policies are not competitive with other countries trying to attract foreign investment. Moreover, the lack of aggressive marketing and promotion of Nigeria's increasingly favourable story help to reduce inward capital flows to a level relatively insignificant in terms of Nigeria's total investment needs. Lastly, basic attitudes in Nigeria - at the policy and the bureaucratic levels - are perceived as negative by foreign investors.

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Again, like the case of external debt, Nigeria needs to decide on the role foreign investment is to play and then structure the investment climate (incentives, regulations, attitudes, etc) to meet its objectives. No significant impetus from new foreign investment can be expected until this change of mind set occurs.

Existing foreign companies are, of course, rationalizing, restructuring, making acquisitions and undertaking limited new capital investments. They are basically protecting or enhancing present investments but not yet undertaking investments which involve new capital inflows.

<u>Commercialization/privatization</u> - this policy initiative is now getting off to a good start and has great potential due to the past history of low returns on parastatal investments. We can learn a lot from the UK example under Thatcher. The process can be long drawn out - since parastatals must generally be fundamentally restructured first to become autonomous commercial enterprises and, once that is accomplished, then privatized by sale of shares to the public. The UK experience indicates the need to encourage systematic efforts to put the various parastatals on a sound footing with long term economic returns and efficient goods and services as the overriding objectives. The typical experience offshore shows (a) that management control must shift to the parastatal and then to the new shareholders; (b) that free market strategies and open competition should be pursued; and (c) that regulatory systems will need to be developed to protect the public interest.

Nigeria will, of course, need to develop its own commercialization/ privatization formula to be successful in its own political/economic/ social context. The entire initiative deserves strong private sector and international support since it is a bold and far reaching initiative indeed.

Globalization of Markets - our analysis would not be complete if we did not touch briefly on the phenomenon of global markets and competition. Global markets and competition are no longer trends but realities. The major force behind globalization has been technology - particularly communications, transportation, and travel. We also see the result in worldwide distribution and marketing of branded products, in national capital markets merging into a global capital market, in generally falling tariff and non-tariff barriers, and in the rapid rise of new global competitors -- particularly countries and companies from East Asia.

What we see in Nigeria as an acquired taste for expensive imports is actually a global phenomenon which is forcing countries and companies alike to adapt to global markets and competition. This entire topic deserves more time so I will commend those interested to read from two HBS professors - Ted Levett (The Marketing Imagination) and Michael Porter (Competition in Global Industries).

For today's purpose, the need is to understand that country and company strategies must deal with the accelerating demand of people everywhere for common products and services having uniform quality, variety, price and availability throughout the world. This force can cut both ways. It is a threat to those who want to be an island unto themselves and an opportunity for those ready to link up with the world economy and sell products and services based on competitive advantage in exchange for products and services where competitive advantage is not available.

This global reality, in fact, is a common thread throughout all of these eight forces at work. As we now look at economic issues and employment/social issues, our perspective must be that national strategies, policies and programmes must be developed within the global context of an increasingly interdependent world.

KEY ECONOMIC ISSUES

The key economic issues flow from our previous analysis and can be usefully grouped under six headings -

- foreign exchange
- fiscal policy
- monetary policy
- government corporations
- investment incentives
- international capital flows

These six headings may not be complete but they will let us address the major issues which must be tackled in the 1989 Budget.

Foreign Exchange - current policies are trying to defy gravity and cannot be sustained without an unexpected miracle increase in crude oil revenues. The issues to face therefore are how, not whether, there should be an evolution towards free market determination of foreign exchange rates and how soon a single FEM should be established and allowed to operate without significant CBN intervention.

Politically, we must recognize the difficulties (particularly "status quo" resistance from present day beneficiaries) and the risk of creating more inflationary pressures than the public will tolerate. But, economically, we must also recognize that all of SAP's reforms and sacrifices depend on a reasonably free foreign exchange market. It is crucial to expansion of non-oil exports, increased local sourcing, reduction of imports, attraction of foreign investment, return of flight capital, etc. etc. In short, a politically managed rate tends to reverse the benefits of SAP by returning to past misallocation of resources, import driven consumption, and FX allocation systems reminiscent of the licensing era.

The solution is not easy and the timing must be managed; but the long term policy should be clear - we need a foreign exchange market determined by free and open competition which works in the public interest.

Fiscal Policy - the current deficit situation is also clearly unsustainable unless Nigeria chooses to experiment with Latin American levels of inflation and forego external funding. Again, hard choices will need to be made and revolve around three issues -

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- planning revenue sources based on conservative forecasts of crude oil earnings and after having provided for appropriate reserve levels and production capacity.
- focusing public spending towards government carrying out only the traditional roles of infrastructure, public services, and security and with the lowest cost and efficiency attainable. This focus would reinforce the policy of making government economic investments either commercial or private ventures. Such policy will in turn require that government goods and services be provided efficiently and at prices which are both competitive and sufficient to autonomously fund long term capital requirements.
- moving spending systematically to the private sector. If I read the tea leaves properly, the message behind IMF and petrol subsidy "debates" was the public's deep distrust of public sector spending. Policy initiatives should therefore move towards less reliance on borrowing and reduction of tax burdens (particularly individual taxes) as a companion to (and discipline for) contraction of the public sector.

Monetary Policy - this area was extremely well managed during the introduction of SAP and SFEM. The key requirement is already covered above under Foreign Exchange, which deals with key elements controlling Nigeria's Balance of Payments. Monetary and credit policy was very tight during 1986 and 1987 (which largely kept the lid on inflation) but the first half of 1988 shows a much more liberal policy in line with reflationary objectives. The hard choice is between continuing to reflate with the clear threat of inflation and tightening monetary policy to help reduce pressures for imports, foreign exchange rates, and debt financing. It is a judgment call but the need to devalue the Naira to competitive levels would tilt me in favour of tighter monetary policy.

Government Corporations - this initiative is in its startup stages so there are only four questions one might put on the table. First, is whether there is a clear determination to improve the management of government corporations, particularly to create autonomous Boards working within broad Government guidelines, and to select managements who will be left to run a commercial enterprise professionally. Second is whether subsidies will in fact be removed and prices or tariffs left to be determined by either free market forces or a regulatory process based on open and objective determination of costs and rate of return requirements. Third is whether such corporations will be adequately capitalized and then required to become self funding, either through retained earnings or through borrowing without government guarantees. Fourth, and lastly is whether those public enterprises to be privatized will first be commercialized and sufficient track records built so as to assure both an adequate share sales price and suitable quality for public ownership. These questions should not preempt the work of the Technical Committee but we should expect answers to be evident by the time of the 1989 Budget Message.

Investment Incentives - the major unfinished business to complete SAP (or its successor) is in the area of industrial policy and investment incentives. While we continue to hear that new decrees are in the works, they have not yet seen the light of day even though we are now entering the fourth year of the present administration. This is unfortunate because, while SAP has been a bold and highly positive programme, it has primarily been aimed at putting the existing house in order and not at creating growth which requires new investments. As I raised this issue at the 1987 HBSAN Budget Review Workshop, I will simply state again that economic recovery and sustainable economic growth will not be attained until an investment climate is created which turns on the private sector. This is the biggest single issue which the 1989 Budget should address.

International Capital Flows - closely related, but specifically aimed at foreign loans and equity flows, are the basic issues as to how Nigeria escapes from the debt trap and how international capital inflows will be split between loans and equity (e.g. foreign direct investment).

Rescheduling, of course, is the necessary first step and, while long drawn out, it appears to be on track. As noted early, the next steps are to define how Nigeria should approach future external debt decisions and what role foreign investment should play.

It is clear that a high premium is put on sovereignty and freedom to define Nigeria's economic policies. This objective would lead towards a no debt policy (so as to escape inevitable "conditionalities") and limited foreign investment (so as to avoid the need to deal with multinational corporations). In view of our discussion above about globalization of markets, the availability of foreign exchange resources, and the aspirations of the Nigerian public, it is doubtful that a "closed policy" option is sustainable. If the "open policy" option is taken, then hard choices will need to be taken and policies defined to establish criteria for external loans and to create the investment climate and appropriate controls for attracting and coping with the foreign investor.

EMPLOYMENT/SOCIAL ISSUES

The "glue" which holds together any economic programme, such as SAP, for long enough to produce long term results is public acceptance and support provided to government. We must recognize that, in Nigeria's case, the "glue" has been quite strong and durable since the public has been supporting various austerity and restructuring programmes, with only meagre and recent results, since 1982.

There are increasing signs that the "glue" is not going to hold much longer unless concrete results become visible to the public. The public is increasingly looking for results and expecting the economy to be managed in the public interest. Since a stable and orderly social environment is critical to any successful economic programme, the most critical 1989 Budget task may be the development of specific policies which generate employment and address major social issues.

Employment is the most urgent problem as it underlies every other social problem - graduate and student unrest, armed robbery, strikes and work stoppages, brain drain, etc as well as the inevitable adjustment which SAP is causing to living standards. Moreover, employment shortages are exacerbated by population growth rates which are adding about 2.5 million to the ranks of potential workers each year. Employment for even 40% of this number (say 1 million) will require either major investments or funding available for those who would be self-employed.

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In my view, a quantum breakthrough is called for. I am pleased to see the recent Franco-Nigerian Chamber of Commerce and Industry workshop on Unemployment. I would hope other business groups follow suit because the problem basically can only be solved by the private sector. The required solution is new investment and new businesses in a growing economy. The public sector can do its part but we must not forget that many parastatals will face retrenchment programmes en route to commercialization and privatization. The required policy framework therefore needs to focus on private sector investment and job creation.

I have seen no studies which define the level of investment needed to create one job. But - if we assume it is as low as N1,000 - we can easily see that 1 million new jobs will require N1,000m investment annually. More likely the figure is at least N5,000 to N10,000 - particularly if the objective is to create industry and agricultural sectors which can compete on global markets. Hence, the annual task is more in the order of magnitude of N5,000m to N10,000m as an absolute minimum for the private sector. Since private sector investment is nowhere near these levels, we can see the enormity of the task ahead.

In my view, the entire issue of employment generation and population policy (which must be viewed together) are a time bomb ticking away towards inevitable explosion. The solutions are primarily economic in nature and it will require a quantum breakthrough in terms of private sector investment to defuse the time bomb.

The related social issue are perhaps of lesser priority but of no less importance to the public. The key issues center on education, health, and infrastructure.

Education and health are complex problems beyond the scope of today's discussion but let me just mention that a trained and healthy work force is increasingly understood to be an economic investment just as important as capital spending in a country's total economic equation. This is certainly true of all OECD countries and lies behind the recent dramatic growth of the largely Asian NIC's. Perhaps HBSAN should get its shoulder more squarely behind efforts to upgrade education and health services and to get the business sector more aware of the economic issues involved.

Infrastructure issues are being addressed by commercialization and privatization initiatives. We have discussed this earlier and only two further comments are appropriate. First, the existence of good infrastructure provides a strong incentive for new investment which we have linked so closely to the problem of employment generation. Second, the need for an effective regulatory process is closely linked to the public getting the goods and services they pay for and thus being ready to pay an increased economic price.

We could (and should) explore these specific issues in more depth but let me instead return to what seem to be the underlying issues which hold the "glue" of public support together. There are three principle issues which merit our attention -

- First, the public has clearly expressed its views during IMF debate, petrol subsidy removals, etc. and the conclusion seems to be that they do not trust government spending.
- Second, there also appears to be a deep seated feeling that sacrifices are not being equally shared between the public and the elite.
- Third, there is still a high level of privilege and corruption which permeates the interface between the public and private sectors.

Each of these issues would lead to a concentrated effort during the 1989 Budget in two supporting directions -

- First, to move as much activity as possible out of the public sector into the private sector, and
- Second, to enforce laws and regulations as completely, honestly and equitably as possible.

Probably, the nub of the entire discussion of employment and social issues is to develop an economic ideology which is compatible with Nigeria's social and cultural institutions and to be sure this economic system is administered in the public interest.

I would again like to challenge HBSAN to hold a growth debate and this time to add on the agenda the integration of economic systems with compatible social and cultural institutions. The process of growth under SAP (or any capitalistic system) creates disproportionate wealth which in turn raises the issues of income distribution and of harmony with social/ cultural institutions.

The Nigerian dilemma is the need to encourage the strong in order to bake a larger cake while anticipating the need to divide the cake equitably. Economic policies must operate in such a way that the strong remain encouraged while the public "glue" remains supportive of government economic programmes, thereby maintaining stability and orderly social climate conducive to economic development. It is clearly a balancing act which will require great skill during the development of the 1989 Budget.

CONCLUSION

The HBSAN contribution to the Budget process should be through -

(1) realistic understanding of the current economic situation,

(2) similar realism as to the global forces at work and how they relate to Nigeria's economic options,

(3) definition of the key economic issues which confront policy makers, and

(4) finally, recognition that economic policies must be framed in the context of employment and social issues which must be addressed squarely as a means to maintaining public support and stable, orderly social environment conducive to economic development.

We have left many stones unturned but lets hope the major issues are now on the table to stimulate today's workshop and to provide the framework for HBSAN inputs into the 1989 Budget process.

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