Bankers Trust Company
International Economics

Country Assessment

280 Park Avenue, New York, N.Y. 10017 U.S.A.

NIGERIA UNDER THE NEW MILITARY

William H. Overholt

Vice President
Political Assessment Group

PAG 192/1-D   24 February 1984

NIGERIA UNDER THE NEW MILITARY

Nigeria, with its population of 100-120 million (Nigerian demographers are only a little more precise than Nigerian financial statisticians) is a huge nation by African standards, divided into the Yoruba West, Ibo East, and the Hausa North. Tensions among the three regions led to a disastrous civil war in 1967. The national military defeated the Ibo bid for an independent state and thereafter ruled the country for 13 years. The creation of a victorious national military force, the general sentiment that one such civil war was enough, and a national patronage system nourished by the oil boom of the late 1960s and 1970s knitted the three regions into a nation. The patronage system and the oil boom also created legendary corruption and a psychology that everyone, without regard for talent or efficiency, would inevitably get ahead.

With the economy booming, the nation unified, and the military's corruption and political role increasingly criticized, General Obasanjo oversaw the 1979 creation of a democratic federal constitution on the U.S. model and the subsequent election of a civilian government led by President Shehu Shagari. President Shagari shared out the federal patronage in a balanced way, and each of the competing political parties achieved power in at least one state; since the states received 45 percent of all federal revenue, this gave everyone a patronage stake in making the system work. All the parties were dominated by businessmen, whose only ideology was getting ahead. The nation enjoyed democracy, prosperity, and increasing unity.

Already by 1980-1981, however, oil prices were misbehaving, and the first signs emerged of the need for future cutbacks of imports and projects. But the government did not do so, and by 1982 the situation was becoming critical. 1983 was a year of financial rescheduling, temporizing during national and state elections, and growing denunciations of corruption from many corners including especially the military. The Shagari government declared an austerity program, successfully rescheduled short-term loans with banks, and won an honest federal election in August 1983. The gubernatorial elections which followed were, in many cases, blatantly rigged, and this contributed to military discontent even though Shagari made important concessions and allowed the courts to reverse dubious victories.

Discontent over elections and, more importantly, Shagari's post-election appointments convinced the military that Shagari intended no cleanup of the corruption which they believed to be primarily responsible for the country's financial difficulties. Therefore, by October, there were at least three and possibly four active coup plots underway, one by a group of conservative, technocratic senior generals and the others by radical, far less technocratic younger officers. In December, the senior officers struck first in order to preempt the junior officers and succeeded in a virtually bloodless coup. The generals received substantial support, including from General Obasanjo.

The senior generals chose a Supreme Military Council of generally conservative, non-ideological, technocratic members, one from each of eighteen states, and chose Major General Buhari, a technocratic former head of the National Oil Company, as its spokesman. The cabinet, called the Federal

Executive Counsel, comprises 7 military officers and 11 civilians from eighteen different states, with the Secretary of the Federal Military Government coming from the nineteenth state. The egalitarianism of the patronage and the centrist, unideological quality of the cabinet are its most distinguishing characteristics--except for the lack of qualifications of most of the ministers for the jobs to which they are assigned. Commerce is run by the head of the Academic Staff Union. Petroleum is in the charge of a virologist. Finance is run by a sociologist. The military did seek to make some distinguished appointments, but were in many cases refused because the prospective appointees did not believe the government would last. The key permanent secretaries, men of acknowledged intelligence who were fortunately, in most cases, retained, have been described as "giggling" at their new masters. Buhari faces the continued skepticism of groups of more radical junior officers, the unwillingness of important groups of civilians to lend a hand, and a broad, although uncrystallized, civilian opposition. The military government benefits from the reaction against the Shagari administration's corruption and election rigging and from the disorganization of the civilian opposition.

The military government's economic management philosophy is to implement the Shagari austerity program, but to do it honestly. The generals came to power believing that the central problem was corruption rather than the need for structural reform. Under this theory, if a corrupt parliament is closed, corrupt officials jailed, and corrupt funds returned from overseas, the financial and economic crisis will dissipate. Unfortunately for those who must implement the economic program, this theory is largely wishful thinking.

Insofar as he discovers the need for structural economic reform, Buhari is somewhat hampered by his political position. His leadership team is substantively weak and vulnerable to corruption and wishful thinking. Groups like the younger officers and the National Labor Council oppose critical measures like devaluation as an "insult to national sovereignty." Buhari is the spokesman rather than the dominant figure in the Supreme Military Council. The delicacy of his position inclines him to caution, but the younger officers demand immediate strong action against corruption, and he must act decisively on the economic issues or face broad loss of political support. Thus, Buhari must act decisively on corruption, but needs the help of some of the most obviously corrupt technocrats and cannot afford to come down too hard on the corrupt but popular politicians. He must act decisively on the economy, but has no game plan and no world view. He must devalue, reduce subsidies, reduce imports, cut the government payroll, and yet import more food and not alienate too many people. He needs to appease the IMF without too greatly offending the young colonels. He needs to gain concessions from the banks while preserving his capacity to import food, and he needs to increase oil revenues without excessively alienating OPEC or triggering a price war with the British.

Logically Buhari's priority concern must be to increase oil revenues, and logically he must do so by substantially increasing production without cutting the price very much. His other options, namely to force major concessions by creditors or to implement IMF-style reforms with great vigor, are much more costly to his political base. He will move in those latter directions, but gingerly. For instance, on the IMF front, the Nigerians are adamantly opposing import liberalization, removal of domestic petroleum subsidies, or a big devaluation, but are imposing various forms of government budget austerity and opening the possibility of a slow slide in the value of the naira. Also, they are nibbling around the edges of creditors' claims: they refuse to pay interest on suppliers' arrears on the (not unreasonable) ground that the original charges were padded for slow payment; they are questioning in some cases whether invoiced goods were actually delivered and whether the country has been double-billed; and they are arguing in some cases (e.g., British Jaguar aircraft) that supplier prices were padded in order to cover corrupt payments.

In contrast, Nigeria's demands on OPEC are not at all timid. Buhari very quickly requested OPEC's tolerance of an increase in Nigerian production from 1.3 mbd to 1.8. He received a fuzzy response, with Yamani expressing a favorable attitude but noting that such decisions would normally be made at the July OPEC meeting. The demand on OPEC is so far the only one that has a potentially large financial impact.

Thus, the strength of Nigeria's new government is that it is centrist and technocratic. Its weakness is that it is unable to adopt the role of a strong, confident, unified military intervening to take decisive measures in accordance with a clear and coherent strategy. Like its civilian predecessor, on most issues it is reduced to somewhat fearful higgling over the details of devaluation, domestic petroleum prices, import controls, and other importunate bankers' concerns.

The government's situation is difficult, but not impossible. It may be possible to nudge oil production higher, and imports lower, than many analysts had previously believed. But Buhari is balancing over a precipice, and if he falls the more radical junior officers would be more likely to turn their backs on desperately needed structural reforms, to strike out at the banks without realizing the implications for food imports, and to try to run the economy by fiat at the risk of doing some of the kinds of damage that Jerry Rawlings has done to Ghana. If Buhari has begun to make major progress by the early summer of 1984, his prospects and Nigeria's will improve. If he has not, the risks of radical mismanagement by a group of younger officers will rise rapidly.

To the extent that Buhari is successful, he must nonetheless continue to move cautiously and accomplish some key economic changes by indirection. Because Nigerian unity and Buhari's personal position remain a bit fragile, patronage considerations will override competence in making major appointments. He will be able to tighten budgets because the need for that is clear, but most Nigerians, including much of the senior leadership, perceive IMF demands for liberalized imports, a devalued naira, and reduced domestic petroleum subsidies simply as imperialistic efforts to keep the Nigerian economy in a weak and dependent position. That such views are erroneous does not diminish their political force. That Buhari must frequently defer to such views does not make him radical or irrational or ignorant; quite the opposite. To optimize Nigeria's prospects, and their own, international financial institutions will have to press firmly for needed reforms, but make every possible concession on politically vital "details," for instance by allowing a gradual devaluation rather than administering a single shock.