Elites and economic policies in Indonesia and Nigeria, 1966-1998
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Elites and Exchange-Rate Policy

The difference in exchange-rate policy turns out to be decisive for the diverging economic performance of Indonesia and Nigeria. In his pioneering work comparing Indonesia and Nigeria, Pinto (1987) argues that an important measure that enabled Indonesia to escape from the Dutch Disease was devaluation. To limit the negative effects of the oil boom, the Nigerian government chose to compensate the non-oil tradable sector by protecting import-substituting manufacturing; in contrast, the Indonesian government chose to intervene through currency devaluation (Bevan, et al., 1999:395). ‘The key difference between these two strategies was that Indonesia’s strategy benefited exports whereas Nigeria’s strategy further handicapped them’ (Bevan, et al., 1999:395).
The overvaluation of the domestic currency led to relatively cheap imports and made Nigeria’s non-oil products less competitive on domestic and international markets. Therefore, unlike Indonesia, Nigeria failed to diversify its economy away from oil dependence. ‘The management of foreign exchange provides one of the strongest points of contrast between the two countries’ (Lewis, 2007:193).

This chapter explores why Indonesia’s economic policy elite devalued the rupiah several times (1978, 1983 and 1986) to boost export performance and to break dependence on oil money, while Nigerian policy-makers refused to devalue the naira and preferred to have a strong currency. In particular, I analyse the personal background of policy-makers responsible for the decisions about devaluation in the two countries: Ali Wardhana (minister of finance 1968-1983) and Radius Prawiro (minister of finance 1983-1988) for Indonesia, and James Johnson Oluleye (commissioner of finance 1976-1979), Onaolapo Soleye (commissioner of finance 1983-1985) and Chu Okongwu (minister of finance 1986-1990) for Nigeria. Why did Oluleye and Soleye not pick up on the idea of devaluation while Ali Wardhana and Radius Prawiro did? Also, why did Chu Okongwu prefer to devalue the naira through the Second Foreign Exchange Market (SFEM)? On what were their decisions based?

This chapter is organized as follows. I briefly discuss the 1978, 1983 and 1986 devaluations in Indonesia, followed by exchange-rate management in Nigeria. I then discuss the preference to devalue and not to devalue in these two economies before analysing the biographies of the five selected ministers. Without ignoring political economy explanations, I argue that the decision to devalue or not to devalue can be explained in part by policy-makers’ personal – particularly educational – background.

\[\text{During the structural adjustment program, Nigeria adopted a dual exchange-rate policy in 1986. The first-tier exchange rate was designed for foreign debt and service obligations. Meanwhile, the second-tier foreign exchange market (SFEM), determined by market forces, covered all trade transactions as well as auctions for official foreign-exchange receipts and the interbank market (Bevan, et al., 1999:75).}\]
Those trained in economics tended to favour a more realistic exchange rate than those trained in other disciplines, such as the military or sociology and politics; that is the case in these two countries.

**Exchange-Rate Policy in Indonesia**

Indonesia’s New Order government when it started in 1966 was faced with a chaotic political and economic situation. One important challenge was to arrive at a rational foreign-exchange system. At the time there was still a multiple exchange rate. The October 1966 stabilization program simplified the multiple exchange-rate system to two rates, called BE (Bonus Ekspor) and DP (Devisa Pelengkap) (Prawiro, 1998b:70). There was an initial sharp devaluation of the rupiah by 900 percent, from 10 (official) rupiahs per dollar to 100 (BE) rupiahs per dollar (Siber 2007:112). The double exchange-rate system was then modified continually so that the values of BE and DP gradually approached each other. In 1970 the double exchange-rate system was abolished; BE and DP were unified at the price of 375 rupiahs per US dollar (Prawiro, 1998b:71).

It is noteworthy that the free exchange system had been initiated at the beginning of the New Order in 1966. Since that time, Indonesia has allowed capital to move into and out of the country freely without any restrictions. Siber (2007:111) describes it as ‘a system freer than in some developed economies’. Indonesian policy-makers saw that restriction on the movement of foreign currency in and out of the country would be ineffective because it ‘could encourage corruption [and] conceal economic illness and mismanagement, such as excessive monetary expansion and faulty interest and exchange rate policies’ (Siber 2007:111).

After the exchange-rate unification in 1970, the first devaluation was in 1971. At that time, the rupiah was devalued by about 11 percent, from 375 to 415 rupiahs per US dollar (Patmono, 1998:202). The 11 percent decrease was a response from the government to the rupiah’s overvaluation, resulting from a high level of inflation in the previous period. The New Order regime had inherited a severely troubled economy from the previous regime. In 1966, when Suharto took over power from
Sukarno, inflation reached 650 percent. In the early 1970s, the rupiah was still pegged to the US dollar. As a consequence of the ultra-high inflation, which was very much higher than inflation in the United States, the rupiah was considered overvalued. Theoretically, an overvalued currency will negatively affect export performance. Cost of production will be higher so that international competitiveness will decrease. In order to correct the value of the rupiah, and particularly to improve the competitiveness of Indonesian products on the international market, the government in 1971 devalued the rupiah (Patmono, 1998:202).

**The 1978 Devaluation**
Exchange-rate policy in Indonesia, in which the rupiah was pegged to the US dollar, remained unchanged until 1978. The policy was initially designed to stabilize the economy so that the value of the currency would not keep changing. From the beginning of the New Order, stabilization was the government’s first economic priority. The policy, however, could not be maintained because inflation remained so high. Food shortages in 1972-1973 because of a long drought forced the government to import rice, which led to even higher inflation (Patmono, 1998:202). Inflation worsened with the oil boom of 1973, which increased the volume of money in circulation. The increased volume of money pushed inflation up further. As a result, the rupiah was again overvalued and that led to a decrease in exports.

As they had done in 1971, the Indonesian government again devalued the rupiah in 1978. After a cabinet meeting on 15 November, Widjojo Nitisastro, coordinating minister of economy and finance, announced a 51 percent decrease in the value of the rupiah. In his explanation, he argued that the Indonesian economy was in a prime condition to undergo a drastic adjustment. Foreign reserves were sufficient to finance imports for five months. Therefore, he said, it was a good time to conduct a devaluation to boost export performance, particularly of non-oil exports. The timing of the devaluation, according to Dick (1979:2), may have been influenced by the American government’s decision to strengthen the US dollar, which could be expected to cause the rupiah to appreciate with the dollar against other
currencies, particularly the Japanese yen, which would decrease Indonesian exports to Japan.

Actually, prior to the decision, there had been many rumours about devaluation. ‘There were hints in the press that the IMF report on the Indonesian economy to the May IGGI meeting leaned towards that view’ (Arndt, 1978:2). In addition, by July 1978 there was a persistent rumour sparked by the information minister, General Ali Murtopo. He told the press that the government was about to announce a big surprise linked to the financial system, which was interpreted by the press to mean a revaluation (Arndt, 1978:2-3). However, Ali Wardhana, minister of finance denied the rumour four days later (Arndt, 1978:3). Regardless of the rumours, ‘the decision came as an almost complete surprise’ (Dick, 1979:2).

Besides changing the value of the rupiah, the government also changed the way they managed the exchange rate. According to Widjojo, from 1971 the rupiah was pegged to the US dollar, at 415 rupiahs per dollar. As of 15 November 1978, the rupiah was no longer pegged to the US dollar; it could vary. The government, however, tried to manage things so that the rupiah would not fluctuate too much. So, the rate of 625 rupiahs per dollar would not be fixed, but could have small fluctuations. This is called a managed floating exchange rate, which means that the exchange rate is not permanently fixed, but it floats and is controlled. The government would also allow foreign currencies to flow freely. People could bring foreign currencies in and out freely. People that needed dollars could buy them from banks, and banks could buy from the central bank (BI). Finally, there was a policy related to materials imports for domestic production. Import fees on imported materials needed for domestic production were reduced by 50 percent. Taxes on sales of imported products were also reduced. This applied to materials that were used to produce goods for domestic consumption or for export. If the product was for export, to be sold abroad, there was no need to pay import fees or taxes on the sale of the imported materials (Nitisastro, 2010:331-2).

The government realized that Indonesia depended too much on oil money. Non-oil exports, with the exception of timber, were slowing
down. Radius Prawiro in his autobiography says that a devaluation policy was unavoidable because of the stagnation in non-oil exports, particularly agricultural products (Prawiro, 1998b). In a period of recession, it was difficult to export plantation products such as rubber and coffee. Unfortunately, if these agricultural products are not sold as fast as possible, they will be damaged and cannot be sold. As minister of trade at the time, Radius Prawiro worried that a failure to export those products would affect the ability of farmers to repay their loans (borrowed under a government program). The 1978 devaluation, therefore, was viewed as a win for agricultural lobbies (see Wing, 1988).

The decision to devalue the rupiah was quite controversial at the time. Many argued that the Indonesian government actually did not need to devalue. Economic conditions were fine and exports were improving. The increase in oil prices had improved government revenue; the government now had plenty of dollars from oil money. The controversy was partly based on the conventional wisdom that a country will devalue its currency when foreign reserves are limited (Prawiro, 1998b). Ali Wardhana, minister of finance at the time, had just said in an interview that the government would not devalue the rupiah because foreign reserves were sufficient. Ironically, the argument of sufficient foreign reserves was used as a reason by Widjojo Nitisastro when he announced the devaluation. Another reason to reject devaluation at the time was the risk of inflation. In 1978 inflation had decreased to 6.7 percent, and devaluation could be expected to increase the rate of inflation. Therefore, many believed that devaluation should wait until the economy really needed it (Prawiro, 1998b:160).

As to the preparation for the devaluation, Widjojo Nitisastro, in a broadcasted interview a week after the devaluation, explained as follows. First, despite its clear goal, devaluation will also have side effects, such as the possibility of triggering anxiety about higher prices. Therefore, the government needs to ensure that staple foods, particularly rice, will be enough. The government had stockpiled rice in large amounts; there was 1.6 million tonnes of rice in storage all over Indonesia (Nitisastro, 2010:344). Bustanul Arifin, head of Bulog (Badan Urusan Logistic, Logistic Stock Board) 1973-1993, recalls how Widjojo always called and
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asked him the level of rice stocks before deciding on a devaluation (Arifin, 2007:342).

Another consideration in preparing for a devaluation is to prevent the possibility that people will think that the rate of the US dollar will rise continually and make a rush for dollars. Therefore, before a devaluation, it is important that the government has enough foreign reserves. At the time the Indonesian government had more than US$ 2.5 billion in reserves. So, whoever wanted to buy, the government allowed them to buy dollars in any amount (Nitisastro, 2010:345). In addition, Dick (1979) notes that ‘the devaluation was large enough to avoid speculation on further devaluation’. In sum, there were important considerations in preparing for the devaluation: not to provoke people’s worries over the food (rice) supply, and not to cause worries over foreign reserves in the private sector (Nitisastro, 2010: 344-5).

The government temporarily froze prices to prevent price increases as a spontaneous reaction from the business community (Prawiro, 1998b). There was an official assurance that ‘[a]dministered prices would be held down in the immediate post-devaluation period’ (Arndt, 1983:6). The Department of Trade introduced price controls, and public enterprises were forbidden to increase prices of their products (Dick, 1979:1, 5). Moreover, there was ‘gentle persuasion’ to enforce the price freeze. Dick (1979:5) says that Admiral Sudomo, commander of Indonesia’s intelligence agency Kopkamtib, in meetings with businessmen and in public announcements, ordered that all prices return to pre-devaluation levels. The Admiral also conducted market inspections, and a Price Recording Team was formed to monitor prices (Dick, 1979:5). The government realized, however, that in the long run, any attempt to control prices would be useless (Prawiro, 1998b). Therefore, the price controls were only temporary, to avoid impulsive price increases, and about six week after the devaluation, the price freeze was ended (Dick, 1979:5). After that, prices did not increase too much. In 1979, the rate of inflation reached 21.8 percent, but as noted by Prawiro (1998b), this rise had been predicted by the economists’ team.
Furthermore, Dick (1979) notes that the open-market operation by Bulog²⁰ and ‘gentle persuasion’ had limited the increase in the cost of living in Jakarta to only 2.37% and 1.08% in November and December respectively.

**The 1983 Devaluation**

The next rupiah devaluation was decided in 1983 at the first meeting of the new cabinet. Ali Wardhana, coordinating minister of economy and finance, after a one-and-a-half-hour meeting on 30 March 1983 in the Cabinet Secretariat Building in Jakarta, announced that the Indonesian government as of 30 March 1983, at 11.30, would peg the rupiah at the rate of 970 rupiahs per US dollar. With this decision, the government would sell and buy one US dollar at 970 rupiahs. The government would maintain a managed floating exchange rate and there would be a free flow of foreign currencies (Sinar Harapan, 1983).

At a press conference, Ali Wardhana said that the measure had been taken to solve Indonesia’s economic problems (Sinar Harapan, 1983; Suara Karya, 1983). First, there was a problem because of the world economic recession of the preceding three years. Many countries had attempted to protect their economies by devaluing their currencies, which caused prices of Indonesia’s non-oil exports to continually decrease.

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²⁰Bulog (Badan Urusan Logistik, Bureau of Logistics) was established on 10 May 1967 to secure food supplies in Indonesia. One of Bulog’s main tasks is to stabilize the rice price. To stabilize the rice price, Bulog often uses open-market operations or direct intervention, which means that if there is an excess supply of rice and its price becomes too low, Bulog will buy the excess supply to help farmers. Meanwhile, if the price of rice is too high because of a limited supply of rice on the market, Bulog will sell its rice stock to the market to lower the price.
Second, there had been a sharp decrease in oil prices, from US$ 34 per barrel to US$ 29, because of the OPEC decision to cut the crude oil price by US$ 5 per barrel (see also Arndt, 1983:1). For Indonesia, this decrease affected both government revenue and foreign reserves. Therefore, the government took action to prevent a further decrease in foreign reserves. Third, there was a problem with monetary stability. In the preceding two years inflation had stayed below 10 percent, but in the years before that, inflation had been high. This high inflation had decreased the competitiveness of Indonesian exports on the world market; and on the domestic market, Indonesian products lost out to imported products. In sum, Ali Wardhana said, ‘With the change in the rate of the rupiah in relation to the US dollar, it is expected that foreign reserves can be maintained and be used as capital […] for development and also to strengthen Indonesian competitiveness in the world economy’ (Kompas, 1983).

In fact, the 1983 devaluation had been expected by many analysts. Pangestu (1996:17) notes that the devaluation was undertaken after much speculation, which led to a significant anticipatory capital outflow. For some time before the devaluation, money changers in Singapore had refused to buy rupiahs, because of the rumour that the rupiah would be devalued. Previously, the market value of the rupiah had already decreased, to considerably below the official price. According to Prawiro (1998b), the rumour about devaluation became unavoidable since government foreign reserves were known to have decreased by about 38 percent since the end of 1981.

The Indonesian authorities tried to prevent speculation by suppressing the rumour. Suharto, Indonesia’s president, in his Independence Day speech on 16 August 1982, said that there was no need for devaluation. The value of the rupiah in relation to foreign currencies

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21 Arndt (1983:2) notes that the current account surplus in 1980/81 had turned into a deficit of nearly US$ 3 billion in 1981/82 and US$ 6.7 billion in 1982/83. Meanwhile, the decline in oil prices had decreased government revenue from oil company taxes by 10 percent in nominal terms in 1982/83, and threatened to become a much larger decrease because of the price cuts in March 1983.
would remain unchanged and would still be floated as before (Prawiro, 1998b).

Radius Prawiro (1998b: 310) notes that two weeks after his appointment as minister of finance in March 1983, he met Suharto and explained to the president that devaluation was the best choice for Indonesia, and in fact the only choice. At the time, Suharto said he would consider the suggestion. A week later, the devaluation was announced with the president’s approval.

In this 1983 devaluation, the government did not control prices as they had done during the 1978 devaluation (Prawiro, 1998b). However, various measures were taken to limit the inevitable inflationary effects, including a tight money policy (Arndt, 1983:1). The government had learned from previous devaluations how to prevent excessive inflation, as shown by the fact that in 1983 inflation did not go above 11.5 percent. In addition, Siregar (2007: 119) notes that to prevent speculative action on the foreign-exchange market, the government froze liquidities in government banks.

The 1983 devaluation had its roots in a crisis in the government’s ability to finance development because of decreasing oil revenue. Starting in 1982, the government had reduced routine expenditure. Therefore, the remaining way to reduce the government budget was by reducing expenditure on development. In May 1983, the government announced it would defer a billion dollars worth of projects that were still in the planning or initial stages because they were considered capital intensive and had been intended to be financed by foreign debt (Arndt, 1983:1; Prawiro, 1998b:310-1). Examples of projects suspended by the government were the olefin project (US$ 1.6 billion), aromatic production (US$ 1.5 billion), oil refineries (US$ 1.35 billion), and aluminium production (US$ 600 million) (Prawiro, 1998b:311). Suspending the projects freed the government from incurring an even higher foreign debt in the future, reduced local costs for financing these

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22Olefin is a petrochemical product that is important for industrial chemicals, plastic products, and synthetic fibres.
capital-intensive projects (Prawiro, 1998b:311), and may have helped slow down inflation.

The 1986 Devaluation
In 1986, the Indonesian government again devalued the rupiah. Once again, decreasing oil prices were the reason for the government to choose this policy. Nitisastro (2010) notes that with oil prices around US$ 25 or US$ 20 per barrel, the Indonesian economy was still quite resilient and able to face these challenges. That was why President Suharto in the Government Statement on the Draft Budget 1986/1987 on 7 January 1986 stated that the government did not need to consider devaluation, and that there was no intention to devalue the rupiah (Nitisastro, 2010:241).

However, in March 1986 oil prices began to decline rapidly. In subsequent months they declined very sharply in a very short time. In July 1986 the price of oil was US$ 10.25 per barrel and in August 1986 it dropped to below US$ 10 (Nitisastro, 2010:242). Further, Nitisastro notes, ‘That oil prices will decline is something that’s been predicted before, but a very sharp decline in a very short period of time is beyond the estimation’ (Nitisastro, 2010:242-3). The sharp drop in oil prices had reduced foreign-exchange earnings and heavily burdened the country’s balance of payments. In fact, the economy had been slowing down since 1985, shown by the sharp decline in the rate of growth. Growth rate of GDP was only 1.9 percent in 1985, compared with 6 percent in 1984 (Booth, 1986:2).

About a month later, on Friday, 12 September 1986 at 8 p.m., Radius Prawiro, minister of finance, announced the devaluation of the rupiah from 1134 to 1644 per US dollar, a devaluation of 45 percent (Nitisastro, 2010:243). Usually devaluation is announced by the coordinating minister of economy, but a few hours before the announcement, Radius received a call that the coordinating minister, Ali Wardhana, was hospitalized and Radius should stand in for him to announce the policy (Prawiro, 1998b:340). Booth (1986:1) notes that the decision was a very surprising one, including for many members of the cabinet.
Nitisastro (2010:243) notes that the devaluation was a very hard decision for Suharto. In January 1986 Suharto had said to parliament that devaluation was unnecessary and that the government would not devalue the rupiah. Suharto had to explain the decision when the 1987/1988 Budget was delivered to parliament on 6 January 1987. According to Nitisastro (2010:244), Suharto said that devaluation seemed inconsistent with his remarks the previous year, but he ‘thought it is more responsible to […] take the bitter decision for the long-term development interest, than not to make a decision […] simply in order not to swallow [...] his own words’.

Since 1983, the exchange rate had been managed by using a crawling peg system. But the rupiah moved too slowly, from 994 per US dollar in 1983 to 1134 per US dollar in September 1986. Demand for imports was still strong, however, and inflation in the preceding three years had been high (Nitisastro, 2010; Prawiro, 1998b).

According to Prawiro (1998b:339), the government had better control of inflation after the 1986 devaluation than after previous devaluations. Inflation was only 5.9 percent that year, and 9.1 percent in 1987, and it decreased again to 5.8 in 1988 and 6.0 in 1989. To control inflation, the government followed a tight money policy and used fiscal controls. In addition, world inflation was relatively low, less than 4 percent for OECD countries, which made things easier (Prawiro 1998b:339).

Pangestu (1996:19) notes that the 1986 devaluation was more successful in increasing non-petroleum exports, compared to the 1978 and 1983 devaluations. In 1987, the growth rate of manufactured products was 57 percent; the share of non-petroleum exports in total exports had also increased to 50 percent in that year. Because of the devaluation, the real exchange rate remained competitive while the government took measures to improve the business environment and to reduce the cost of doing business through deregulation. According to Pangestu (1996:20-1), the key to the success of the devaluation in increasing non-petroleum exports lay in several measures for improving the investment climate, including:

- October 1986 and January 1987 deregulation packages: the number of goods subject to import licensing is reduced,
import tariffs are reduced, the ceiling on the central bank swap facility is removed.

- June 1987 package: deregulation of investment and capacity licensing.
- July 1987 package: more transparency in the allocation of the textile quota system.
- December 1987 package: reduction of the government’s role in the stock exchange, simplification of licensing for hotels; joint ventures to be treated as domestic companies if 51 percent of the shares belong to Indonesians or if 20 percent of shares are sold in capital markets; export licences are eliminated.

The 1986 devaluation was intended not only to improve the balance of payments, but also to allow the market mechanism to function (Booth, 1986:20). Booth (1986:20) notes that ‘a devaluation of this magnitude is a clear signal that the Government has decided to give a major role to the price mechanism in bringing the balance of payments back into equilibrium’. Moreover, the 1986 devaluation was intended to be the last devaluation in Indonesia. After 1986, the rupiah was periodically adjusted by about 3 percent annually until 1997, when the economic crisis hit hard. Because of the 1997 economic crisis, the value of the rupiah substantially decreased. However, this study does not treat the post-1997 period.

**Exchange-Rate Management in Nigeria**

Prior to 1959, Nigeria was part of the West Africa Currency Board. In 1959, with the establishment of the Central Bank of Nigeria (CBN), the Nigerian pound was introduced. The new currency was fixed at par to the British pound sterling.

In 1961, Nigeria joined the International Monetary Fund (IMF). As a consequence, in June 1962 the government defined the Nigerian pound in terms of gold, instead of pegging it to the British pound sterling. At the time, one Nigerian pound was equal to 2.49 grams of fine gold (Komolafe, 1996). Therefore, even though the pound sterling was
devalued by 14.3 percent in 1967, the Nigerian pound remained unchanged.

Following the collapse of the Bretton Woods system in 1971, the Nigerian pound in 1973 was pegged to the US dollar (Fadahunsi, 1993: 36). However, when the US dollar was devalued, the Nigerian pound was not, because the authorities were concerned about inflation, which was high in the wake of the civil war. Therefore, the Nigerian pound appreciated against major currencies. The nominal value of the Nigerian pound increased from US$ 2.8 to 3.04 (Jerome, Adenikinju, Raheem, & Ademeyo, 1998: 11).

The Nigerian pound was decimalized and changed to the naira in 1973. The changes in currency, from pounds and pennies to naira and kobo, symbolically demonstrated ‘Nigeria’s attempt to decolonize its monetary system which had been tagged to the British sterling zone before and after independence’ (Elaigwu, 1987: 150). When the US dollar once again was devalued that year, the naira was also devalued. The Nigerian naira was pegged to the US dollar and the British pound sterling up to 1978. Gradual appreciation of the naira in relation to the US dollar and sterling was allowed during the 1974-1978 period because of the improving balance of payments as a result of increasing oil prices (Jerome, et al., 1998: 11). In addition, as noted by Rimmer (1985:438-9), overvaluation of the naira was tolerated from 1974 to reduce the cost of living, because Nigerians relied heavily on imports. According to Rimmer (1985:439), the overvalued currency (which implicitly subsidized the naira) not only reduced export competitiveness but also increased demand for naira in Nigeria, which flew out of the country. To correct the situation, in 1978 the Nigerian government changed their exchange-rate management; thereafter, the value of the naira was based on the fluctuation of a basket of currencies of Nigeria’s major trading partners, namely the US dollar, pound sterling, German mark, Japanese yen, French franc, Swiss franc and Dutch guilder. During 1978-1979, the Nigerian government also tightened administrative controls on foreign-exchange flows (Rimmer 1985:439).

Even though oil prices increased, Oluleye, federal commissioner of finance under Obasanjo, notes that foreign reserves had deteriorated. ‘While the country was earning N400 million a month, the level of
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imports stood at N950 million monthly, running a monthly balance trade deficit of N550 million’ (Oluleye, 1985:210). He did not, however, turn to the IMF for balance of payments support. According to Oluleye (1985:210), resorting to the IMF could have had severe repercussions:

1) The Board of IMF would assume Nigerian policy-makers have mismanaged the economy and they would dictate techniques of new-style management and restructuring.

2) Their earlier pressure to devalue the naira would be difficult to oppose. Devaluation, however, would not solve the problem but only ‘postpone the evil day’.

3) Their earlier criticism that interest rate was too low could have received an immediate solution by imposing a higher interest rate.

Further, he notes that, ‘Resorting to the IMF could have meant walking into an economic ambush out of which we could not get out for some years to come. Emphasis on honouring our international repayment obligations would be enforced’ (Oluleye, 1985:210-1).

During the oil boom (1973-1981), the real value of the naira depreciated and the currency was considered overvalued. The gap between the official exchange rate and the rate on the parallel market was also very wide. In the first quarter of 1980, for instance, the official rate was 0.55 naira per dollar, while the price of one naira on the parallel market was 0.97 naira per dollar or about 1.77 times the official rate (see Figure 5.1). The World Bank (1982) therefore noted that Nigerian goods were at a significant disadvantage relative to foreign goods in export markets because of overvaluation. The overvaluation of the naira was seen by the World Bank as a major constraint on Nigerian export products.
When oil prices decreased in the early 1980s, Nigeria experienced an economic crisis. Fadahunsi (1993: 33) notes that ‘The crisis manifested itself not just in the form of revenue falls but also in industrial decline, inflation, a payment crisis, rising unemployment, and a debt service problem’. The naira depreciated in 1981, and by the end of 1984 it had depreciated about 33 percent against the US dollar (Jerome, et al., 1998:11).

Philip Asiodu, a former permanent secretary under Gowon and presidential economic advisor under Shehu Shagari, says that prior to the 1983 military coup by Buhari, the government had decided to devalue the naira by 30 percent as suggested by the IMF. The Buhari regime then abandoned the decision because it wanted to be popular as a government that was able to manage the economy and that could not be dictated to by the IMF (Interview 08/06/2009). In fact, Forrest (1986:13) notes that, during the Shehu Shagari administration (1979-1983), devaluation became a bottleneck that prevented agreement with the IMF. Instead of
devaluing the naira, the civilian government tightened administrative controls on foreign exchange in 1982 (Rimmer 1985:439).

After Buhari overthrew the civilian government in 1983, the gap between the official and the parallel market rates widened. By the second quarter of 1984, the exchange rate on the parallel (black) market was 4.45 times the official rate. The refusal of Onaolopo Soleye, federal commissioner of finance during the Buhari regime (1983-1985), to drastically devalue the naira was widely seen as responsible for the growing overvaluation. Like the Shagari civilian government, Buhari’s regime negotiated with the IMF for extended credit and also for a medium-term loan to support structural adjustment of the Nigerian economy. However, the requirement to devalue the naira again prevented the negotiations being concluded. Soleye says that he refused to devalue the naira because the proposal made to him was to initially devalue the naira by 30 percent, but he saw this as just the first step without knowing where it would end up (Interview 12/05/2009). Soleye preferred administrative controls on foreign exchange. He also decided to print new notes in April 1984 to prevent the repatriation of naira through smuggling (Rimmer 1985:439).

In August 1985, when the economy was worsening, Ibrahim Badamasi Babangida (chief of Army Staff and a member of the Supreme Military Council) overthrew Buhari’s regime. In 1986, the Nigerian government adopted the structural adjustment program as suggested by the IMF and the World Bank. A core element of the structural adjustment program was the Second Foreign Exchange Market (SFEM), which was designed to provide a framework for a realistic exchange rate through market forces (Jerome, et al., 1998: 11). The government recognized the necessity of devaluing the overvalued naira. The Nigerian authorities chose to devalue the naira through SFEM, which is described by Chu Okongwu, minister of finance at the time, as ‘the prettiest thing’ that had been designed for the country (Interview 12/08/2009). The SFEM was intended as a transition stage toward a unified competitive foreign-exchange market. The foreign-exchange market was then unified in 1987.
Explanations and Divergent Preferences
Theoretically, for oil-rich countries such as Indonesia and Nigeria, an increase in oil prices, such as in the 1970s, could lead to the Dutch Disease. There are at least two ways that an increase in oil prices can lead to the Dutch Disease (Pinto, 1987:421-2). First, an increase in oil prices is predicted to drive resource allocation toward the oil sector, and not to other sectors such as manufacturing. However, since the oil industry is an enclave sector, this is unlikely to happen. Second, an increase in oil prices will increase the national income, which is predicted to increase demand for and prices of non-tradable goods, such as services. This situation is expected not only to decrease the real value of the domestic currency below its nominal value, but also to divert resources from tradable to non-tradable sectors, for instance from manufacturing to construction, and to real estate, trade and services. In such a situation, de-industrialization is likely to occur.

In addition, overvaluation of the domestic currency can further reduce the competitiveness of exports. To prevent exports decreasing, exchange-rate management is crucial to avoid the Dutch Disease. Devaluing the nominal value of the domestic currency is a way to improve the competitiveness of non-oil exports (Pinto 1987:421-2). Further, increased income from a rise in oil prices in combination with an overvalued currency can also lead to higher demand for cheap imports. As a result, increased competition from imported tradable goods threatens the domestic production of tradable goods and could lead to devastation of the agricultural sector. Efforts to prevent de-industrialization could lead the government to spend more of the oil revenue on the manufacturing sector, with the result that the wages of labour in the sector increase. Consequently, labour can be expected to move from the rural-agricultural sector into the urban-manufacturing sector, and this will reduce agricultural production (Pinto 1987:422).

Unfortunately, efforts to channel resources into manufacturing have a similar effect to channelling resources into non-tradable sectors. Such reallocation will only increase domestic prices. With international prices remaining constant, real exchange-rate appreciation is inevitable. Since exchange-rate appreciation reduces the competitiveness of exports,
oil income spending favouring the manufacturing sector will not be likely to improve the sector.

The argument for devaluation is straightforward; devaluing the domestic currency will make exports cheaper than the prices on the world market. This will improve the competitiveness of exports. Thus, devaluation can help an economy escape from the Dutch Disease and can prevent a country from becoming an oil-dependent economy. Devaluation will also make imports more expensive and lessen the competitive pressure on domestic industries. As a result, imports decrease and domestic production recovers.

Lewis (2007:193-4) shows that from the beginning of the oil boom, the naira was overvalued, as shown by the large gap between the parallel market rate and the official rate. The overvaluation continued and the gap between the official rate and the parallel market rate surpassed 4:1 before being adjusted in 1986 (Lewis 2007:193). In contrast, the Indonesian rupiah was only modestly overvalued, thanks to devaluations in 1978, 1983 and 1986.

Figure 5.2 Non-fuel exports (current price, billions of US$)

Source: World Bank (2007b)
In comparing the economies of Nigeria and Indonesia, currency overvaluation seems to be related to non-oil exports. Figure 5.2 shows how non-fuel exports in Nigeria had lagged behind Indonesia since 1973. It shows an upward trend in Indonesian non-fuel exports after the 1978, 1983 and 1986 devaluations. It can be concluded that the objective of devaluation to increase non-fuel exports was quite successful. The question is: Why did Nigerian policy-makers not choose to devalue the naira?

A common explanation for the hostility to devaluation is that Nigeria is a country with a single export commodity. Nigeria’s only major export is oil, and therefore the country will not benefit from devaluation. In fact, devaluation will generate even less income for the country. This basically follows the argument of the elasticity requirement for devaluation to be successful; if imports are largely complementary or inflexible and if there is a low supply response (that is, if exports fail to increase), then devaluation will deteriorate the balance of payments. However, as Odife (1989) says, the argument of a single commodity does not really apply to the case of Nigeria. Export products are paid for in dollars, and therefore oil revenue will not decrease because of devaluation. Moreover, the revenue from oil exports can buy more devalued naira.

In contrast to the single export commodity argument, Ali Wardhana, who was responsible for the devaluations in Indonesia, says that devaluation was designed to prevent the country’s dependence on oil.

What I thought [we needed to do was to increase] exports. Our oil production had started to decrease. If non-oil exports did not work, how could we get foreign reserves? So devaluation was the only way to boost exports. Even though the oil price was increasing at the time, we had to consider that oil is a non-renewable resource. So, alternatives were needed. (Interview 29/11/2008)

The second reason for the hostility to devaluation is due to the fact that Nigeria is an importer country. As a ‘chronic importer’, Nigeria will suffer from devaluation because it will lead to higher prices for
machinery, raw materials, and other imported products. Further, the higher prices of machinery and raw materials for industry will raise costs of production, and this will lead to inflation. Odife (1989), however, provides a counter-argument to this. According to him, companies that rely on imported raw materials should not be protected anymore. Also, devaluation will encourage import-substituting industries to grow so that dependence on imports can be reduced.

Interestingly, hostility to devaluation came not only from traders who sold imported products, but also from manufacturers. For traders, devaluation will make them dig deeper into their pockets because prices will be higher. If they sell imported goods in naira, the selling price could be too high for consumers. It is understandable that importers are afraid of decreasing the volume of imports. For manufacturers the story is a bit different. As noted by Odife (1989), as the prices of imports rise, there will be new opportunities for manufacturers to fill in the domestic demand left by the higher prices of imported goods. In addition, with the changing relative prices in favour of manufacturers, because their products will be cheaper on the world market, there should be new incentives for export production. Unfortunately, such ideas were not easy to accept, particularly because manufacturing in Nigeria was highly dependent on imported raw materials. Perhaps it was also because of vested interests; existing producers enjoying protection would lose the benefit of having cheap imported materials if the currency was devalued, and therefore resisted it.

In Indonesia, manufacturers also resisted devaluation. Ali Wardhana says there was resistance from everywhere to devaluation. Moreover, Rahmat Saleh, governor of the central bank (Bank Indonesia) in 1978-1983, explains:

The resistance mainly came from the industrial environment, because they did not really comprehend it. They thought that devaluation would increase their costs, because they depended on imports. It would not be good for industry. They did not think that their products would be more exportable because of the more interesting exchange rate. Also, we should not forget that increasing
import prices would reduce the incentive to import, because the imported products would be expensive. Thus, domestic consumption could be supplied by domestic products. This notion was not comprehended quickly. But later they agreed it was the right policy because it had been proven. (Interview 30/10/2008)

In fact, devaluation is not only about economics. From a political economy perspective, devaluation involves national prestige, and can trigger a battle of ‘economic efficiency versus political prestige concerns for a government’ (Denoon 1989:5). Benefits of devaluation, such as expansion of exports and creation of employment, come after possible costs, such as inflation and increased prices of imports. Denoon notes that it takes twelve to eighteen months for the benefits to come after the costs, and therefore political leaders need to limit the negative effects.

Devaluation also has different effects on different groups, of which policy-makers should really be aware. While devaluation benefits exporters, it is costly to importers; it helps the rural-agricultural sector, but punishes import-dependent urban-sector consumers (Denoon 1989:5). Thus, devaluation can be seen as a bargain between the rural-agricultural sector and the urban-manufacturing sector. Devaluation in Indonesia, in fact, benefited the Outer Islands at the cost of urban areas. In Indonesia, Wing (1988) views the 1978 devaluation as a victory for the agricultural-based Outer Islands against urban-manufacturing-based Java. Similarly, according to Dick (1979:1):

In the Indonesian economy devaluation also redistributes income from the urban elite, whose consumption has a high import content, to export producers, particularly farmers and not least those in the Outer Islands. A successful devaluation would therefore not only stimulate the rate of growth but also bring about a fairer distribution of income.

To counter the resistance from urban manufacturers, the Indonesian government reduced import fees on imported materials by 50 percent. Imported materials used for products to be exported were even
reduced to zero. This would not only boost the Outer Islands agricultural-based economy, as argued by Wing (1998), but would also help the urban-industrial sector. There was compensation for the losers. A combination of policy measures to mitigate the impact of devaluation on the sectors that resisted it, shows that the New Order government was concerned to build a growth coalition.

In Nigeria, urban dwellers are perceived as a more relevant political constituency because of their proven opposition to poor performance of government; rural dwellers, in contrast, are usually more passive, without protesting too much (Osaghae, et al., 1998:24-25). With no significant agricultural-export interests and with urban dwellers afraid of increased import prices, it was hard politically to defend a devaluation.

In fact, the idea of having a strong currency is widespread among Nigerians. There is an illusion that a strong currency is better for their standard of living. This can be seen in the following story:

In 1976, I was in London, my salary was 4800 naira. That was about 6000 US dollars. I bought a brand new Mercedes Benz, and I still had 1000 naira in change. For 7 naira, I had a full tank of fuel for the Mercedes Benz, which was about 70 litres. Now, with 4800 naira I can only get the fuel. So, you can imagine how strong our currency was at the time, how strong our economy was. (Interview with a high-level bureaucrat, Abuja, August 2009)

Even though the story may be inaccurate or exaggerated, it clearly shows that members of Nigeria’s elites enjoyed a strong currency for their personal benefit. A similar story is the following:

Before, I could send my son to study in London because the naira was very strong, but now it is very difficult to do so. (Interview with a former minister of finance in Lagos, 2009)
Allison Ayida, permanent secretary at the Ministry of Finance during the Gowon period, in his *Reflections on Nigerian Development*, expresses the paradox of having a strong currency: ‘Can you have a strong currency in a weak economy?’ (Ayida, 1987: 223). According to him, the founding fathers of the naira had predicted that the naira would be a strong currency in a strong economy. Ayida claims that such a situation had been achieved during his tenure in the Ministry of Finance. However, when the Nigerian economy deteriorated because of decreasing oil prices in the 1980s, the wisdom of having a strong currency should have been questioned.

Similarly, Kalu Idika Kalu, twice (short-term) minister of finance during the Babangida and Abacha regimes, and known for his affiliation with the World Bank, questions the merits of having a strong currency for a developing economy (Interview 28/09/2009). A strong naira will lead to import dependence to the detriment of local manufacturing industries. Moreover, Kalu believes that, ‘to promote export and conserve foreign exchange, the external price of the naira has to be right. Once the prices are right […] worthwhile projects can be embarked upon in the country, labour intensive production systems will be encouraged, domestic resources can be better deployed and self-reliance promoted’ (Omokhodion, Osakwe, & Babarinsa, 1986: 34). Kalu was therefore surprised that the Manufacturing Association of Nigeria did not stand on his side on the issue of devaluation.

However, to arrive at a realistic exchange rate is not an easy task. Black-market racketeers grew very strong in Nigeria. They took advantage of differences between the official rates and the market rates of foreign exchange. Babangida in an interview explores how interests of particular groups became obstacles for achieving a realistic foreign-exchange rate.

Actually the black-market racketeers were just a small tip of the iceberg. What we found out, which was much more serious, was that we, as Nigerians, have not lived up to our patriotic duties to our fellow citizens. We had cases of abuses. We sold foreign exchange at the official rate only for the people who bought them to go, against all convention, all laws of decency, to resell it at exorbitant
profit to other people. [...] Secondly, we also discovered [...] that some manufacturers [...] passed back [their product prices] to the consumers based on unofficial rate, which is not fair. A good citizen should not exploit his fellow citizens. I also believe there is what I may call a cartel, people who want to corner this thing [foreign exchange], cause panic in the system, make us believe the whole world is coming to an end, then keep on getting the maximum out of the sweat of the people, out of government’s acts. (Adeneyi, Sonaike, Ughamadu, Darah, & Othihiwa, 1992)

Interestingly, the illustrations of how strong the naira was, seem always related to personal gain in the situation. The sensitivity about having a strong currency is also described by Ayida:

When we talk seriously of the external value of the naira, we think of the naira in our pocket and in our bank accounts, as Customers, Investors, Businessmen, Industrialists, Importers, Smugglers, Commission Agents especially in the petroleum sector. Like any other policy measure, it affects the individual or corporate entity in different ways. But because of the money illusion, our reference point is normally sterling or dollar parity. Those in a position to conduct their foreign currency transactions at the official rate are likely to be adversely affected by devaluation. (Ayida, 1987: 223)

The narrative of ‘yes or no on devaluation’ shows that currency devaluation is a complex phenomenon. It involves rational choice, personal preference, as well as power relations among actors in society.

Since there are so many interests involved in devaluation, the choice of how to carry out the measure is also important. Before public debate on the structural adjustment program was launched in the mid-1980s, discourse on a possible naira devaluation had appeared among Nigerian policy-makers. Allison Ayida says that in a public service
forum, in December 1981, he had mentioned the necessity to devalue the naira in order to shock the nation, to wake Nigerians up to the fact that there was a serious problem in the financial sector. However, Ayida was convinced that devaluation was too sensitive and too technical an issue for public debate.

In Indonesia, sensitivity about devaluation was really taken seriously into account. Rahmat Saleh, governor of Bank Indonesia (1973-1983) and minister of trade (1983-1988), recalls about the devaluations that not the whole inner circle of Indonesian policy-makers were involved in the decision. Not even all members of the ‘Berkeley Mafia’ were involved. ‘It was a big secret,’ he said (Interview 30/10/2008). ‘Low politics’, limiting the discussion to just a handful of persons, is usually used by Indonesian policy-makers to decide such sensitive issues. Sumarlin also says that the decision was taken in a very secret way, so that the next day everyone suddenly realized that the value of the rupiah had changed. There was not any public debate or public announcement prior to the devaluation.

In Nigeria, a very different approach was taken for devaluation through the SFEM. Babangida wanted to involve as many Nigerians as possible, so that they could have a sense of belonging to the policy. It is for this reason that the adoption of the SFEM took a very long time; it was first announced in June 1986 and went into operation only on 26 September 1986. Public debate about the measure was very heated at the time. There was much discussion and debate. Moreover, since Babangida had announced the decision in June 1986, there was plenty of time for speculation.

In forming their opinions and their policies, policy elites also learned from neighbouring countries and from their own development experience. Indonesian policy-makers learned the importance of realistic exchange-rate policies not only by looking at other countries in Asia, such as South Korea and Japan. They had experienced several devaluations in their own country, along with a high level of inflation before the 1978 devaluation. Meanwhile, Nigerian policy-makers also learned from neighbouring countries in Africa, as seen in Soleye’s response to why he refused to follow the IMF’s prescription:
We use a political economy approach in economic development. We are an African nation, we have to look at African countries, what happens to them. If you remember, Sierra Leone did not make it, Sudan did not make it, Tanzania […] there is a cultural tradition we are in. […] Why did all my neighbours that followed the IMF collapse? […] If a dog barks all the time, something is wrong. (Interview 12/05/2009)

Social Origins of the Policy Elites
To what extent did the contrast between Nigeria and Indonesia in exchange-rate policy reflect the ministers’ personal background? The policy-makers (Ali Wardhana, Radius Prawiro, Oluleye, Soleyey, and Okongwu) came from middle-class families. Ali Wardhana’s father was an accountant, among the first Indonesian accountants educated in the Netherlands, while his mother was a teacher and at one time an elementary school headmaster. Radius Prawiro’s father was a teacher and his mother was a nurse in Yogyakarta. His grandparents owned a milk business in Yogyakarta. Oluleye came from a traditional ruler’s family. His father, famous for his wrestling prowess, died when Oluleye was fourteen. As an orphan from an early age, Oluleye was raised by his brother, Michael Folayan, who was a military soldier before being discharged in 1954 with the rank of corporal. Soleyey came from a traditional ruler’s family in Abeokuta. Okongwu’s father, a school headmaster, always expected Okongwu to be first-class and nothing less. The family background of policy-makers in Indonesia and Nigeria thus does not seem to provide a clear-cut explanation for their different thinking about exchange-rate policies.

How about regional and ethnic origins of the policy-makers? Ali Wardhana was born in Solo, Central Java, on 6 May 1928. Since his father came from Banten and his mother from Solo, he claimed to be half Sundanese and half Javanese. He spent his childhood in Jakarta, raised by his aunt during the Dutch colonial period. He only moved to Solo and rejoined his parents when he attended junior high school. He also started
Radius Prawiro is a Javanese, born on 29 June 1928 in Yogyakarta. He spent his childhood in Yogyakarta, where he learned about his grandparents’ milk business. He stayed in the city until he graduated from senior high school. Solo and Yogyakarta, located in Central Java, are dominated by agricultural production, but not the kinds of agriculture that can benefit directly from currency devaluation. These are rice-producing areas, not areas producing export-oriented agricultural products such as rubber, as in the Outer Islands. Thus, it is not likely that Wardhana’s and Prawiro’s regional and ethnic origins influenced their decision to devalue the rupiah.

A similar argument can be made about the social origins of Nigerian policy-makers. Oluleye was born on 20 April 1930 in Efon-Alaaye, West Nigeria (now Ekiti State). Efon-Alaaye is mainly inhabited by Yoruba like himself. The main economic activity in Ekiti State is agriculture, in which about 75 percent of the state’s working population are engaged. It is one of Nigeria’s largest producers of rice, palm oil and cocoa (Nigeriagalleria.com, 2004). Soley, a Yoruba, was born in Abeokuta, West Nigeria. He spent his childhood in the western part of Nigeria, which was well known in the 1960s as a cocoa-producing area. Oluleye’s and Soley’s decisions not to devalue the naira in 1978 and 1984 do not seem to be related to any (romanticized) affection for their region of origin. Regional interests may be relevant to the 1970s and 1980s, when not many cocoa exporters remained in the region. A romanticized regional background may, however, be relevant for Okongwu, who decided to devalue the naira in 1986. Okongwu is an Igbo who was born in Enugu, East Nigeria (now Anambra State), on 23 September 1934. In the 1960s, the eastern part of Nigeria was famous as a palm-oil-producing area. Devaluation could have helped increase palm-oil exports. However, it should be remembered that during the Biafran war at the end of the 1960s, many of the oil-palm plantations had been destroyed. Thus, the significance of the regional and ethnic origins of these two policy-makers should not be overstated.
Academic Background of the Policy Elites
The relevance of the personal biographies of policy-makers lies particularly in their academic background. Ali Wardhana, Radius Prawiro and Okongwu, who devalued their currency, had been trained in economics. Ali Wardhana earned his bachelor’s degree from the Faculty of Economics, University of Indonesia (FEUI) in 1958. While studying for this degree, he wrote *Foreign Exchange and Its Implications in Indonesia* (Wardhana, 1957). With a scholarship from the Ford Foundation, he then studied at the University of California at Berkeley and obtained his MA in economics there in 1961. In 1962, he successfully completed his PhD at the same university, with a dissertation titled ‘Monetary Policy in an Underdeveloped Economy, with Special Reference to Indonesia’. Radius Prawiro studied engineering at the Faculty of Engineering, Gadjah Mada University, Yogyakarta. After one year at that university, he moved to FEUI in Jakarta. At the time, he was sponsored by the Department of Finance, where he was registered as an employee. He studied economics for two years at FEUI before continuing his education at the Nederlandse Economische Hogeschool in Rotterdam (1953-1960), where he studied business economics. After returning to Indonesia, he studied accounting at FEUI.

Okongwu went to Boston, Massachusetts, USA, to study economic theory at Boston University, finishing in 1961. Among his teachers there were John R. Meyer, Gottfried Haberler and Robert Dorfman, all well known for their quantitative analyses (Okongwu, 1987). John Meyer was well known for his quantitative approach, particularly in the area of transportation. Gottfried Haberler ‘was one of the first economists to make a rigorous case for the superior productivity and universal benefits of “free” or politically unrestricted international trade in terms of the modern subjective theory of value’ (Salerno, 2010). Haberler actively opposed protectionist and inflationist policies. Meanwhile, Dorfman was an expert on econometrics. In 1961, Okongwu was a research assistant at the Board of Governors of the Federal Reserve System, Washington DC. In 1965 he got his PhD from Harvard University, Massachusetts, USA. Professor Lattee, A. Fahm and Ayo Ogunsheyeye were part of his Harvard-MIT circle discussing Nigerian
affairs (Okongwu, 1987). He returned to Nigeria just before the first military coup. From 1965, he was a lecturer at the Economic Development Institute, University of Nigeria, Enugu campus. In addition, from 1965 to 1970, he was also a staff member at the Centre for Development Planning, Projections and Policies, UN Secretariat, New York, USA. At the centre, he worked on country growth models with Mark Golansky and Jacob L. Mosak (Okongwu, 1987). He also studied at the Nederlandse Economische Hogeschool (Netherlands School of Economics) in Rotterdam for one year. During that period, he often had lunch-time discussions with Professor Jan Tinbergen, a Dutch economist who was a winner (with Ragnar Frisch) of the first Nobel Prize for economics.

How about Oluleye and Soley? Oluleye attended St Luke’s College in Ibadan after leaving primary school. He taught briefly after completing his teachers training. In 1959, he opted for a military career, attending the Regular Officers Special Training School in Ghana. He was also at the Nigerian Military Training College in Kaduna, and the Defence Services Staff College in Wellington, India. He joined the Nigerian military as an officer cadet, rising to second lieutenant in 1960. He was with the First Battalion, Enugu, from 1961 to 1963. From 1964 to 1965, Oluleye was chief mortar instructor at the Nigerian Military Training College. In 1966, he became the commandant, operations officer, Nigerian Army Headquarters, and then general officer commanding of the Second Infantry Division, Ibadan, between 1970 and 1975. Prior to his appointment as federal commissioner for finance, Oluleye did not have any economics training.

Soley attended the London School of Economics and Political Science and the University of Manchester, UK. He is a sociologist, but many think of him as an economist because of his London School of Economics background. In fact, he says he prefers to see himself as a sociologist rather than an economist. His interest is particularly the sociology of industry and industrial relations, studying relations between management and workers in companies and factories (Interview 12/05/2009). In 1967, he joined the staff at the University of Ibadan and was a junior research fellow at NISER. He retired in 1996 as a senior lecturer in the Department of Sociology, Faculty of Politics, University of
Ibadan. He is a life member of the Nigerian Economics Society, and a member of the International Industrial Relations Association.

Differences in academic background of the policy elites manifest themselves clearly in their ideology. Ali Wardhana is a self-proclaimed market-oriented economist. He believes in market forces managing the economy. He sees financial liberalization as his major achievement. This is stated in his keynote address at an annual conference held by the Australian National University, called Indonesian Update 1994, titled ‘Financial Reform: Achievements, Problems and Prospects’ (Wardhana, 2000). He says the title is actually a disguised reference to a market economy, because market economy as an aim was ‘taboo’ among economists at the time. When Indonesian policy was dominated by the principle of a ‘guided economy’, the economic situation was terrible. Ali Wardhana then introduced measures to move toward a market economy, to liberalize the economy, which was important to achieve Indonesia’s economic development. He wanted everybody to be able to participate in the market, not only state enterprises. Responding to a question about how Indonesian government policies of the period were regarded by many people as having too many regulations, he says that it was because there was too much resistance to reform (Interview 29/11/2008). Therefore, economists had to wait for the right time to carry out the proposed reforms. His article in 1965 on *Inflasi dan Ketegangan-Ketegangan Strukturil* describes the tensions between the structuralist and the monetarist groups that he faced during his tenure in the New Order, even though he says that the article is merely academic and that the tensions in the cabinet were due more to certain groups wanting to protect their own interests rather than to a difference in economic views.

Radius Prawiro was a pragmatic liberal economist who believed in a market economy. This can be seen clearly in his book, *Pragmatism in Action* (1998). His address to the Indonesian Institute for Management Development at the tenth graduation ceremony of its MBA program in Jakarta in 1989 was titled *Back to the Wisdom of the Market Economy*. In that speech, he acknowledges that so far Indonesia has never adopted a market economy. Instead, ‘Indonesia has followed what is generally referred to as an “interventionist” approach to economic management’
(Prawiro, 1989). Since the First Five-Year Development Plan in 1969, ‘Indonesia has enjoyed 20 years of rational and systematic economic development’ (Prawiro, 1989). His free-market but pragmatist stance can also be seen in the following statement:

In the case of our ‘private sector’ [...] we believe monopolistic practices are not appropriate to achieving our goal of balanced economic growth. To avoid this, our approach in Indonesia – especially during the new era of reform and deregulation of the 1980s – has been to open the door to greater competition, including foreign investment, and to let the marketplace regulate itself. These steps have by no means caused a weakening of the larger business groups – indeed, in this new environment, many of our so-called ‘conglomerates’ are thriving even more vigorously. (Prawiro, 1989)

As to foreign-exchange management, in a briefing to the branch heads of Bank Indonesia (Indonesia’s central bank) on 4 November 1966 in Jakarta, Radius Prawiro said that multiple rates of foreign exchange had led to distortion everywhere. To eliminate the distortion, there was a need to adopt a single exchange rate against foreign currencies. This single exchange rate would apply to all transactions, without exception, both for private and for government agencies. In addition, as far as possible, he advocated returning to a policy of setting the exchange rate based on supply and demand (Patmono, 1998).

Oluleye was an avid reader, and he authored Military Leadership in Nigeria 1966-1979 and Architecturing a Destiny. Unfortunately, the two books do not really say much about his views on economic management since they focus mainly on internal security (see Oluleye, 2001:134). Limited notes on the Nigerian economy, particularly on devaluation, however, can be found in his Military Leadership in Nigeria. He notes that there was pressure from the IMF for devaluation, a measure that he thought would not solve the problems of the Nigerian economy, but would only ‘postpone the evil day’ (Oluleye, 1985:210).

Soleye believes that governance is not an accountancy issue. The best way to manage finance and economic development is by a political
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economy approach. According to Soleye, government budgeting is not just a matter of marginal productivity. Policy-makers need to be politically aware of people who may or may not accept a policy. Therefore, sometimes the government needs to implement a project that is not economically viable in the first one or two years, but may lead to other dividends such as innovation. A government project should seek not only profit, but also social benefit (Interview 12/05/2009).

Similar to Oluleye, Soleye recalls that the pressure from the IMF to devalue the currency was what he describes as tremendous. Moreover, he did not believe the proposal to devalue the naira by 30 percent initially and later by 50 or 60 percent would be successful (see also Kalu, 1996:235). It should be noted that when the Buhari regime took power, the economy had been hopelessly mismanaged. Unfortunately, Soleye recalls that when he went to the US Department of State asking for economic help, he was blamed for not cooperating with the IMF. There were always two requirements: to devalue the naira and to get out of OPEC. He recalls that Donald T. Regan, White House chief of staff, said: ‘No IMF no credit, no IMF no aid’ (Interview 12/05/2009).

Conclusion
Devaluation is a complex macroeconomic measure. Although there is almost no disagreement among economists on the importance of having a realistic exchange rate, taking the step of devaluing a currency is always controversial. The decision to devalue or not to devalue is made by policy-makers, but the impacts of the decision are widespread. Devaluation is a painful decision that has ‘winners’ and ‘losers’. Export-oriented sectors, such as agriculture in Indonesia, would benefit, while the import-dependent urban-industrial sector as well as other tradable sectors would be hurt. In Indonesia, there was an attempt to compensate the ‘losers’ through several measures, such as decreasing import fees on raw materials and measures to control inflation. It is more complicated if the authorities take into account interest groups, such as black-market racketeers, who take advantage of the difference between the official and the black-market exchange rates. Devaluation also increases the probability of a regime, as well as a minister of finance, being replaced
(Wing, 1988:335). Therefore, there is a need to ensure that negative effects of devaluation, such as inflation, are seriously considered.

Furthermore, devaluation involves not only domestic actors but also international players, particularly the World Bank and the IMF. As noted by Denoon (Denoon, 1986:20), a country usually devalues its domestic currency ‘before, during, or shortly after the provision of IMF standby credit’. This can be seen in Nigeria as well as Indonesia. In Nigeria, as noted by Oluleye and Soleye, it was the IMF who prescribed the devaluation. Similarly, Pangestu (1996) speculates that in Indonesia the idea for devaluations in the 1970s and 1980s came from the IMF and the World Bank, as well as from the economic ministers. Economist-technocrats find it easier to connect with the IMF and the World Bank, as they use the same language, namely that of economics. Another thing that should be considered is the relationship of the country’s regime with international organizations. Ali Wardhana and Radius Prawiro worked under Suharto, who turned to the IMF and the World Bank for support. Similarly, Chu Okongwu worked under Babangida, who had promised to continue working with the IMF in his first speech upon assuming power (Biersteker & Lewis, 1997). In contrast, Oluleye and Soleye were close to Obasanjo, who preferred protectionist measures in the 1970s, such as indigenization policies.

Along with all the political and economic explanations, it is useful to consider the personal background of policy-makers, particularly their educational background. It seems that those who had more training in economics preferred the benefits of having a realistically valued currency. This is one way of making sense of the fact that Ali Wardhana and Radius Prawiro chose to devalue the rupiah several times in order to keep the currency at a realistic price in order to boost exports, and also to prevent a decrease in government revenue. And that Chu Okongwu, an economist-technocrat during Babangida’s regime, also chose to devalue the Nigerian naira in order to help the economy. By contrast, Oluleye (a military) and Soleye (a sociologist) tended to see devaluation as a power play among economic actors; they saw devaluation more as a measure by the IMF to control the Nigerian economy, and therefore they refused it.