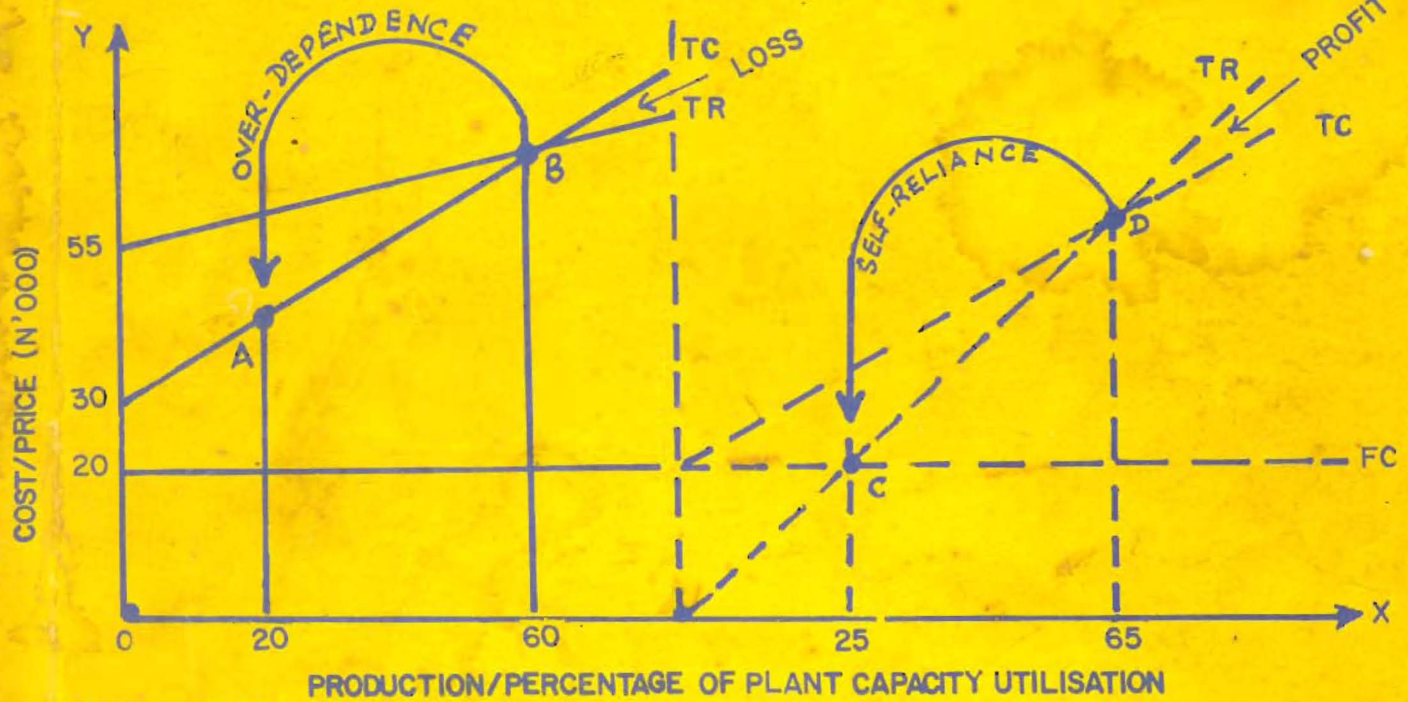
ISSN 0189-3319

NIGERIAN JOURNAL OF FINANCIAL MANAGEMENT

INTERNATIONAL REVIEW OF FINANCE

Half Yearly

NIGERIA'S OVERDEPENDENCE ON MNCs.•



TRANSFER OF SOPHISTICATED TECHNOLOGY SETTING UP OF ASSEMBLY PLANTS/TURNKEY UNITS

TRANSFER OF APPROPRIATE/ADAPTED TECHNOLOGY DEVELOPMENT OF MANUFACTURING BASE

IRRATIONAL ECONOMIC 'GROWTH'

ORGANIC ECONOMIC 'DEVELOPMENT'

(Key to be found inside)

•MULTINAITONAL CORPORATIONS

CENTRE FOR FINANCIAL MANAGEMENT AND RESEARCH
INSTITUTE OF MANAGEMENT AND TECHNOLOGY, ENUGU
NIGERIA

VOL. 2 No.1 JUNE 1983

A CRITICAL APPRAISAL OF THE WAGE STRUCTURE IN THE NIGERIAN ECONOMY 1974 - 1983: A FINANCIAL MANAGEMENT ANALYSIS*

By

DONALD N. IKE, M.A., Ph.D
READER IN ECONOMICS
INSTITUTE OF MANAGEMENT & TECHNOLOGY
ENUGU, NIGERIA

"Our salaries and wages are out of tune with what the economy would dictate and in comparison with the world situation".

His Excellency Dr. Alex Ifeanyichukwu Ekwueme,
Vice President, Federal Republic of Nigeria and
Chairman, National Economic Council (NEC),
New Nigerian, March 4, 1983, p.1

"The same reasons which limit the efficacy of increases in the quantity of money as a means of increasing investment to the optimum figure apply mutatis mutandis to wage reductions... so a moderate reduction in money wages may prove inadequate while an immoderate reduction might shatter confidence even if it were practicable."

Lord John Maynard Keynes, The General Theory of Employment, Interest and Money, New York (1965) pp. 266-267

INTRODUCTION

Wages and salaries are components of the cost of production. They are also to be seen as prices of labour services. When commodity prices rise, the prices of labour services should also rise pari-passu so that labour is not undervalued or exploited. The real value of wages and salaries plummet with rapid rises in the costs of wage goods. This consequent exploitation of labour could lead inevitably to lower worker commitment, frustration and indiscipline. These psychological dispositions and other unseemly but accommodating behaviour on the part of the workers in order to help them hedge against the rapid increases in prices have adverse consequences on productivity. Further, workers often resort to strike actions in order to raise the real value of their money wages at the face of price changes.

---

* The author is immensely indebted to Professor M. R. K. Swamy for invaluable professional comments and advice.

STRIKES AND ECONOMIC WASTE

It is well known that strikes constitute a wastage of resources in the economic system. They paralyse economic activities and create diseconomies that are not internalised in the economic system. Economic agents who use the resources that are temporarily unemployed incur costs that are not remedied by appeal to higher authorities. Further there are direct costs consequent on the withdrawal of human resources from the productive process. Thus in order to reduce or remove these attendant costs, the State should not by acts of omission or commission encourage workers to resort to unnecessary and costly strike actions.(1)

Apart from the necessity to mitigate a possible strike action, the facts are clear for frequent wage and salary reviews. A look at salary reviews in the country show that they have no frequency equal to the persistent and debilitating effects of price increases. Prices rise from day to day, month to month and year to year with a remarkable upward trend manifesting downward inflexibility. Wages were reviewed in 1954, 1955, 1959, 1961, 1971, 1974-75 and 1981-82. All these were delayed actions which left the workers not better-off since the encroaching rapacities of rising prices have in each case eaten deep before the Government could rally to the cries and grunts of the, nearly as a result, dispossessed workers.

The rise in the price of wage goods tend to affect the lower income groups more adversely than the upper income groups. This is because the lower income groups spend a larger proportion of their income on food. Their marginal propensity to consume is higher than for the upper income strata and their consumption is biased in favour of food-related products. Workers on the higher income strata on the other hand suffer disproportionately from the rise in the price of foreign produced goods since these goods are more likely to be superior goods with high income elasticity of demand.

Thus a reduction in the tariff barriers will benefit workers in the upper income class. With the Economic Stabilization Act (1982) the tariff barriers are becoming more prohibitive and the plight of this income class is worsening as a result. The efforts of the present Government to increase productivity in agriculture through land reform measures, mechanised farming and the like would benefit the lower income strata. Hitherto, the agricultural sector was a neglected sector in the Nigerian economy. Growth in productivity of two per cent per annum falls short of the rate of population growth, thus manifesting a Malthusian possibility, if not for present efforts of Government to stem the tide.

PUBLIC SECTOR WAGE STRUCTURE

In order to help facilitate economic expansion, development and growth of the Nigerian economy, wages and salaries in the public sector may be reviewed frequently to reflect:

(a) A rational co-existence with wages and salaries in the private sector.

(b) Increases in commodity prices as measured by a composite price index weighted differently for the lower and upper income strata.

(c) A discernible growth in productivity which could be estimated from cross-section industry and farm data weighted and applied to the public sector.

Thus between any two periods, the productivity and price data should be cumulated and applied as an escalator to update wages and salaries. Differences in public and private sector wages would consequently be based on differences in productivity, the higher profit situation in the private sector and not the inefficiencies induced on the public sector by delayed reaction to price changes. It is the contention of this paper that such yearly adjustments will reduce redundances and over-establishments in the public sector since the higher wage bill would induce optimizing behaviour on the part of public sector agents. Further productivity gains will be recorded as productivity or real income gap will narrow in the process as wages respond to an optimal pattern. The productivity gap will be estimated later.

The 1974 Udoji Review Report recommended a yearly review of salaries and wages and this recommendation was upheld by the Government but never implemented. Only minor adjustments were made for workers in the lower salary levels (01 - 06) and for eight years no general salary/wage review was contemplated. The 1980-82 Incomes Policy adjustment of maximum 15 per cent and 10 per cent respectively for the lower and higher income brackets implemented in 1982 was the only other review since the 1974 exercise. The 1981 Cookey Commission[2] and Onosode Commission[3] applied specifically to the Universities and parastatals respectively. The Onosode Report parenthetically recommended yearly review of salaries and wages of the Unified Grading and Salary System and this was noted by the Government. It is hoped that the Government would this time implement this recommendation.

FIXING OF MINIMUM WAGE

From 1979, the Nigerian Labour Congress (NLC) advocated for a ₦300/month minimum wage. The Federal Government's 1980 Budget Proposals granted a hundred naira per month minimum wage. This reflected a $66\frac{2}{3}$ per cent increase over the prevailing minimum wage which was ₦60 per month. As shown on Table 1 below the composite price index has increased by 104 per cent over the 1975 prices. The minimum wage of ₦60 per month was applicable after the Udoji - Williams review of 1975. An increase to ₦100 in 1980 still falls short of the amount required to keep real income constant assuming zero growth in productivity. This assumption may be accurate for the relevant income class in the public sector but not so in the industrial sector since advances in techniques embodied in capital of newer vintages are prevalent in use in all areas of Nigerian industry.

TABLE I

TRENDS IN CONSUMER PRICES IN THE NIGERIAN ECONOMY: 1979-1982

(Base Year 1975 = 100)

Year	Index Number	Percentage change over the Preceding Year
1979	186.3	-
1980	204.8	9.9
1981	247.5	20.8
1982	255.5	3.2

Source: Federal Office of Statistics, Lagos

But assuming zero productivity, the ₦100 per month minimum wage has not compensated for the changes in prices over the period and as such the workers are still on a lower real income level and the basket of goods they can command individually has fallen over the relevant time period. The consequence is a lowered standard of living. The National Assembly came to the rescue with a ₦125 per month minimum wage which is now operative.

The ₦125 per month minimum wage was adequate for 1980 since it compensated workers for the changes in prices over the relevant time period. It involves a 108 per cent increase over the 1975 minimum wage and as shown in table 1 above this is higher than the cumulated change in prices over this time interval which is 104.8 per cent. The price level changes for 1982 over 1975 is 155.5 per cent. Thus for subsequent years after 1980, the minimum wage of ₦125 per month would not compensate for price level changes showing a fall in real wages. Progressively with constant minimum wages, real wages plummet and the standard of living of the lower income strata follow suit.

A minimum wage is necessary only when workers are exploited, when they are paid a wage below that dictated by the underlying supply, demand conditions for workers in the relevant industry. A minimum wage higher than the equilibrium wage for workers as dictated by the supply/demand nexus would have dire economic consequences. Some of these consequences are increased unemployment, increased general level of wages, inflation and reduced standard of living.

When the price of labour is held above the equilibrium level, more workers would be ready to supply their services since at higher wage level fewer workers are demanded by employers, since the higher the wage, the fewer the number of workers employers can absorb. These conclusions follow from the law of demand and supply. Thus at a higher wage, there would be an excess supply of labour which automatically translates to a higher level of unemployment.

According to the Phillip's curve(4) which is an empirical relationship derived from data in developed capitalist world, a trade off exists between unemployment and inflation. Thus increasing the level of unemployment would wipe off an inflationary spiral and vice-versa. Consequently a dilemma of choice exists for society between reasonable levels of employment and inflation or stable prices and considerable unemployment. This conclusion seems to have been contradicted in contemporaneous experience in the Nigerian economy. Professor Swamy's diagnosis of the Nigerian economic problem as one of "stagflation" is substantiated by an annual rate of growth of prices of over 10 per cent and an unemployment level of over 62 per cent.(5) And according to Lord Keynes any increase in prices before the level of full employment is not inflationary, true inflation sets in after the level of full employment is reached. The problem with Nigeria is a combination of unemployment and increase in prices.

The Phillip's trade off can still go on in the Nigerian situation with an unacceptable level of unemployment for reflation or a much higher level of prices for necessary reductions in the level of unemployment. The inflationary consequences of increased wages can come from the effect of high wages on demand for goods and services (demand-pull) or from the effects of higher wages on the cost of production of goods and services (cost-push). Both have positive impact effects on prices.

Minimum wages should thus be restricted to the public sector where wages are normally lower and workers can consequently be exploited. This is illustrated in full in Table II below showing higher private sector wages. In the private sector, the need to maximise profits would lead to a more rational employment outcome, dictated by the desire to minimise costs (including wage bill) and maximise revenue. Workers are demanded for what they would produce and are paid according to what they have produced. A legally binding minimum wage would thus be disharmonious as it could lead to shortages or surpluses depending on whether the wage is above or below an equilibrium level for the category of labour in the industry.

COMPARISON OF WAGES AND SALARIES IN THE PRIVATE AND PUBLIC SECTORS

In the private sector, by minimising costs and optimizing profits, the firms have a ready check against excessive growth in the number of employees. The private sector could be said to operate relatively more efficiently by ensuring that the responsibilities that affect productivity earnings and profits, which are important parameters in determining wages, are promptly discharged by decision makers by reducing the number of intermediate circuits through which such problems are handled.

In the public sector, social, environmental and political considerations often loom large in the setting of grades of pay. Such factors include political pressure in hiring and dismissing of personnel, ethnic balancing of employment, trade union pressures, etc. Such factors are also becoming increasingly applicable in the private sector but to a much lesser extent since the objective considerations of productivity earnings and profits do supercede these potential subjective inclinations in industry.

TABLE II

TOP MANAGEMENT SALARY SCALES IN THE NIGERIAN ECONOMIC SET UP

₦

PUBLIC SECTOR ₦ (A)	PRIVATE SECTOR ₦ (B)	Col. B / Col. A (in %) (C)
Range 10,000 - 14,000 Mean 11,000	12,000 - 40,000 21,500	- 195
Intermediate Salary Scales		
Range 3,500 - 10,000 Mean 5,000	3,700 - 18,000 8,045	- 161
Junior Staff Salary Scales		
Range 850 - 3,500 Mean 1,580	1,200 - 4,640 2,216	- 134

Source: Federal Republic of Nigeria Addenda to the Report of the Presidential Commission on Parastatals, Federal Government Press, Apapa pp. 16-17.

In Table II is indicated the range of top management salary scales, intermediate and junior salary scales respectively in both the public and private sectors. The private sector salary scales are generally more than the 17 grade levels of unified grading system introduced by Udoji Public Service Review Commission and subsequent amendments. Even though the top management salary scale in the public sector falls within the lower range of some of the private sector private scale, its estimated mean of ₦11,000 is still about half of the estimated weighted mean for the corresponding scale in the private sector. As shown in Table II, the private sector weighted mean is 195 per cent of its public sector equivalent.(6) Top management in the public sector corresponds to the Grade levels 15 to 17 of the Udoji scale.

For the intermediate and junior salary scales, the private sector weighted salary means are still higher, 161 per cent and 134 per cent respectively of their public sector equivalents. As shown in Table II the differences are narrowed as one regresses from top management to junior staff salary scales, showing that the top management appropriates the greater share of the higher profit situation in the private sector. The intermediate salary scale corresponds to G.L. 08 to 14 while the junior salary scales include G.L. 01 to 07.

It is instructive that it is precisely in the top management grade that the most acute discontent appears to have emerged in the public sector wage complaints.(7) This is also shown by the higher migration rate in this strata. It is also within the top public sector management grades that "compensatory" action appears to have been most significant in the form of housing and transport allowance. Since the revision of the minimum wage to ₦125 per month, the wage differential in the junior staff salary scales has tilted in favour of the public sector workers. The comparison was made with the pre-existing minimum wage of ₦60 per month. The recommendation by Onosode Presidential Commission on Parastatals(8) for a substantial upward revision of top management salary scales in the public sector was rejected by the Government. Instead some minor revision was made in conformity with the Incomes Policy Guidelines of the Federal Government for the period 1980 - 1982 extended to 1983. Thus the differentials in the upper and intermediate salary scales in favour of the private sector persists.

With the revision of minimum wage to ₦125/month the public sector Junior Staff Salary scales have outpaced their private sector equivalents. According to J. B. Cairnes' theory of non-competing groups,(9) workers of the same interest tend to come together to effect demands for increased wages. The interests of the lower income strata seems to converge in their favour as their relative share shows a remarkable upward trend especially in the public sector. In practice, the Nigerian Civil Service Union and the Nigerian Labour Congress have both been very vocal in their demand for enhanced minimum wage. No equivalent demand for the upper income brackets, for increased cost of living allowances, or enhanced salaries have been made.

Public sector salary scales are lower than the private sector equivalents because Government's main source of revenue which is oil is experiencing a glut in the world market with consequent lowering of demand for Nigerian oil and much reduced revenues. The Governments capacity to finance higher wages is being whittled down. From an oil production level of two(10) million barrels per day in 1980 and at the price of $40 per barrel, the oil production level in 1983 has gone down to below one million barrels per day and at the lower price of $30 per barrel. Revenues are now at very reduced levels to finance enhanced wage budget and leave a surplus to be transferred to the capital development fund.

PRIVATE SECTOR WAGE STRUCTURE VIS-A-VIS PROFIT EARNINGS BY MULTINATIONAL CORPORATIONS

On the contrary the private sector is made up of a few multinationals and their subsidiaries. Companies like Bata, Berec, Bewac, CFAO, SCOA, Cadbury, Metal Box, Nigerian Tobacco, Tate and Lyle, Texaco, Union Bank, John Holt, etc. are subsidiaries of Multinational Corporations which rake off enormous profits from Nigeria. According to Professor Swamy profit rates of as high as 200 per cent are made by these subsidiaries who repatriate a significant portion to their parent companies.(11) The high profit situation predicates the high salaries paid to top management cadre in these companies.

Thus the National Economic Council Chairman's statement as earlier referenced that "our salaries and wages are out of tune with what the economy would dictate and in comparison with the world situation," was applicable to the private sector top management salary scales, not to their public sector equivalent. What one understands from his statement is that we should not expect a public sector salary revision comparable to their private sector equivalents. This is because circumstances are different as analysed. Thus a one to one relationship between public sector and private sector top management scales would run counter to economic realities of the differential relative profit/revenue endowments of the two sectors. Also the public sector junior staff scales with their increased strength as per the theory of non-competing groups may correspond to the National Economic Council Chairman's statement. The junior staff scales in the public sector are now higher than their private sector equivalents.

This statement by Dr. Alex Ekwueme, the Chairman of the National Economic Council was taken to mean that the Government was contemplating a reduction in the salary scales. The statement thus elicited an out-pouring of adverse commentary on the alleged intention of the Federal Government. A reduction of public sector money wages in the face of the gap between private sector and public sector salary levels would be patently sub-optimal. The magnitude of private sector wages cannot be directly influenced by Government so any salary cuts would affect the public sector workers disproportionately. As John Maynard Keynes posited, workers would resist a cut in their money wages.

Thus a cut in money wages is not a practical solution to the problem of unemployment or recession in the economic system. A practical alternative has been advocated as a cut in real wages. If money wages increase while the price level increases more than the rise in money wages, real wages fall. This "money illusion" as it were is a practical alternative to a cut in money wages. While the nominal magnitudes of money wages may remain constant or increase, the real magnitudes would fall as a result of the disproportionate rise in the cost of wage goods. Government can still achieve the same objective as a cut in money wages through the instrument of "money illusion" which to the author explains the present and applicable Nigeria strategy.

ANALYSIS OF PUBLIC SECTOR WAGE STRUCTURE: 1974-83

Table III below shows the distribution of the revised Udoji salary scales (amongst other scales) as they were in 1975. The lowest grade level had a salary range of ₦720 - ₦870 per year and the highest grade level had a range of ₦12,696 - ₦13,968 per annum. A look at the implementation of the 1980-82 Incomes Policy Guidelines by the Federal Government as shown in the same table shows that the lowest grade level has increased to a new range ₦1,500 - ₦1,650 per year. This represents more than 100 per cent rise for the lowest income class. As shown in Table I and as earlier indicated the composite price index increased by less than this same amount within the same time interval (104 per cent as against 108 per cent) showing that the lowest income class has been more than compensated for the changes in the cost of living in the relevant period. The minimum wage in the public sector is even higher now than that in the private sector and entrepreneurs (NECA)(12) in the private sector have consistently resisted the minimum wage legislation.

In the highest income level (G.L. 17) the increase to a new range of ₦13,812 - ₦15,084 per year is less than a 10 per cent increase from the 1975 level. Since the price of wage goods has increased by more than 100 per cent in the relevant period, workers in the highest grade levels have not been compensated for the increases in the cost of living as such their relative positions is getting worse. The real value of their income has fallen substantially. As indicated earlier, from the higher grade levels of the public sector has emerged the most acute discontent in the public sector wage complaints. Efforts by Onosode to make amends by recommending a salary scale that would take care of discerned increases in the cost of living applicable to this income class was rejected by Government.(13)

RECENT DEVELOPMENTS IN THE SALARY STRUCTURE

Some arms of the public sector have been delinked from unified salary system. These are the University staff, Central Bank and some parastatals. This followed the acceptance of the various reports(14) set up by the Government to review conditions of service in these areas.

ANALYSIS OF WAGE STRUCTURE IN NIGERIA

(UDOJI/WILLIAMS 1975 SALARY SCALES, 1980-82 INCOME POLICY GUIDELINES AND THE UNIVERSITY SYSTEM SCALE (U.S.S) COMBINED)

GRADE LEVEL	A. UDOJI/WILLIAMS AWARD		B. 1980-82 INCOMES POLICY GUIDELINES*	C. UNIVERSITY SYSTEM SCALE COMBINED		
	RANGE (₦)	INCREMENTAL RATES	RANGE (₦)	GRADE LEVEL U.S.S.	RANGE (₦)	INCREMENTAL RATES
1	720 - 870 (7)	24 - 30	1,500 - 1,650	1 (xx)	1,560 - 1,776	36
2	804 - 984 (7)	30	1,530 - 1,710	2 (xx)	1,620 - 1,908	48
3	900 - 1,140 (7)	36 - 42	1,572 - 1,824	3 (xx)	1,920 - 2,424	84
4	1,164 - 1,416 (7)	42	1,752 - 2,004	4 (xx)	2,436 - 3,084	108
5	1,440 - 1,872 (7)	72	1,986 - 2,418	5 (xx)	3,120 - 3,912	132
6	1,908 - 2,484 (7)	96	2,418 - 2,994	6 (xx)	4,008 - 5,016	168
7	2,496 - 3,216 (7)	120	3,174 - 3,894	7 (xx)	5,136 - 6,216	180
8	3,264 - 4,164 (7)	150	3,924 - 4,824	8 (xx)	6,336 - 7,488	192
9	4,368 - 5,340 (7)	162	5,112 - 6,084	9 (a)	7,550 - 8,040	204
10	5,460 - 6,432 (7)	162	6,282 - 7,254	10 (a)	8,148 - 8,868	240
11	6,444 - 6,984 (4)	180	7,320 - 7,860	11 (a)	9,000 - 10,080	360
12	7,104 - 7,752 (4)	216	8,034 - 8,682	12 (a)	10,092 - 11,352	420
13	7,764 - 8,724 (4)	320	8,712 - 9,672	13 (b)	11,364 - 14,820	576
14	8,868 - 9,828 (4)	320	9,858 - 10,818	14 (c)	12,732 - 14,052	660
15	9,996 - 11,028 (3)	516	11,046 - 12,078	15 (d)	14,280 - 15,720	720
16	11,268 - 12,420 (3)	576	12,354 - 13,506			
17	12,696 - 13,968 (3)	636	13,812 - 15,084			

Sources: A. Public Service Review Panel (Akintola-Williams) Main Report, Federal Ministry of Information, Printing Division, Lagos, 1975

B. Federal Republic of Nigeria, Implementation of Incomes Policy Guidelines, Establishments' Department, Lagos.

C. Government View on Cookey Commission Report Op. Cit. U.S.S. has 15 levels.

Notes: Figures in brackets refer to the number of steps on that particular grade level.

* Number of steps and incremental rates are the same as in Column A (Udoji/Williams Award)

(a) 4 steps (b) 7 steps (c) 3 steps (d) 2 steps (xx) 6 steps.

A look at the University System Scale (U.S.S.) which is now operative in the universities in Nigeria, both state and Federal[15], shows considerable improvements on the 1975 Udoji-Williams scales. The lowest grade level ranging from ₦1,560 to ₦1,776 per annum is more than a 100 per cent increase from the Udoji scale. The highest grade level which now ranges from ₦14,280 to ₦15,720 is about 30 per cent increase from the pre-existing Udoji Grade Level 16 which was the applicable scale. Thus in terms of change in the price of wage goods, the upper income class in the Universities have not been adequately compensated but they fair better than their counterparts in the larger public service.

For the parastatals, only the Central Bank and the Nigerian National Petroleum Corporation (NNPC) have benefitted from enhanced awards. The Government is still studying the implications of Onosode Recommendations and their impact on the various categories of parastatals as identified by Onosode Commission. For the Central Bank, the top management level now earns between ₦20,000 - ₦25,000 and this is a considerable improvement on the pre-existing limit of Udoji Grade Level 17. For the N.N.P.C. the comparable range is ₦18,000 - ₦27,000 which also is a considerable improvement with potentiality of adequately compensating this income class for both changes in productivity and changes in the cost of living as measured by a composite price index. The non-implementation of Onosode Report has led to incessant and persistent strikes by affected workers in the parastatals leading to great man-hour losses to the nation.

The distribution of the new University System Scale (U.S.S.) is as shown in Table III above.

For the Polytechnics, the Adamolekun Commission Report, which reviewed conditions of service in these institutions, has been accepted by the Government but has not been implemented so far (June 30, 1983). Polytechnic staff had been on a sit-down strike for a couple of months (April - June 1983) and it is hoped the Federal Government would act soonest in the matter. The Presidential Commission on Conditions of Service in Federal Polytechnics, Colleges of Education and Technical Teachers Colleges was empannelled in 1982 to review service conditions in these institutions.

REAL INCOME OR PRODUCTIVITY GAP

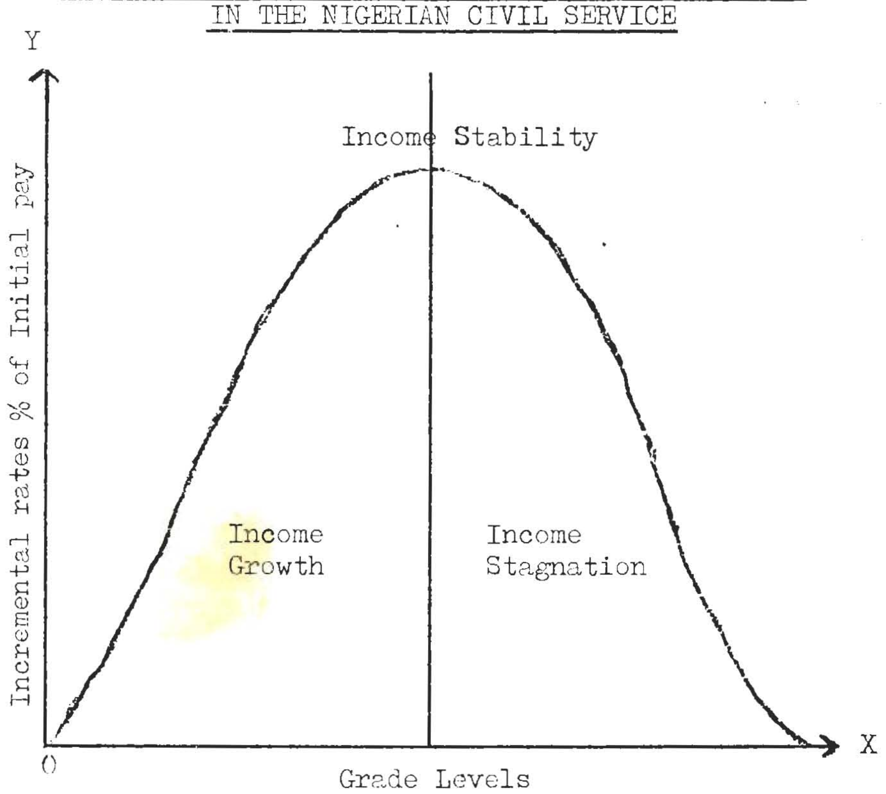
In diagram on page 40 median incomes of the ranges of the grade levels of the different salary schemes since 1974 were traced with the income magnitudes on the vertical axis and the Grade levels on the horizontal axis.(16) The optimal salary path refers to the Udoji salary scale updated to 1980 to correct all price changes as measured by the price index (hundred per cent price correction). The vertical difference between the optimal income path and the prevailing salary scale is productivity or real income gap. The area between the two paths measures the loss in real income or productivity to the system for not operating on the optimal salary path. It is a real income loss to the nation. This is a deadweight loss to the economy since there is no corresponding compensatory gain to any other sector of the economy. It measures and approximates the loss in output, efficiency, employment for running a less than optimal salary system.

As shown in diagram I on page 40 , the loss is less with the U.S.S. salary scale when compared to the other scales to wit: the 1980-82 Incomes Policy Guideline and the 1975 Udoji/Williams salary scale. On the lower salary Grade levels 1 - 7 the U.S.S. scale corresponds to the optimal salary path and the deviations from optimality is lower on the lower salary grade levels of the other salary scales. Thus the hypothesis that the lower existing salary grade levels correspond to an optimal pattern is given empirical validity by this analysis. Also the higher the grade level, the greater the divergence from optimality in terms of rewards in the public sector of Nigerian economy. This is a fact borne out by this analysis. This may be the reason for the earlier documented acute discontent emanating from the top management cadre of the public sector. Overtime, the top management cadre is depopulated by a one way traffic to the private sector where their rewards come closer to the optimal salary path that compensates completely for changes in the cost of living. The Onosode recommendation for repricing the Unified Grading and Salary Scheme and for G.L. 17 to take a three step scale of ₦15,000, ₦16,000 and ₦18,000 respectively would come closer to an optimal pattern, narrowing the real income and productivity gap to a smaller magnitude but not removing it completely. This strategy (Onosode) would help mitigate the movements to the private sector and retain top level skills in the public sector. The Onosode Report is not a salary scale, but a strategy for repricing the erstwhile Udoji wage scale. If implemented, the source of inefficiencies in the public sector, the deadweight loss in effort and productivity would be reduced, but not removed completely.

The relationship between the growth rate of income on each salary grade level (incremental rates as percentages of initial pay) and the grade levels corresponds to a sine curve of growth. At the lower grade levels the growth rate in income shows an upward trend, plateauing at middle income levels and stagnating at higher income levels. This is as shown in diagram 2. There is thus a built in mechanism in the Nigerian salary system as incentives for workers to seek to move to higher grade levels in response to higher income growth. At higher grade levels stagnation sets in, explaining the growing tendency for top management personnel in the public sector to shift to the private sector.

Diagram 2

STAGNATIONARY TREND IN THE UPPER INCOME STRATA IN THE NIGERIAN CIVIL SERVICE



RECOMMENDATIONS

Wages and salaries in the public sector should be adjusted once yearly to at least take care of changes in the cost of living. A Council of Economic Advisers of the Federation consisting of all the Chief Economic Advisers to the State Governments under the joint chairmanship of the two Economic Advisers to the President of the Federal Republic of Nigeria can meet from year to year to recommend limits for approval by the National Economic Council (NEC), since the impact of wage and salary reviews affect the whole nation generally. Thus at the beginning of each year, new salary scales as approved by the NEC will be released and unchallenged by any legislative action. The salaries should be for all categories of workers in the public service of the Federation.

For the short run, an applicable salary scale for the Polytechnics (PSS scale - Polytechnic Salary System Scale) should be released. The P.S.S. scale should correspond to the University System Scale except for the proviso that the Polytechnics do not appoint but can employ already appointed Professors. Thus the University System Scale, the whole 15 Grade levels, should be rechristened a P.S.S. scale for use by the Polytechnics. The Polytechnics should be able to employ professors on P.S.S. 15, but Readership, Chief Lecturership or Senior Principal Lecturership (i.e. P.S.S. 14) should be the terminal horizon of lecturers starting their services in the Polytechnics. They can only be appointed Professors by Universities although their employment can continue in the Polytechnics. P.S.S. 15 should also be the applicable salary range for Chief Executives of these institutions. The relevant allowances for Vice-Chancellors, Registrars, Deans of Faculties and Heads of Departments for the U.S.S. scale should apply also to the P.S.S. scale for the Rectors, Registrars, Directors of Schools and Heads of Departments in the Polytechnics. [It should be noted that the Nigerian Polytechnics are patterned after their British counterparts. In Great Britain, the Polytechnic salary scales are even higher than their University equivalents.] This paper only calls for parity in the Nigerian institutional systems.

For the long run, there should be one salary system applicable to the whole public sector. Thus an extension of the present 17 grade levels should be contemplated to accommodate all levels of service in the public sector. Some levels of service have hitherto been subsumed under a common portmanteau of special grades, these should be classified and graded. A unified level[17] adjusted yearly will remove the source of constant strikes by workers who are goaded into action by comparability of existing relativities. Further such adjustments would lead to an optimal pattern reducing the productivity or real income gap to negligible magnitudes.

Also for the long run, trade unions should also concern themselves with issues affecting productivity and real incomes of workers. Unions should agitate for housing programmes, transport programmes, health measures, recreation schemes and retraining measures. These would affect productivity of workers directly. Real growth would only come about when a substantial proportion of workers at lower grade levels move themselves through higher productivity to upper income brackets. The traditional demand by workers for only salary changes as earlier shown, if not backed by productivity increases would only fuel inflation and the end result is "money illusion" involving only nominal wage increases without real growth in incomes.

This experiment if adhered to would have the following consequences:

(a) Put a stop to the characterization of the public sector as a dumping ground for mediocrity and help mitigate the migration of top level skills from the public sector to the private sector.

(b) Lead to economic stability and economic expansion since the machineries of the public and private sectors, their energising and driving forces will now be well lubricated.

(c) Reduce the wasteful resort to strikes by public sector workers and remove the high economic costs attendant to such strikes.

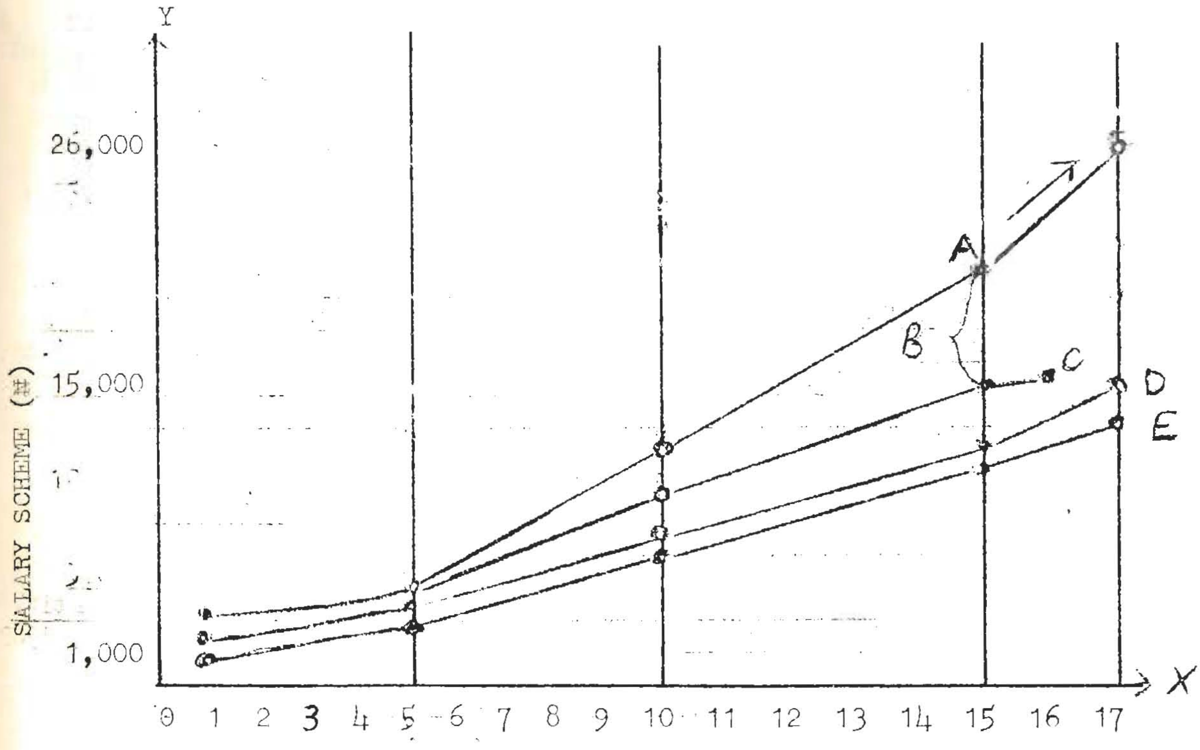
(d) Reduce the level of corruption in the public sector which is a cost to the nation.

(e) Lead to greater efficiency and productivity of the public sector workers and help in reducing real income and productivity gap, -- this would increase public sector output and usable employment.

Brazil since 1969 has followed a similar experiment and economic expansion was the result. In the U.S.A. wages and salaries are adjusted twice yearly, one at the beginning of the year, the other at the middle. Also much of Europe follow similar practice. The consequences have been beneficial to these economies. Why not a similar experiment in Nigeria?

DIAGRAM I

PRODUCTIVITY GAP IN THE NIGERIAN ECONOMY



Key
A - Optimal Salary path
B - Productivity gap with U.S.S. scale
C - U.S.S. scale
D - 1980-82 Incomes Policy Guidelines
E - Udoji-Williams

Analysis of the Diagram

The following distribution was traced in Diagram I representing the median incomes of the respective grade levels. Only five grade levels were used in order to get a trend of the relationships.

(₦)

Grade Level	Udoji	1980/82 Incomes Guidelines	University System Scale (U.S.S.)	Optimal Salary Path
1	800	1,550	1,650	1,650
5	1,660	2,100	3,500	3,500
10	6,000	6,800	8,500	12,000
15	10,500	11,500	14,000*	21,000
17	13,300	14,500	15,200**	26,000

* U.S.S. 14 corresponds to Udoji G.L. 15.

** U.S.S. 15, the last level in the University System Scale, corresponds to Udoji G.L. 16.

REFERENCES

1. The Federal Ministry of Employment, Labour and Productivity estimated that Nigeria lost 8 million man-days as a result of industrial actions embarked by workers in the public and private sectors in 1982. If an estimate of ₦10/day is imputed for man hour costs on the average in 1982, then Nigeria lost ₦80 million as a result of industrial action in 1982, these are costs that could be avoided by better wage policies. See New Nigerian February 15, 1983 p.1.

2. Federal Republic of Nigeria, Report of the Presidential Commission on Salary and Conditions of Service of University Staff (Cookey Report), National Assembly Press, Lagos, 1981. Also see Government's Views on the Report of the Presidential Commission on Salary and Conditions of University Staff National Assembly Press, Lagos, 1981.

3. Federal Republic of Nigeria, Report of the Presidential Commission on Parastatals (Onosode Report), Federal Government Press, Lagos, Oct. 1981. Also see Views of the Government of the Federation on the Report of the Presidential Commission on Parastatals, National Assembly Press, Lagos, 1982.

4. Samuelson, P. A. Economics: An Introductory Analysis, McGraw Hill Book Company, 1967 p.333.

5. (a) M. R. K. Swamy (Prof.), "A Financial Management Analysis of The Nigerian Economic Situation", Nigerian Journal of Financial Management, Vol. 1, No. 2, Dec. 1982, pp. 8-32.

(b) M. R. K. Swamy (Prof.), "Is Inflation or Stagflation Knocking at Doors of the Nigerian Economy", Guest Lecture delivered at the launching of the Financier Magazine University of Nigeria, Enugu Campus, March 1, 1980 (mimeo).

(c) M. R. K. Swamy (Prof.), "Inflation and Economic Development of Nigeria", I.M.T. Convocation Lecture, March 1978 (mimeo).

6. See Federal Republic of Nigeria, Addenda to the Report of the Presidential Commission on Parastatals, Federal Government Press, Apapa, 1981 p.16.

7. Ibid. p.17.

8. Onosode Report, Op. Cit. p.15.

9. See Samuelson, P. A. Op. Cit. p.552.

10. See Nigerian Journal of Financial Management Vol. 1, No. 2, December 1982, p.v.

11. See U. J. Okereke, "The Anatomy of Financial Waste in Nigeria Through Multinational Corporations", Nigerian Journal of Financial Management, Vol. 1, No. 1, June 1982, pp. 35-40.

12. Nigerian Employers Consultative Association which is the employers association in Nigeria. This group martialled out points against minimum wage. See Financial Punch, Monday June 8, 1981, p.16.

13. The Onosode Commission recommends that jobs within the Unified Grading and Salary System should be repriced and that G.L. 17 posts within the system should be on a three step salary scale ₦15,000, ₦16,000 and ₦18,000. The salaries of Head of Civil Service of the Federation and similar Government posts above G.L. 17 should undergo a corresponding review. See Onosode Report, p.15.

14. See the Cookey Report and the Onosode Report plus the associated Government Whitepapers on each.

15. Cookey Report, p. 12.

16. There has been no documented relationship between salaries of political office holders and civil servants. In the U.S.A., only Federal political office holders operate above existing grade levels. In the U.K. all salaries are accommodated within existing grade levels. The differences around the world are only in allowances, since political office is largely temporary: the allowances of political office holders are normally much higher, sometimes two-fold of basic salaries. For Nigeria, political office holders may be accommodated within existing salary scales with the proviso that allowances commensurate to their respective levels of authority/responsibility.