

PUBLIC AND PRIVATE INVESTMENT AND ECONOMIC GROWTH: Evidence from Nigeria

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ABSTRACT

The paper examines factors influencing the rate of economic growth in Nigeria with particular emphasis on the relative importance of private and public investments. The empirical analysis shows that public investment contributed more to output growth in Nigeria between 1970 and 1995. Other significant variables include imports and to a lesser extent, labour. The implication of the analysis is that the rate of economic growth will continue to be low if the private sector continues to rely on government rather than being a competitive operator in a level playing field. The paper notes that the privatization programme has not achieved its desired impact as a result of the preference for a managed or guided approach rather than a market based approach to privatization. In this regard, the paper concludes that government should create the enabling environment for effective private sector participation in the economic growth process through a reduction in its role by implementing without further delay a well sequenced and phased privatization programme that could be reappraised depending on performance.

1. Introduction

THE success story of the developing countries in Asia before the recent financial crises offers a tremendous contrast to the difficulties that have continuously confronted other developing countries including Nigeria. In reaction to this success story, most developing countries have adopted certain policies to liberalize trade, promote exports, and develop enterprise potential as a way towards market-led development. In addition, policies emphasizing

private sector development and enterprise reform have been embraced as a prelude to private sector-led economic growth. This growth strategy essentially calls for a greater reliance on market forces to allocate resources. However, the concept of enterprise reform and private sector development varies from country to country, just as socio-economic conditions and social objectives also vary.

At the most basic level, there is ambiguity about what constitutes the private sector; and the distinction between public and private sectors is at best blurred. This stems from the fact that the private sector is affected and influenced by policies and conditions, such as macro policies, sectoral issues, foreign investment policies, the function and scope of small-scale firms, and the legal and regulatory framework. At the same time, the way these policies affect private sector development varies from country to country. Maya (1990) spells out the areas in which the private sector has a comparative advantage over other institutional mechanisms in organizing production and exchange. These include the role of the private sector in risk intermediation and innovation, its ability to respond to changing market conditions both at home and abroad, as well as the continuous adoption of new and low cost production techniques.

The period following World War II signalled a new international order, in which the newly found political independence of many developing countries brought with it a desire for economic independence. Hence, rapid industrialization of the domestic economy was pursued as the basis of national development. Planning and public ownership in key sectors were often viewed as more effective ways to achieve this political and economic independence. The basic challenge to economists then was how to conceptualize and operationalize social and economic development. It was believed that the private sector in developing countries lacked the means (i.e. the financial and entrepreneurial skills), to undertake the task of development. The growing differences in incomes and growth rates of developed and developing countries reinforced the belief that markets in developing countries failed to function efficiently, and the state of underdevelopment itself became a reason to advocate government intervention. However, there were dissenting views, Bayer and Yamey (1957), being among the strongest opponents.

Nonetheless, a majority of economists agree with the Harrod-Domar model, with its emphasis on savings and investment as the most effective ways to generate higher physical capacity in developing countries. Prebisch (1950) developed the hypothesis that developing countries have little hope of expanding their commodity export earnings and should strive to develop instead, their industrial sectors. Economists became optimistic about the

capacity of the poor countries domestic development, while expressing a pessimistic view of the external conditions for growth (Bhagwati 1984).

The micro foundations for government involvement, in both developed and developing countries, are generally characterized by market failures. Bator (1958) identifies several instances in which market failures may occur. These include externalities, increasing returns to scale, existence of public and merit goods, welfare, etc.

A distinct change has emerged on the role of government in the development process, along with a renewed interest in the private sector as an impetus for growth. This change has been precipitated by both external and internal factors, including: recent data indicating high level of growth for economies with dominant private sector and growing difficulties with government intervention in industry and trade; changes in the international environment; and the desire to reduce the burden on government budget.

Few empirical studies have measured the general effects of public investment on economic growth as revealed by increases in the gross domestic product (GDP). Gemuel (1983) analyzes the impact of public investment growth on a selection of macroeconomic performance indicators in 27 developing and developed countries for the period 1960 - 1970. His study did not reach any general conclusions about the relationship between public sector investment and economic growth. Landau (1983) reports a negative relationship between public investment and the growth rate of per capita GDP. His sample consisted of 96 developed and developing countries for the period 1961 - 1976. Marsden's (1983) study of twenty developing and developed countries for the period 1970 - 1979 shows negative relationships between public investment and economic growth while Singh's (1985) study on the impact of public expenditure on economic growth reveals that the greater the intervention by government, by way of public investment, the smaller the rate of GNP growth. The other significant finding of Singh (1985) is that official development assistance (ODA) becomes ineffective when the state intervention variable is included.

In the light of the above, an important feature of economic policy in most developing countries in recent years has been a shift towards greater reliance on market forces for the allocation and use of resources. In the absence of conclusive empirical work concerning this in Nigeria, the proposals that emphasize the private sector vis-a-vis the public sector rest principally on theoretical considerations. An empirical assessment of the relative contributions of the private and public sectors to long-run growth is, consequently, of considerable importance. This is basically the objective of this paper.

The remaining part of the paper is organized thus: section 2 discusses the theoretical framework and review of literature, while section 3 outlines a model which measures the contribution of private and public investment to growth of aggregate output. In section 4 the empirical findings are discussed, while summary and conclusions end the paper in section 5.

2. Theoretical Framework and Review of Literature

Economic growth theory has evolved over the years as a major feature of development economics. Empirical analysis on the subject has also become more robust. From the rudimentary, though still relevant, concept of the incremental capital output ratio (ICOR) as the basis of growth, the augmented neoclassical model was developed while further analysis has been advanced on the inbuilt correlation between the growth rate of the GDP and exports, a measure of external sector competitiveness. The accumulation of capital as the sole determinant of economic growth has been attacked as inappropriate. Various studies have alluded to the significance of other factors. For instance, Dowling and Hiemeuz have isolated an index of openness, exports plus imports over GDP, taxes as percentage of GDP, share of public expenditure in GDP, and M_2/GDP to measure financial repression, in their study of the impact of aid on the growth of Asian countries (White 1992:187).

The roles of the public and private sectors in the growth process was captured in the early works by Massel et al (1972) and White (1992:199-200). They estimated the impact of exports, private capital flows and public capital flows on investment. However, an active line of empirical research on the role of public and private investment on economic growth was started by Aschauer (1989a, 1989b). Using an aggregate production function in which output depends on labour as well as private and public capital, he estimated with the U.S. data which yielded an extremely high rate of return for public capital: between 2 and 5 times the rate of return for private capital. He also found that accumulation of public capital has a sizeable positive effect on private investment. These results suggest that an aggressive public investment strategy can be growth-inducing. Indeed, Aschauer's findings prompted a spate of empirical reexamination of the issues. A strand of the literature has extended the empirical analysis to other countries. For instance, Berndt and Hanson (1992); Argimon et al, (1995) and Sørensen and Solimano (1993) examined the impact of public investment on private investment in developing countries. These studies show a positive and significant correlation in a panel of developing countries, as well as in separate studies of Latin America and East Asia.

In a study of capital instability and economic growth, Fosu (1991) applied an augmented production function, thus moving away from the traditional neoclassical model. In his framework, exports was added to the traditional explanatory variables, labour and capital. The importance of exports is underlined by the fact that export development facilitates specialization on the basis of comparative advantage, the realization of economies of scale and of relatively efficient techniques due to the larger worldwide market (Emery 1967:471). On the basis of this, Fosu (1991:76) regressed the growth rate of output gQ_i against the growth rates of labour gL_i , capital gK_i , and the growth rate index of external competitiveness, in this case exports gx_i , and came up with the following equation;

$$gQ_i = b_1 + b_2gl_i + b_3gk_i + b_4gX_i + U_i$$

The variables are as defined earlier; while U_i is the stochastic error term assumed to have constant variance and uncorrelated with the explanatory variables.

The two gap-model which explains the importance of aid or foreign capital in augmenting domestic savings, especially where a binding foreign exchange constraint exists, is also a reason for examining the dichotomy between public and private sector investment performance, moreso as public policy would be required in influencing the inflow of foreign capital when savings are short and the current account is unfavourable. The strategy for accelerated economic growth has moved rapidly from the import-substitution industrialization strategy (ISI) to export-led growth. This has, however, ignored the tendency for all countries to behave in like manner with the attendant adverse consequences. By and large, developing countries had to embrace export-led industrialization in order to be competitive in the medium to long term. Thus, the export promotion hypothesis, stated by Sheeley (1992:734) as follows:

$$Y = a_0 + a_1I/Y + a_2L + a_3Ex$$

This may be useful for determining the growth potentials of developing economies. In the equation above, Y = real gross domestic product, I/Y = ratio of gross domestic investment to gross domestic product, L = labour force while Ex = export variable, measured by the ratio of exports to GDP. The ratio of gross domestic investment to GDP can be disaggregated into the public and private components in order to establish their relative importance. Investment theory is embedded in the main stream of economic growth and development theory, including the new theories of endogenous growth. The role of

investment in the growth process will be elaborated further as we progress in the literature review.

The evolution of investment theory originated from Keynes' landmark work in 1936. In this work, he observes that investment depends on the prospective marginal efficiency of capital, relative to interest rate which is the opportunity cost of the invested funds. He stresses the volatility of private investment given that the return on investment is bound to be uncertain. Consequently, the private investors instinct would be the main driving force in investment decisions. This view conforms to the Keynesian and neoclassical models of investment as both models are basically centred around two major economic variables: income and interest rate.

The theories of investment after Keynes were essentially hinged on simple growth models. In the 1950s and 1960s, these models grew to assume a life of their own. One of the most important is the accelerator theory which assumes that investment is a linear proportion of changes in output. However, Jorgenson (1967) and Hall and Jorgenson (1971) reviewed the restrictive assumptions of the accelerator theory of investment and formulated the neoclassical approach. In this approach, optimal capital stock is a function of the level of output and user cost of capital. Lags in decision making and delivery create a gap between the current and desired capital stocks, giving rise to an investment equation relating to the change in the capital stock. The shortcoming of this approach has been identified to include the assumption of perfect competition and exogenously given output which are inconsistent. In addition, the assumption of static future prices, output and interest rates is unrealistic given that investment is basically a futuristic process; and that the lags in delivery are not introduced in an orderly manner.

Tobin (1969), in a contrasting view, posits that the real issue is the link between the increase in the value of the firm as a result of the installation of an additional unit of capital and its replacement cost. When the increase in the market value of the extra unit exceeds (or is below) the replacement cost, firms will want to increase (reduce) their existing capital stock. This ratio identified in the literature as marginal Q , may differ from the other one because of delivery lags and adjustment or installation costs. Since marginal Q is difficult to measure, the market value of the entire existing capital stock to its replacement cost (the average Q ratio) is usually used.

The problems with the average Q has been identified by Precious (1985) and Hayshi (1982). They observe that if firms enjoy economies of scale or cannot sell all their products, marginal and average Q will differ. Furthermore, they assert that the assumption of increasing installation costs is suspect, since the cost of acquiring additional capital stock by the firm is likely to be

either proportional or less than proportional to the investment volume, due to the lumpy nature of most investment projects. In addition, since capital goods are firm specific with a low second hand value, disinvestment is more costly than positive investment.

Arrow (1968) opines that under conditions of uncertainty, irreversibility creates a wedge between the cost of capital and its marginal contribution to profits. Other studies (see Bernanke 1983; Bertola, 1989; Bertola and Caballero 1990; and Pindyck 1991) have emphasized that irreversible investment can be very negatively affected by risk factors. This implies that uncertainty may be as relevant for investment decisions just like any conventional variable, such as interest rates or taxes. Malinvaud (1982) sees investment decision as a two-stage phenomenon. The first is the decision to expand the level of productive capacity, while the second is the decision about the capital intensity of the additional capacity. The earlier decision is a function of the expected degree of capacity utilization in the economy, which is a proxy for demand conditions; while the latter depends on relative prices including cost of capital and labour.

The distinction between the decisions is meaningful because factor proportions are assumed variable before the investment but fixed after it. In addition, investment decision takes place in a setting in which firms may be facing current and expected future sales constraints, an important departure from the usual market clearing assumed by the neoclassicals. In line with the above, Sneesens (1987) asserts that investment depends both on profitability and on the prevailing sales constraints which, in effect, determine the rate of capacity utilization.

Another view is supported by macroeconomic models of coordination failures which point to the inability of individual agents to successfully coordinate their decisions in a market-oriented economic system. Cooper and John (1958) identify potential sources for such failure to include, among others, the existence of monopolistic competition and increasing returns to scale. In this light, returns on investment depend on the overall level of economic activity which, in turn, is an increasing function of the aggregate investment volume. Given that its own contribution to aggregate investment is negligible, the social and private returns to investment diverge, with the former exceeding the latter. Under certain conditions, the economy may suffer from "insufficient investment" equilibrium in which individual firms invest so little (lowering aggregate investment) mainly because each firm expects aggregate investment to be low (Vishny 1989).

The literature on the effects of financial constraints on investment is enormous. Stiglitz and Weiss (1981) observe that at the micro level, firms may

face binding financial constraints in domestic capital markets because interest rates are controlled or because of endogenous credit rationing. Asymmetric information, adverse selection, and incentive effects may make interest rate changes an inefficient device for distinguishing good borrowers from bad ones. Under such conditions, credit rationing and quantitative constraints may be preferred by creditors.

Recent studies on the financial determinants of investment (see Mayer 1989; Mackie-Mason 1989; and Hubbard 1990) have emphasized that internal finance (retained profits) and external finance (bonds, equity or bank credit) are not perfect substitutes. Thus, variation in the cost of financing is due to asymmetric information: lenders in the capital markets cannot evaluate the quality of investment opportunities. This raises the cost of new debt and equity above the opportunity cost of internal funds. Consequently, investment is sensitive to such financial factors stated above. Bacha (1984, 1990) argues that income distribution may affect private investment through the rate of profit, the level of aggregate demand, and the degree of social and political stability.

Sundarajan and Thakur (1980) incorporated features of the neoclassical model into investment models for developing countries taking into account the relevant data problems and structural features that cause a gap between the modern theory of investment and the models specified for developing countries.

Blejer and Khan (1984a) focused on the role of government policy and derived an explicit functional relationship between the principal policy instruments and private capital formation. Using the model, Blejer and Khan assessed the extent of "crowding out". They also made a distinction between government investment that is related to the development of infrastructure and government investment of other kinds. They estimated a positive relationship between the share of private investment in total investment and the ratio of total investment to income.

Ariyo and Raheem's (1991) country estimation on the determinants of investment consisted of public investment, rate of GDP growth, domestic credit to the private sector and interest rate as arguments in the private investment function. Their results show that all the variables are statistically significant and evidence of the existence of "crowding in" was found among the variables estimated. Martin and Wasom (1992) modelled private investment in Kenya with the real exchange rate, foreign exchange reserves, credit, public investment and incomes as arguments. Their results indicate the significance of all coefficients except those for interest rate and income.

Ekpo (1995) examined the relationship between private investment and public expenditure. Specifically, the study attempted to determine the influence

of various categories of public expenditure on private investment. Furthermore, the study isolated infrastructure expenditure (which are social services expenditure that do not compete with private investment) from real sector expenditure like manufacturing and construction which compete with private sector investment. Social services crowd in private investment while expenditure on real sector activities like construction and manufacturing crowd out private investment, thus indicating that the private sector is better placed to invest in construction and manufacturing. The empirical findings further reveal that capital expenditure on agriculture positively influences investment, while capital expenditure on education and health exerts positive impact on private investment. Commenting on the role of the private sector in Nigeria, Olashore (1993) asserts that many operators in the private sector rely almost entirely on the government, despite the deregulatory policy of government.

Obadan (1997) observes that rather than work to generate real economic growth within the framework of a free enterprise system of economic management, most private enterprises in Nigeria depend on public resources and government patronage whereas their performances and their activities have no value-added whatsoever. Ajakaiye (1997) summarizes this position by saying that a large part of what we perceive as private sector profits are essentially transfers, through various gimmicks, from the public sector organizations. Indeed Shonekan (1997) underscores the indispensibility of the public sector to the development of the Nigerian private sector organization when he said that a tight rein on public spending tends to produce a recession of some sort, and that it has become a ritual for the private sector organization to wait for the direction of government policies and programmes through the budget statement before making any new commitments.

The main thrust of Chete and Akpokodje (1997) is that private investment is influenced by public investment and other factors including inflation, real exchange rate, and change in domestic credit to the private sector in addition to net private foreign capital inflow. Thus, their model assumed *ab initio* that public investment is relevant for analyzing private investment. In fact, they arrived at that conclusion from their empirical analysis that public investment is a significant explanation of private investment in Nigeria. The positive sign of the public investment coefficient in their model indicates that public investment crowds in private investment in Nigeria. Oshikoya (1994) found a similar relationship from a sample of middle income countries. Ekpo (1996) disaggregated public capital expenditure into its various categories and regressed the individual components on private investment in Nigeria during the period 1960 - 1990. The results are mixed: while some categories of capital expenditure crowd in private investment, others crowd out private investment.

Inspite of the mixed results, he is of the view that the public sector is crucial for Nigeria's economic development.

Aigbokhan (1996) studied the impact of government size on economic growth in Nigeria. He applied a production function model which assumes two sectors, private and public. In this case, each sector's output depended on the input of labour and capital, and results of the model show that government spending is capable of spurring private investment and private sector output and enhancing economic growth if productively applied. Although the results from the model are inconclusive, the causality test shows the existence of dual causality. Thus, it becomes obvious that a conclusive opinion could not be confirmed in the absence of a unidirectional causality. Because of this, the model implicitly assumes that private investment is dependent on public sector social expenditure. The model also intends to show the relevance of government expenditure in propelling activities of the private sector. As implied in earlier statements, this paper is intended to quantify the relative influence of public and private investment on economic growth in Nigeria.

3. Model Specification

Solow's production function framework has been used extensively to analyze the determinants of growth in developing countries. The hypothesis usually tested is that the intercountry differences in aggregate growth performance are explained by differences in factor endowments and factor productivity (the latter, in turn, being influenced, among other variables, by export/import growth). The testing of this hypothesis generally involves the estimation of a function which relates growth of aggregate output to growth of factor inputs, and to a variable representing growth of total factor productivity. The equation usually estimated is derived from the following basic neoclassical growth equation, which can be extended to any number of inputs (see Chenery et al 1986).

$$Q^r = A^r + b_1 K^r + b_2 L^r \quad (1)$$

where

Q^r , A^r , K^r and L^r are the growth rates of aggregate output, total factor productivity, capital, and labour, respectively, while b_1 and b_2 are the elasticities of output with respect to the inputs. The empirical literature on input-output relationship in developing countries seems to suggest that the

production function approach is a useful reference for analyzing such relationship though it may not necessarily be a true representative of the underlying functional relationships. The general form of the equation is written thus:

$$Q^r = a_0 + a_1 (I/Q_{-1}) + a_2 L^r + a_3 Z^r \quad (2)$$

where

Q^r = growth rate of real aggregate output

a_0 = constant term assumed to represent the growth in productivity;

L^r and Z^r are the growth rates of the labour force and of any other variable(s) influencing factor productivity. In most empirical studies, for instance, Balassa (1988); Tyler (1981); and Ram (1985), the variable Z^r refers to the growth of exports; Hwa (1988) includes inflation and agricultural growth rates as determinants of productivity growth. However, Z^r could also represent the growth of imports or human capital as in Otani and Villanueva (1989). In this paper, we used imports as the variable Z^r so that all other variables affecting changes in total factor productivity are summarized in the error term of the production function.

a_1 = marginal product of capital

a_2 = elasticity of output with respect to labour, and

a_3 = elasticity of output with respect to variable Z^r .

Following Khan and Reinhart (1990), aggregate investment is divided into its institutional components by extending equation 2 which separates the effects of private investment and public investment on aggregate output. For estimation purposes the formulation of the growth model is as follows:

$$Q^r = b_0 + b_1 P_p + b_2 I_g + b_3 L^r + b_4 Z^r \quad (3)$$

where

I_p and I_g are private investment and public investment, respectively.

b_1 and b_2 are marginal productivities of private and public investment; and Z^r is imports. The inclusion of imports is justified on the grounds that in

developing countries, imports of capital and intermediate goods are a significant input into production. Aggregate imports are used as a proxy under the assumption of a constant relationship between imported inputs and total imports.

The specification of the growth model would allow a comparison of the estimated coefficients b_1 and b_2 and give an indication of the direction and magnitude of the impact of private investment and public investment on aggregate output. The coefficient b_3 will indicate the extent of the contribution of growth in labour force to output, and b_4 will show the impact of import on economic performance. Though our concern here is with the direct effects of investment on aggregate output, it should be noted that because of obvious complementarity between public investment and private investment, the estimated coefficients need to be interpreted with caution. Thus, b_1 , which is a measure of the marginal productivity of private capital, incorporates, in addition, the effect of the rate of public investment. Public investment and private investment may also be related through the "crowding-out" effect. In addition, public sector investment can have substantial effects on other independent variables of the model. While there may be a significant association between factor inputs and aggregate output, it does not say anything about the factors involved.

For this study, the augmented production function is applied. In addition, for the restricted definition of external sector competitiveness, imports is adopted, instead of total trade. This is because our exports are dominated by crude oil, the quantity and price of which are determined by the Organization of Petroleum Exporting Countries (OPEC). Thus, output growth is hypothetically influenced by capital stock (private and public) and imports. Thus, the following equation will be estimated,

$$GDP = \alpha_0 + \alpha_1 Pub + \alpha_2 Pri + \alpha_3 LB + \alpha_4 imp + U_t \quad (4)$$

where

GDP = real output

Pub = public investment

Pri = private investment

LB = labour force

Imp = imports

U_t = stochastic error term assumed to have constant variance and uncorrelated with the explanatory variables

Equations (3) and (4) are basically the same. The notations in equation (4) were applied in estimating the model.

4. Model Estimation and Interpretation of Results

The model was estimated using published data from the Central Bank of Nigeria (CBN), Federal Office of Statistics (FOS), the International Monetary Fund (IMF), and the World Bank. The microfit econometric software was used in the estimation while the method OLS was applied.

The following model was estimated, using the dependent variable GDP, and independent variables, Pub, Pri, Lb, and Imp. All the *a priori* expectations are met, the independent variables are correctly signed, the D.W. statistic is significant at 2.12, indicating the absence of serial correlation while the R^2 and adjusted R^2 reflect the importance of the explanatory variables at 0.60 and 0.55, respectively. In addition, Pub, Pri and Imp are statistically significant, which indicates that private investment, public investment and imports are important determinants of output growth in Nigeria. The growth rate of labour did not impact significantly on output growth. This is to be expected from an economy with disguised unemployment and low labour motivation, owing to the absence of strong unions and low remuneration package, often resulting in multiple modes of survival strategies since wages are not indexed to inflation. This scenario creates a situation where labour does not apply itself effectively in a particular engagement as all the multiple channels for earning income to make ends meet are equally important. In most cases, the next source of income is more important than the preceding one.

The regression results are as follows:

Dependent Variable GR	Coefficient	Standard Error	T-Ratio
Independent Variables			
CON	2.6308	0.6052	4.3468
LPUB	0.0688	0.0197	3.4926
LPRI	0.0371	0.0176	2.1098
LLB	0.0426	0.0267	1.5959
LIMP	0.07521	0.03021	2.48998
R - Squared (R2)	.6039		
R - bar Squared (R-2)	.5498		
F-Statistics F(3, 22)	2.4764		
DW-Statistic	2.1281		

From the regression results, it follows that public and private investment are complementary in Nigeria. It is also true from the results that public investment contributes more to total output than private investment. This is to be expected from a public sector-driven economy like Nigeria. Furthermore, the anxiety of the people over late budget announcements is a good reflection of the domineering role of the public sector in the economy. Economic activities are usually almost paralyzed when the budget is not announced on schedule. Conversely, as soon as the budget is announced, economic activities pick up. It may be argued that this is a normal course of action, but it should be realized that in industrialized countries, the private sector does act independently of government and its actions influence the direction of the budget.

Furthermore, our analysis so far indicates that the public sector feeds the private sector and until the private sector can initiate and execute its independent projects, it will continue to be under the shadow of government, while economic growth will remain low. Imports that show significant relationship with economic growth are largely financed by foreign exchange procured by the private sector from government sources. This also shows the undue dependence of the private sector on government. The whole clamour for private sector-led economic growth can hardly be sustained on the basis of the existing relationship.

5. Summary and Conclusions

Output growth in Nigeria is substantially influenced by public sector investment, private sector investment, imports, and to a lesser extent, by labour. The private sector is relatively less important than government in terms of contribution to output growth in Nigeria. In addition, the private sector uses most of the imports financed from the purchase of foreign exchange from the public sector. Thus, the sector is fed by the public sector. This undermines the potentials for accelerated economic growth. The private sector has not contributed significantly to output growth in Nigeria.

For the private sector to contribute more to growth in Nigeria and pave the way for a private sector-led economy, a number of prerequisites are imperative. The most important is that, the private sector must source most of its needs independently. Instead of seeing itself as an appendage of government, the new thinking should be that of a fair competitor, with the government providing only a level playing ground. In order to encourage the private sector to increase its investment outlay, the privatization programme should be continuously and systematically executed. This will help to test the credibility and efficiency of the Nigerian private sector. If the government is satisfied

with the private sector performance, a new phase will then commence, otherwise, the whole programme will have to be reappraised. If the privatization programme is efficiently carried out, the role of government will diminish while the private sector will be the major player in the economy. Ultimately, output growth will become dependent on private sector investment activities. The privatization programme has not achieved its desired impact as a result of the government preference for managed or guided approach rather than a market-based approach to privatization in Nigeria. In this regard, a market-based approach would be adequate, while the guided approach could be applied in glaring cases of market imperfections.

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