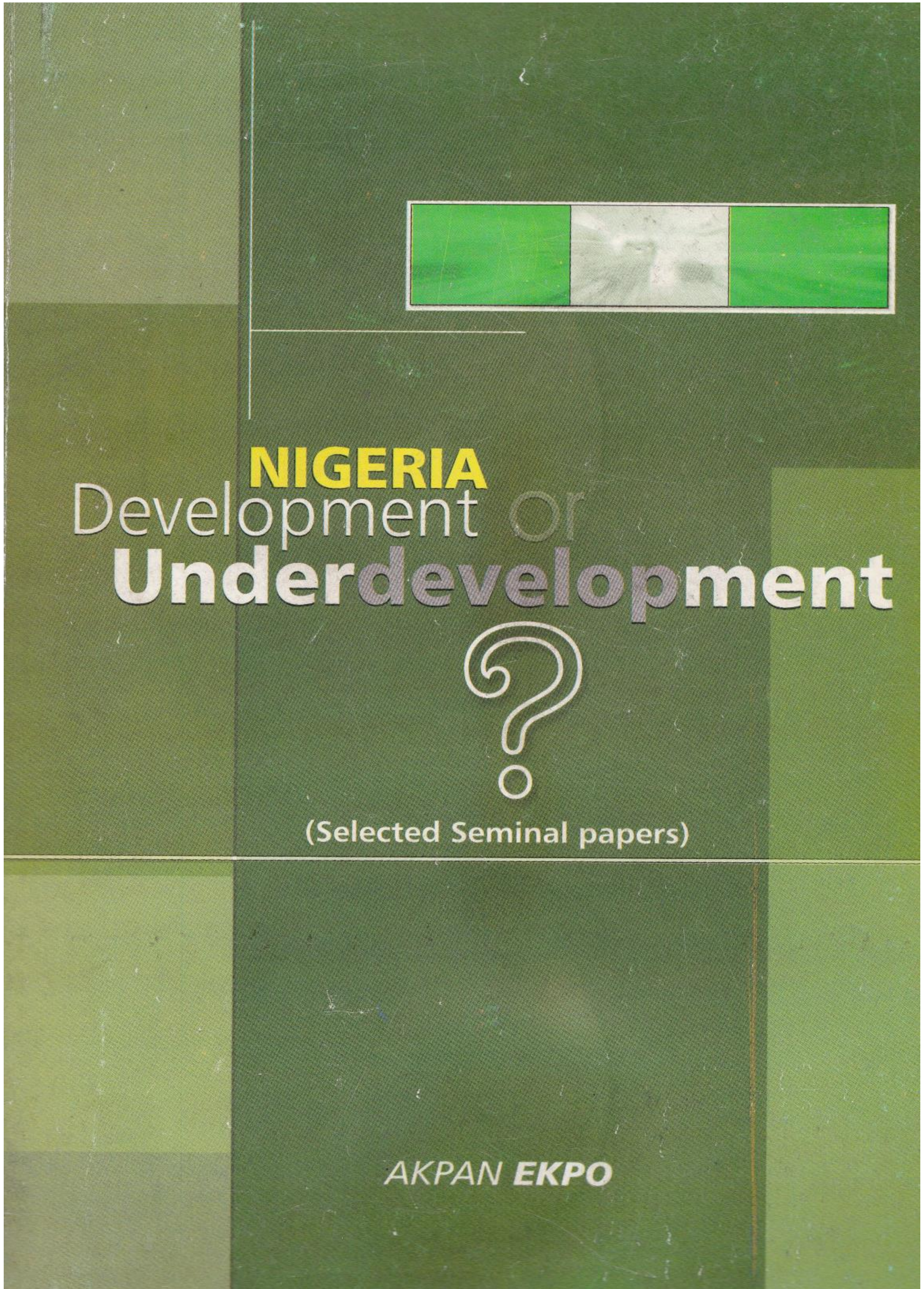

Chapter Three

THE PUBLIC SECTOR IN REVITALISING THE NIGERIAN ECONOMY

INTRODUCTION

The role of the state/public sector in economic development is one of the oldest issues in economics. Nonetheless, controversies still exist as to what constitutes the precise relationship between the state and the growth process. At one period in this contemporary epoch, it was often argued that the state or public sector investment could accelerate growth and development especially in developing countries where market failure characterized economic activities. Later, based on empirical results, the role of the public sector was drastically reduced in favour of private sector investments or initiatives. This is evidenced by the design and implementation of various structural adjustment programmes (SAPs) in many sub-Saharan African countries (SSA) in the early and middle 1980s. The main purpose of all the adjustment programmes was to remove distortions created by public sector control of the economy by stressing marginal cost pricing and in so doing move such countries on the path of positive growth with minimal inflation.

One of the major elements in all the adjustment programmes was prescribing a lesser or minimal role for government. The results of the adjustment programmes have been mixed (World Bank, 1994). Many countries in SSA that have implemented SAPs are still experiencing economic crisis as evidenced by high rates of inflation and unemployment, balance of payments disequilibrium and declining productivity.

Nigeria has had its own experience in a typical business cycle. Following independence, the government while encouraging private sector initiatives also believed in accelerating economic development. The windfall from oil provided the needed revenue for direct government involvement in the economy. However, it must be stated that the prevailing paradigm then was in favour of a Keynesian demand type management of the economy. Invariably, the Nigerian government took control of the commanding heights of the economy. Beginning in 1980, the Nigerian economy went into a recession. The various austerity and stabilisation measures failed to arrest the situation. By 1986, when the economy was deep in depression, policy-makers who believed in a market driven system designed and implemented a full-blown Bretton Woods type structural adjustment programme. This programme essentially prescribed a lesser role for government. Several reasons have been adduced as to why SAP did not achieve the desired results. What is clear, however, is that from the onset, the SAP failed to take into account the structure of the Nigerian economy.

In other words, the SAP package mirrored a desire to build a modern capitalist economy but the structure of the Nigerian economy was completely different. The belief that the SAP could alter the structure and also aid in building a modern market driven economy was illusionary (Ekpo, 1987).

It was, hence, not surprising that in 1994, government reversed some of the elements of SAP and appeared to favour a controlled system. The approach now is that of guided deregulation.

There is a general consensus that the Nigerian economy is still in crisis. All GDP, access to basic needs indices etc. point to the fact that the economy is still not on the path of sustained growth and development with minimal inflation. The nature of the crisis re-echoes the need to examine what the government or the public sector can offer to revitalize the economy. This forms the basic objective of the paper.

The paper further argues that government interventionist policy is crucial if growth is to be re-kindled. However, the quality of the intervention is important. In addition, government interventionist role from either the demand and/or supply side is consistent with the principles of market propelled economies. In other words, we are assuming that the present policy-makers and leadership are interested in building a modern capitalist economy.

The paper is organised as follows: Following the introduction in section 1, section 2 briefly discusses some theoretical and conceptual issues. In section 3, the performance of the Nigerian economy is presented while the role of the public sector is examined in section 4. In section 5, we draw some policy

implications and conclude the paper.

2. THEORETICAL AND CONCEPTUAL ISSUES

At the theoretical sphere, market failure has been put forward as the reason for state intervention. Market failure has always been defined "as being present when conditions for pareto-optimality are not satisfied in ways in which an omniscient, selfless, social guardian government could costlessly correct". (Krueger, 1990,p.11). This implies that not all relevant information can be incorporated in prices. It follows therefore that the state can then intervene to ensure that correcting for distortions satisfies Pareto-optimalities.

It is also important to note that there have been government failures as a result of intervention. There is also evidence that government intervention has been growth promoting in many SSA countries.

Some scholars have argued that if policy-makers and technocrats have decided that only government can provide the size of capital necessary for certain investment then the State ought to implement such a venture in which case the nonavailability of sufficiently large private capital becomes the decisive point (Tinbergen, 1984, p.326).

Bardhan (1990) argues that both traditional Marxist and neoclassical theories of political economy "often err in taking the state merely as an arena of group competition, rather than including the state itself as a strategic actor in a game of mixed conflict and cooperation with the interest group and social classes". This depends on how the State is conceived. The neoclassical views of the state as that which reconciles conflicts is also not too correct.

The State itself represents the class in power thus the perception of this class on how the economy should run may prevail over other views. In essence, a government's policies reflect the interests of the dominant social group, which control the state. If follows that changes in economic policies will hurt some of these interests making changes difficult within a gradualist framework (Datta-Chaudhuri, 1990).

Empirical results show that the debates between market failure and government failure seem inconclusive. In reality, most economies require both market and state intervention. An interventionist state needs to strengthen the market institutions in order to influence the behaviour of economic agents effectively. Consequently, within a market economy, the state can promote and support the right kind of market institutions. However, in a crisis situation the contribution of the state or public sector will depend on the severity of the crisis and the stage of development of the economy.

3. PERFORMANCE OF THE ECONOMY

Table 1 below summarizes the performance of the Nigerian economy for the period 1960-1993. The rate of inflation, which was 6 per cent in 1960, became double-digit in 1970 and 1971. Thereafter, it rose to almost 34 percent in 1975 partly due to increase in public spending as a result of the windfall from oil. During the era of structural adjustment, inflation continued to rise steadily and stood at 57.2 percent in 1993. The growth of money stock (m1) which was 13.7% in 1987 rose to 66.4% in 1992. During the same period, credit to government stood at 10.3% and 124% respectively (Ekpo, 1992b). It is obvious that the SAP did not succeed in reducing the inflationary spiral in the economy.

TABLE 3.1: ***Nigeria Indices of Economic Performance for Selected Years (%)***

Year	P	U	Y	I/GDP	CU	DEF/FDP
1960	6.0	2.4	4.8	5.0	70.0	-
1970	13.8	4.8	5.7	5.4	74.2	2.1
1971	15.6	5.3	6.2	6.3	74.0	0.5
1975	33.9	4.8	6.0	15.2	60.0	7.9
1979	9.9	10.4	1.6	16.5	54.4	6.6
1980	20.9	7.5	-0.8	17.9	70.1	4.1
1985	5.5	8.2	-3.4	7.1	42.7	2.3
1987	10.2	7.1	4.2	6.2	40.4	5.5
1992	44.5	3.2	3.6	4.1	39.0	10.1
1993	57.2	3.4	2.9	3.8	36.2	12.3

Notes: P = rate of inflation; U = national unemployment rate; Y = growth of GDP; I/GDP = investment - GDP ratio; CU = capacity utilisation; DEF/GDP = deficit/ GDP ratio.

Sources: (i) Central Bank of Nigeria Annual Report and Statement of Accounts, various issues.
(ii) Federal Office of Statistics. Digest of Statistics, various issues.

TABLE 3.2: ***Nigeria Social Indicators, 1960-1990***

Items	1960	1965	1970	1975	1980	1985	1990
Infant Mortality+	189	162	139	128	118	109	91
Fertility++	6.8	6.9	6.9	6.9	6.9	6.4	6.0
Population (%)	2.5	2.5	2.5	2.4	2.8	3.2	2.9
Princ. Sch. Enrol.+++	36	32	37	51	104	82	76
Life Exp. (year)	40	42	44	46	48	50	52

Notes: +Per thousand live births; ++Average number of children a woman would give birth to between ages 15 - 49; +++as a percentage of school age group.

Source: Social Indicators of development and World Development Report 1993, Washington, D.C.

Other economic fundamentals reveal mixed results. The rate of unemployment appears high in 1979, 1980 and 1985. In 1992 and 1995, the economy seems to be operating at full-employment output as reflected by unemployment rates of 3.2% and 3.4% respectively. These rates must be interpreted cautiously given the dismal performance of other indicators. For example, between 1992 and 1993, the economy was operating at below 40% of installed capacity while the deficit/GDP ratio remained quite high during the same period. In addition, the investment/GDP ratio is discouraging.

It is important to state that perhaps the implementation of the SAP reversed the declining growth of the economy. The growth of GDP which was-0.8% and -3.4% in 1980 and 1985 perfectly jumped to almost 4% and 3% in 1992 and 1993.

Nigeria's social indicators place it among the poorest in SSA. Per capita income is around US$320 per year while the effective minimum wage is around (460.00 per month. Infant mortality is about 90 per 1,000 live births while life expectancy is a meagre 49 years for men and 53 for women (See table 2). "Half of IDA-eligible African countries have a higher per capita calorie intake than Nigeria, and most offer better access to safe water in both the city and the country side" (World Bank, 1994,p.1).

It is apparent from Tables 1 and 2 that the performance of the economy has not been satisfactory from the 1980s using conventional indices. The growth of public expenditures for the period 1960-65, 1970-75, 1976-80. 1981-85 and 1986-1992 is presented in Table 3 below. These periods have significance and represent important episodes in the Nigerian economy. The 1960-65 period attempts to capture both the independence and the commodity export boom at that time. 1970-75 reflects the period of the windfall from oil; 1976-80 also incorporates part of the oil boom and austerity measures and various stabilisation packages while 1986-1992 represents the structural adjustment period (Ekpo, 1995b).

Capital expenditure was - 5% during the period 1960-65. Its lowest growth was in 1981-85- the era of austerity. It experienced the highest growth rate of 26.7% during the period characterized by the windfall from oil. All items in Table 3 recorded very high growth rates during this period. Education, capital and current, grew by 143.9% and 102.2% respectively. Agriculture also experienced growth rates of 83.1% and 43.7% for capital and current expenditures during 1970-75. These significant jumps partially confirm the oil boom hypothesis. It is interesting to note that social services suffered during the independence and austerity periods. Education (capital and current) grew negatively by 6.9% and 2.0% respectively.

One could have thought that the period after independence would have witnessed massive investment in the development of human capital. Perhaps the figures presented still reflected the initiatives left behind by the colonialists. It can be argued that the massive expenditure on education by the independence government had its impact later in the economy

Health and education appeared not to have fared properly during 1981-85 in terms of capital expenditure. It is understandable since during crisis, it is anti-market thinking for government to invest or start new projects, especially as the various austerity measures and stabilisation policy canvasses a lesser role for government.

Another important development is the growth of defense expenditure. Its capital component grew by 4.8% during 1960-65; it

increased to 52.1% during the windfall from oil and declined by 17.0% during the period of adjustment. Gross domestic product in real terms grew by 4.4% and 6.7% during the periods 1960-65 and 1970-75 respectively. During adjustment. GDP recorded a growth rate of 1.5% improving from the previous years negative growth of 0.6%. The marginal growth of 1.5% between 1986-90 may be due to the implementation of the SAP. Let us now examine some relationship between public expenditure and private investment.

TABLE 3.3: ***Nigeria: Compound Growth Rate of Selected Components of Expenditure and Gross Domestic Product (GDP), 1960-92(%)***

ITEM	1960-65	1970-75	1976-80	1981-85	1986-92
Cap. Exp.	-5	26.7	1.2	0.6	3.3
Education	-6.9	143.9	6.6	-10.3	3.8
Health	15.3	17.9	27.1	-28.0	20.8
Housing	-	-	33.0	-4.5	15.8
Agriculture	7.0	83.1	26.2	-33.3	21.8
Manufacture	11.0	26.3	143.4	-21.8	21.5
Transport	22.8	68.5	12.3	-29.6	3.0
Defence	4.8	52.1	10.1	-17.0	38.7
CUR. EXP.	4.2	5.2	-2.2	-1.8	11.2
Education	-2.0	102.2	-0.5	-0.4	21.6
Agriculture	10.8	43.7	24.8	5.1	34.5
Health	8.9	3.2	15.6	8.1	22.0
Manufacture	19.2	26.8	26.3	-7.7	19.7
Transport	2.4	30.7	25.0	-0.2	20.4
Defence	25.6	22.8	25.6	1.6	15.2
GDP	4.4	5.7	1.6	-0.6	1.5**

Source: Computed by author based on data obtained from:

(i) Central Bank of Nigeria: *Economic and Financial Review*, various issues, Lagos.

(ii) Federal Office of Statistics, *Abstract of Statistics*, various issues, Lagos.

(iii) Federal Ministry of Education, Lagos.

(iv) Federal Ministry of Finance, Lagos

Notes: *includes communication; ** is for 1986-90; Manufacturing includes mining and quarrying and construction.

Tables 3.4 and 3.5 provide some information on the relative sizes of public and private investment in Nigeria for the period 1973-1991. Private investment as a ratio of GDP stood at 14.6% in 1973 and averaged about 7% during the oil boom period. The economic recession of the late 1970s resulted in the decline of private investment as a fraction of GDP. Between 1984 and 1986, private investment averaged 3% of GDP. Even during the era of structural adjustment, private investment did not show any appreciable increase (See Table 3.4).

Public investment's contribution to GDP followed similar trend. However, from 1974-1991, public investment contributed more to GDP than private investment. In the early 1960s and 1970s, there was a deliberate effort by government to increase public investment in the economy. During the period, the economic managers and policy-makers favoured the Keynesian demand management policy mix hence the preference for government involvement in direct productive activities. What is surprising is that in the era of adjustment, public investment continued to increase yet the economics of adjustment favoured private initiatives. Infact the policy pronouncements during the era of adjustment was to ginger up the private sector and divest government participation in private businesses as well as selling off public owned companies.

An examination of total investment for the period under review indicates the dominance of public investment. Except in 1973, public investment constitutes a larger fraction of total investment in the Nigerian economy. However, it is noticeable that beginning in 1987, the share of private investment began to rise. In 1988, private investment stood at almost 30% of total investment; by 1990, it had increased to almost 42% and then declined to about 37% in 1991 (See Table 3.5). This trend can be attributed to policy reversals during structural adjustment. Government intervened in an ad hoc manner in both the monetary and foreign exchange markets thus sending confused signals to the private sector.

The relationship between public and private investment is often perceived as either competitive or complementary. It is rather not too easy to separate the interactions between public

capital formation and the profitability of the private sector. Nevertheless, it is important to distinguish within public investments those broadly known as infrastructure and those classified as non-infrastructural activities. Infrastructural activities are definitely complementary than competitive.

TABLE 3.4: ***Nigeria: Private and Public Investments (% of GDP), 1973-91***

Year	Private	Public	GDGI
1973	14.6	7.8	22.4
1974	7.0	10.0	17.0
1975	7.0	18.2	25.2
1976	7.1	24.3	31.5
1977	9.9	18.4	28.3
1978	10.8	16.8	27.6
1979	8.0	14.1	22.1
1980	6.9	15.4	22.2
1981	6.5	16.8	23.3
1982	6.1	13.9	20.0
1983	4.3	10.5	14.7
1984	2.3	7.2	9.5
1985	2.0	6.9	8.9
1986	3.3	11.6	14.9
1987	3.9	9.8	13.7
1988	4.0	9.4	13.5
1989	4.4	9.7	14.1
1990	6.1	8.4	14.5
	6.0	10.3	16.3

Source: IFC: Trends in Private Investment in Developing Countries, 1994, Washington, D.C.

TABLE 3.5: ***Nigeria: Private and Public Investment (% of Total Investment) 1973-91***

Year	Private	Public
1973	65.1	34.9
1974	41.3	58.7
1975	27.7	72.3
1976	22.6	77.4
1977	34.9	65.1

1978	39.2	60.8
1979	36.2	63.8
1980	30.8	69.2
1981	28.0	72.0
1982	30.7	69.3
1983	28.9	71.1
1984	24.1	75.9
1985	22.3	72.7
1986	22.3	72.7
1987	28.6	71.4
1988	29.9	70.1
1989	31.0	69.0
1990	41.9	58.1
1991	36.7	63.3

Source: see Table 3.4

There exist economies of scale in the provision of utilities, communications and social services from which private investors derive enormous benefits. In Nigeria, the break down of power supply has compelled private companies to acquire costly generators thus adding to their cost of production. Private sector gains from public sector's investment in human capital formation. The private sector may provide on-the-job training but the pool of qualified manpower from which they draw the needed skills are more often trained by government.

There is no doubt that the relationship between private investment and public expenditure is an empirical issue. In a recent work (Ekpo, 1995b, p.41-48), attempt was made to determine the influence of the various categories of public expenditure on private investments paying attention to the differential impacts of infrastructural expenditures (transport and communication, roads and agriculture) from those that compete with private sector activities (expenditures on manufacturing and construction). Furthermore, we examine the relationship between expenditures on the social sector and private sector investment. Some of the results using OLS with annual data for 1960-1990 are presented below (for a detailed discussion of other results, see Ekpo, 1995b):

$$I_p = 22.32 + 10.25\,Cafr^{**} + 2.84Cagr - 1.20\,Cam \qquad (1)$$
$$(1.55) \quad (5.86) \quad (.90) \quad (.413)$$

$$-.001\Delta Y - .172FS$$
$$(-.009) \quad (.994)$$
$$R_2 = .88 \quad F_{6,24} = 29.81$$

$$I_p = 31.31^{*} + 21.375Cae^{**} + 31.64Cah^{**} + 0.12\,\Delta Y\ 53FS^{**} \qquad (2)$$
$$(1.86) \quad (5.143) \quad (2.175) \quad (.087) \quad (-3.049)$$
$$R_2 = .82; \quad F_{5,25} = 22.81$$

$$I_p = 2.95 + .052\Delta Y - 73.7PE + 73.48\Delta PE^{*} + .9851p - 1^{**} + .047FS \qquad (3)$$
$$(.841) \quad (.623) \quad (.563) \quad (1.98) \quad (9.62)p \quad (.632)$$
$$R_2 = .95; \quad F_{6,24} = 85.71$$

Notes: * = Significant at the 10% level;
** = Significant at the 5% level;
t scores are in parenthesis.

Definition of Variables

IP = Gross private Fixed Capital Formation;
Cafr = Capital expenditure on transport & communication;
Cagr = Capital expenditure on agriculture;
Cam = Capital expenditure on construction & manufacturing;
ΔY = Accelerator;
FS = Foreign savings;
Cae = Capital expenditure on Education;
Cah = Capital expenditure on health;
PE = Public sector investments; and
ΔPE = Change in Public sector investments.

The results in equations (1) - (3) show that capital expenditures on transport and communication, agriculture, health and education crowd in private investment. The coefficients for transport and communication, education and health are statistically significant. Construction and manufacturing crowd out private investment. The result demonstrates that the private sector is better placed to invest in construction and manufacturing.

Capital expenditures on agriculture though statistically not significant influences investment positively. It follows that government expenditure on irrigation, extension services, etc. can stimulate private initiative. In addition, capital expenditures on education and health exert positive impact on private investment, which invariably enhances growth; both coefficients are statistically significant. There is no question that private investment benefits from the stock of skilled manpower already trained by government. The government following the oil boom embarked on massive training of manpower. The private sector taps from such public sector investment.

There are other non-quantifiable contributions of the public sector to the economy. The empirical results still confirm the importance of the public sector in the development process. Next, we attempt a discussion of the role of the public sector based explicitly and implicitly on the above analysis.

4. ROLE OF THE PUBLIC SECTOR

Under a market scenario, the public sector must provide the enabling environment for private sector investment. Based on the empirical results and the nature of Nigeria's economic crisis, the public sector must play the understated role if the economy is to expand its production frontier:

(i) The public sector through an appropriate macroeconomic framework must put in place monetary and fiscal policies necessary for growth. The policies must address supply side issues. As much as possible, policy reversals must be avoided.

(ii) Policy must continue to ensure a stable exchange rate regime.

(iii) There is need to rehabilitate and repair roads in the economy. The multiplier effect of this needs no emphasis.

(iv) The legal framework upon which to transact economic activities must be provided and enforced;

(v) Government must always monitor and fine-tune the system. This calls for an efficient and effective civil service with high quality technocrats;

(vi) The provision of basic needs like water, electricity and other social and economic infrastructure is important. This must be carried out by applying user-charge mechanism;

(vii) It is only the public sector that could embark on massive human capital development-how an economy sustains and reproduces itself depends to a very large extent on the quality of its manpower; and

(viii) It is crucial to have a stable political environment. It is now generally accepted that good governance could foster growth and development. A stable political environment coupled with committed and visionary leadership can move an economy forward. The implication of this is that accountability, transparency and comprehensiveness must be exhibited by policy-makers and the leadership.

5. CONCLUSION

We have tried to examine the public/state sector in revitalizing the Nigerian economy. Conventional economic indices point to the fact that the Nigerian economy has not performed well. We have argued that the public sector has a positive role to play even when an economy is not in crisis. The role of the public sector is even more crucial during economic stagnation and decline.

Therefore, an activist government needs to strengthen the market institutions so that it can influence the behaviour of economic agents effectively. In these spheres where market signals alone are not effective guides to desirable action, appropriate non-market institutions are required. Thus, the market versus government dichotomy is a fake one". (Datta- Chaudhuri, 1990, p.38).

In Nigeria, our experience reveals both market failure and government failure. However, given the stage and structure of our development as well as the nature of our present crisis, only government in the short and medium term can lay the foundation for sustained growth and development. Thereafter, the private sector can become the engine of growth if the desire is to build capitalism.

It is apparent that the call is for an activist and interventionist state but the quality of such intervention is crucial. If the quality is weak and / or low the impact on the economy will be negative. The reverse is also true.