



GLOBAL JOURNAL OF MANAGEMENT AND BUSINESS RESEARCH: B
ECONOMICS AND COMMERCE

Volume 15 Issue 7 Version 1.0 Year 2015

Type: Double Blind Peer Reviewed International Research Journal

Publisher: Global Journals Inc. (USA)

Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Promoting Growth and Sustainable Development: The Emerging Role of the Public Sector

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Abstract- The world economy entered the 21st century with the optimism of extending the frontiers of technological advancement of the past centuries to accelerate individual national growth and economic development. Disenchantment with erstwhile induced growth and emergence of rapid privatization and market economy appeared to be the only option for attaining the goals hitherto impossible under the hegemony of state-led developmental initiatives. This paper examines the plausibility of privatization argument that the desired level of growth and sustainable development can be achieved in an environment of passive government involvement in the economic processes given the structural rigidity and imbalance of the Nigerian economy.

GJMBR - B Classification : JEL Code: Q01



Strictly as per the compliance and regulations of:



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I. INTRODUCTION

The events in major developed countries of the world during the last quarter of the 20th century created a dichotomy that resulted in a gap between the economies of the developed and less developed countries. While the economy of the developed countries witnessed rapid growth and development, those of the less developed nations experienced an overall decline. As a result of this decline, revenue from domestic economy falls short of annual budget estimate. This situation compelled governments of the affected countries to seek for financial assistance from developed economies and international finance institutions.

Owing to the dwindling nature of revenue of each economy as compared with the requirement most borrowed funds were not repaid on maturity but renegotiated into a future period. The compounding effect of outstanding interest on the overdue capital increased the level of the indebtedness of the debtor, thus began the problem of the debt burden and its negative financing incidence on the domestic economies of the developing nations like Nigeria.

Added to the above is the failure of most public enterprises to yield expected returns and contribute to growth and development of their domestic economies. Being countries with large population of citizens below the poverty level, the welfarism ideology incorporated into their economic policies, which necessitated massive involvement of state in private sector economies failed to yield the expected dividend.

This failure was in part attributed to the corrupt attitudes of public officials and bureaucratic logjams of public service operation. Other includes the monopolistic structure of such enterprises, which shield them from competition, a basic ingredient for efficiency in private sector.

Accordingly, development economists and policy makers began to re-examine the role and need for active state involvement in real sector of the economy vis-à-vis its regulatory role. The credit of major state de-investment in the real sector was initiated by Margaret Thatcher in 1980s and its success amidst wide criticism encouraged other nations to embrace the policy. This act was later termed as privatization and commercialization of public enterprises. The economic policy which tends toward capitalist economic orientation has been adopted wholesomely by the two Breton Wood institutions viz: International Monetary Fund (IMF) and World Bank in the packaging of their financial assistance to the third world economies. This was the genesis of IMF conditionalities for assistance from world body.

Towards the end of the 20th century most developing countries had been caught in the web of debt burden and underdevelopment. Since the situation favours the developed economies in establishing the economic hegemony over politically sovereign third world nations, public sector's active involvement in real sector of the economy 1st favour and was tagged the major root-cause of underdevelopment in Africa. By the close of the 20th century privatization and commercialization syndrome had been entrenched in our economic policies and development plans. The efficacy of privatized economy became the singsong of globalization the then emerging concept in the new world order. Borrowing from the historical experience of developed countries this paper re-examines the potency of Lie argument of passive involvement of the state in economic development.

a) *The Need for Public Sector*

It is the general belief of the classical economic theory that:

- The composition of aggregate output would be in fine with the preference of individual consumer such that each is able to satisfy his wants/needs with limit of its physical endowment,

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- When the decision is left to individual members of the society, market forces will operate unhindered without disturbance to allocate and distribute judiciously the available resources among the various sectors of the economy.

This assumption is not true in reality. Inequality in resources endowment put many at advantage where market forces are left unhindered to distribute income among the members of the society.

Secondly there is the tendency on the part of the private entrepreneur to charge the highest possible price on his products in order to earn maximum returns. Thus the largest proportions of the members of the public are excluded from enjoying the benefits which such commodities offer.

In addition, investors go into business ventures in order to maximize their gains, this limits the number of goods and services they can produce. It will only be profitable to produce goods or services whose benefits can be enjoyed upon paying the market price. If it is possible to enjoy the benefit without paying the price many will not pay for it, thus the capital invested may be lost.

Based on the above realities private enterprises will produce and sell only to those who can afford the price. For example many adult workers currently employed in Nigeria are not riding cars because they cannot afford it. Only few live in owner-occupied houses because the cost of constructing one is out of the reach of many. Only a relatively small proportion could afford to send their children to overseas countries or reputable private schools for better quality education because it is above their income level. These goods and services are allocated by market forces and by its operation, it excludes the majority of the members of the Nigerian public. This is the major failure of market forces or price mechanism in allocation and distributing resources in the economy among its members. It cannot offer equity in resource distribution.

In order to bring equity, government must come to perform certain functions, which will ensure some equitable distribution of public resources. The following reasons among others continue to compel and ensure the existence of public sector enterprises in any economy, most especially the developing economy such as Nigeria.

- Failure of Market Forces in Ensuring Equitable Distribution of Public Resources:* If the work of allocation of resources is left to market forces, the greatest portion of members of the community will be deprived of (the economic goods. One wonders how many people will be able to allow personal security personnel in Nigerian should police force be left to private initiatives.
- Inequality in Resources Endowment:* Resources are general unequally distributed. But equitable

distribution is inevitable for development. This requires a superior organization to ensure redistribution for the general welfare of the whole society. Government levy tax on higher income earners and uses the proceeds to provide utility service to the lower income earners. There is no private enterprise (that can provide this service).

- Necessity of Public Goods:* There are some goods and service whose provisions are indispensable for the general welfare of the community. These goods and services possess some characteristics, which not only make it unattractive to private sectors but unprofitable for private investors. Such goods and services have indivisible benefits and externalities in effect i.e. the consumption by one member does not extinguish right of the other neither does the ability to pay a requisite condition for the spill over effects of the benefits. Such goods and services include security, protection against external attack, pipe borne water, public roads, street lights and high ways are needed for smooth operation, growth and general welfare of the society. Public sector (Government) exists to provide these goods and services at the cost at which the least member of the society can afford.
- Competition in Privates Sector:* Public sector ensures that there is low or total absence of competitions where such would be inefficient due to the decreasing cost arising from large-scale production. For example, if Government spent less amount of money in generating one kilowatt of electricity than it would have cost individual organization in the private sector competition would result in high cost of production and consequently the average price at which it would be released to the member of the public. Will be higher than it would under a single producer.
- Law and Order:* In general terms, smooth and efficient operation of the private sector economy hinges on the ability of the government of the state to ensure safety of lives and properties at all time. Where there is chaos and insecurity or political instability, private sector cannot operate at the co-existence peak efficiency level. The establishment of due legal structure for ensuring peace and equitable exchanges among divers interests in the country can only exist at the instance of government of the nation.
- Social Values:* This occurs as a result of recognition attached to some states by members of the public. It is indisputable that wealth attracts high public recognition and respect in Nigeria. This is the main argument for an income redistribution to achieve equity. Such quest would require adjustments in the distribution of income and wealth which results from the market system dominated by the private sector

and from the transition of property rights through inheritance. Only with the existence of the public sector can such readjustment be carried out in an equitable process.

- vii. *Limitation of Market System:* The market system in both highly developed and underdeveloped economics do not usually and necessarily bring high employment, price level stability and socially desired rate of economic growth such policies are established by government agencies and backed by statutory provision of the law before they can and vigorously pursue for the general well being of the nation.

II. ECONOMIC FUNCTIONS AND GOALS OF PUBLIC SECTOR

Renowned economic scholars agree that the basic economic problem of scarcity is the general feature of every national economy. The resources available to any society are limited to satisfy the need of its inhabitants (residents). All factors of production—Land, Capital and Entrepreneurship encounter constraints, which limit their availability and supply at any point in time. The major economic functions and public sector in any society are to make these factor endowments and resources available free from encumbrances to various sectors of the economy. These functions and goals are pursued through the use of government economic policies which are the main core of its budgetary pronouncement and measures. The core import of such public function are

- a) Allocation function.
- b) Distribution function.

a) *Allocation Function*

Allocation function of government budgetary policy is compelled by the unique features of human society. Resources are generally scarce relative to the demand and want for which these resources are needed. An infinite or unlimited quantity of economic goods cannot be produced because of this limited supply of each resource. When certain goods are produced with the scarce or limited resources, the opportunities to produce other goods are forgone. This is where the allocation function of public sector is inevitable for the growth and development of the economy. Through this allocation function, government provides the system which determines and regulates the pattern of production through various incentives and statutory provisions. The system answers one of the main economic questions of how economic goods should be produced and in what quantities. It also divides available resources within the economic private and social goods.

b) *Distribution Function*

This relates to the manner in which the effective demand over economic goods is divided among the

various individual and family spending units of the society. It is effective demand, which determines the distribution of real output among the populace through the existing pattern of income and wealth in the private sector and through the political influence in the public sector. Through its distribution function government adjusts the market induced distribution of income and wealth to ensure conformity with what the society considers as a fair or just state of resource distribution.

i. *Stabilization Function*

This function is concerned with the attainment by the national economy of:

- High levels of labour employment and capital utilization at stable prices,
- A good balance of international payment performance and
- A satisfactory rate of growth in per capita output (income) over a period of time.

These are pursued by the use of budget policy as a means of achieving:

- High employment rate,
- A reasonable degree of price level stability,
- An appropriate rate of economic growth with,
- Allowance for effects on trade and on soundness of foreign accounts—balances of payment.

III. EMERGING ROLE OF PUBLIC SECTOR IN THE ERA OF GLOBALIZATION

In the research findings of Stiglitz (1997): in both United States of America and other rapidly growing economies of East Asia, government has played important roles that accelerate their development which could be adopted by governments of developing countries in their drive towards sustainable economy development.

a) *Promoting Education*

Universal education creates a more egalitarian society, facilitates political stability, which is preconditioned for successful long-term economic development. It has been observed that since 1785, the government of United States of America recognized the responsibility of promoting public education by setting aside land in newly formed states for that purpose. The active involvement of government is needed to promote universal education in Nigeria in order to transform the economy from subsistence to a highly industrialized one. Scholarships should be made available on merit basis to promising scholars and highly intelligent students in all tiers of education in Nigeria.

b) *Promoting Technology*

Modern telecommunication including Internet was an initiative of U.S. Government. The remarkable growth in that country's agriculture is largely attributable to (the government's support for research and

dissemination of the result to the farmers. Government should provide support for research and development in the area of our core competence that is agricultures. Support for research effort should transcend the present state of establishing intellectual centers and institutes whose findings never see the light of the day. Government should provide sufficient funds to transform research prototypes to commercially viable products. The government of America spent \$ 1.5billion to fund the project which law explorer on planet Mars in 1997. A scientific feat which put the whole world at attention above Apollo II landing on the moon in 1969.

c) *Support for Financial Sector*

It is an undisputable fact that the financial sector is a catalyst for growth and development in the real sector of the economy. The sector is responsible for mobilizing scarce capital resources in the most efficient way. Government has the unique role of ensuring the safety and soundness of the registered operation in the sector. It is not likely that the operators in the sector would meet the overall finance required for sustainable development, the state is required for creating development institutions and financial market to till the gap created by these market imperfections.

d) *Providing Adequate Infrastructure for Development*

The rapid development pace of advanced economies is not much of available factors endowment but the existence of enabling environment and adequate infrastructure to back up the operation in the real sector of the economy. The reverse is the case in developing economies like Nigeria. We have abundant resources but lack adequate infrastructure. Our communication system is non-functional or at best epileptic in performance. An investor would think of ensuring self-delivery in communication system and generator to supply electricity before embarking on project for which he has raised funds. Government would need to look into infrastructural problems in Nigeria in order to promote growth and development in the economy.

e) *Preventing Environmental Degradation*

African nations have natural endowments of fertile agricultural land as well as rich aquatic resources. It would however take generations to undo the environmental damage that has been wrought on our land under the disguise of resources exploitation. There are numerous communities in the Niger Delta where both the land and aquatic resources have been extinguished for lifetime as a result of oil spillage». and carefree attitude of some oil producing companies. The government is required to establish effective environment policies that would protect these endangered communities.

f) *Providing Incentive for Growth And Development*

Nigeria is rich in fertile land and resources which can make the country great. The problem has

been lack of policy initiative to encourage local investments in agriculture and industry as observed by Giwa (2000) problems besetting manufacturers in Nigeria include:

- i. Poor and deteriorating infrastructural services.
- ii. Weak domestic demand arising from poor purchasing power.
- iii. High cost of operation worsened by escalating bank-lending rates.
- iv. Lack of level playing ground to enable locally made goods compete with imported finished goods.
- v. Massive influx and dumping of imported finished goods and substandard products.
- vi. Multiple levies and policy inconsistencies. Only the appropriate policies pursued by the state can ameliorate negative effects of these factors.

g) *Maintaining Security of Life and Property Including Social Welfare for the Entire Populace*

The high level of corruption among top government officials exerts negative effects on the security of lives and property in the country. The law enforcement agencies continue to harass innocent citizens on the high way. Our pension scheme leaves past civil servants dying of hunger or on the queue while waiting for their rights from officers they nurture into stardom. Our health care system too operates at abysmally low level. Until these issues are decisively addressed by the government no private initiative can ensure their provision for the poor masses of this nation. It is incontrovertible that their absence would continue to affect the productivity of our labour force and consequently our development initiatives.

IV. CONCLUSION AND RECOMMENDATIONS

The new international economic order under the emerging concept of globalization offers unique challenges in competing for available investible funds at global level such that only the country with investment friendly environment can attract foreign capital inflows. It should however be noted that uncontrollable deregulation and liberalization would injure any economy. Since no economy in the present world can boast of complete inactive public sector involvement in its economic processes, Nigeria should approach deregulation and privatization with caution. The government being a large organization, which unlike large private organizations is not subject to the pressure of market competition, should learn to adapt to changes as the economy reacts and adapts to changes at global economy scene.

Practical evidence avails to prove that both public and private sectors operate far from textbook ideal and also display uncertainty at larger scale. It also proves that though democracy may not at times be

responsive to wishes of voters, the same is also true of Managers of large corporations who often set aside the wishes of shareholders to which they are responsive to pursue objectives which promote their private benefits. Government should therefore rise up to the emerging role of fostering tin growth and sustainable development of the nation's economy since a passive involvement may adversely affect the existing level of growth if wholly left in the hands of the private sector.

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