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THE SOCIAL COST OF PRIVATIZATION OF PUBLIC ENTERPRISES IN NIGERIA

By

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Abstract

The Keynesian development paradigm recommends that governments even through deficit financing should stimulate demand and the use of idle resources to reduce unemployment. It emphasized the need for the public sector to play a leading role in preventing market failures and accepting the responsibility for producing a wide range of goods and service. The massive expansion of the public sector in the first, second and third development plans was largely informed by this thinking. The present drive towards privatization is a product of the failure of the Keynesian paradigm to deal decisively with the worldwide economic realities of the early 1970s especially among oil importing nations. There is a general belief that privatization will end the fiscal crisis of the nation as well as the interminable scandal associated with the operations of the public enterprises.

This paper argues that the social cost of privatization is so enormous that it may further worsen the standard of living of the citizenry. A discussion approach is used to examine the social cost of privatization.

Introduction

The enormity of Nigeria's social economic crisis of stagnation, low capacity utilization, food crisis, balance of payment deficit and the inefficiency that characterizes the performance of the Nigerian public enterprises has made privatization option to appear on the state public policy agenda. Prior to the oil boom era in the 1970s, the business of government was restricted to good governance and the provision of social and basic amenities.

The scope of government was widened with the availability of oil money and government disposition to the Keynesian framework.

A major rationalization of public enterprises in Nigerian began in 1988 with the promulgation of the Privatization and Commercialization Decree No 25 of 1988. The aim was to reduce public sector ownership and control through privatization and commercialization.

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Obaji U.O. (1999) identified the objectives of the privatization and commercialization programme to include:

(i) restructuring and rationalization of the public sector in order to lessen the document of unproductive investment in that sector;

(ii) to orientate the enterprises for a new horizon of performance improvement, viability and overall efficiency;

(iii) to ensure positive return of public sector investments in commercialized enterprises;

(iv) to check and prevent absolute dependence on the treasury for funding by otherwise commercially oriented parastatals and so emerge their approach to the Nigerian capital market;

(v) to initiate the processes of gradual transfer to the private sector of such public enterprises which by their nature and types of operations are best performed by the private sector.

As good as these objective may be, there are social costs that appear to lessen the standard of living of the Nigerians.

Evolution of Public Enterprises in Nigeria

The term public enterprises is not susceptible to any exact definition. In this context, it means an agency of a predominantly industrial, commercial or financial character, entirely or partly owned and substantially controlled by the Federal, State or Local Government.

David Walker (1980) referred to public corporation as. "Corporate bodies established by statute to own, manage and operate utilities and industries in the public interest. As compared with private corporations, they have no stimulus to efficiency. In theory, the public corporation is accountable through the responsible minister or parliament (and thus) to the community, is financially self supporting and is free from political interference. However, in practice, such bodies have no regard for the community, are constantly loosing money and having to be subsidized by taxation and are subject to constant political interference and reversal of policy.

The issues raised in the definition are familiar with Nigerian public enterprises.

Two forces gave birth to the establishment of public enterprises in Nigeria. These forces are, political and economic.

During the colonial era, Nigeria's posture at the international market was reckoned with in terms of agricultural products, hence the colonial government of the time saw the need to develop infrastructural facilities to meet the needs of the economy. It was perceived that these infrastructures will hasten the transport of the agricultural products to the ports for subsequent overseas export.

After independence there was an increasing trend in the establishment of public enterprises. For instance, the second national development plan (1970-1974) emphasized the role of public sector in Nigeria's march to economic development. In which case the emphasis on the public sector of the economy became the focus of the state. The reason for assumption of this greater role in the development of Nigeria's economy after independence was to consolidate the political independence and to maintain control over national resources and foreign enterprises which tended to be monopolized.

The economic forces that led to the evolution of the public enterprises in Nigeria were two-fold. One is the agricultural commodities trade era. During this period semi autonomous institutions were created to engage in development activities. They were financed from funds generated during the commodity boom era. An example is the various regional housing corporations of the early 60's and the marketing boards.

Secondly, the emergence of the 'black gold' led to expansion in the provision of infrastructural facilities. The existing ones such as Nigerian electric power authority, Nigeria ports authority, Nigerian Airways authority were reorganized and others created to cope with the tempo of Nigeria's economic development.

It is therefore evident from this brief historical overview of the evolution of Nigerian public enterprises that, with the advent of the 'black gold' and availability of huge investible funds, the government did not only expand the scope of its utility services, it also engineered and controlled the commanding heights of the economy (see third national development plan).

The fear of expatriate domination of our key entrepreneurial activities led to the promulgation of the Nigerian Enterprises Promotion Decree of 1972, which was subsequently revised in 1977. The rudimentary state of indigenous private sector then, their inability to finance capital-intensive projects like these foreign companies also led to the establishment of some financial institutions such as the Nigeria Industrial Development Bank (NIDB), Nigeria Bank of Commerce and Industry (NBCI), and the Nigeria Agricultural Credit Bank (NACB) which were created to play a stimulating role in the industrial transformation of the economy. Specifically, the primary motivation for the establishment of the Nigeria Bank for Commerce and Industry (NBCI) was to facilitate the smooth implementation of the Nigerian Enterprises Promotion Decree (NEPD) 1972. Since companies in a wider range of industrial sector were affected by the Decree, no sectoral limits appear to have been set for the operation of the bank.

Objectives of Public Enterprises in Nigeria

At a macro level, the objectives of the state for establishing parastatals include; accelerating national economic development, increasing productivity and employment and more importantly to increase the standards of living of her citizens. Other objectives include:

(i) Controlling the exploitation of national resources such as mining, water resources, agriculture forestry and energy production.
(ii) Creating the necessary infrastructural conditions for the operation of economic and social activities such as construction and management of harbour, airport, airways, etc.
(iii) Creating public enterprises which have national security implication such as military, manufacturing establishments and security printing organization.
(iv) Ensuring the continuity of activities of low financial yield, which are of interest to the national economy.
(v) Encouraging new activities in areas considered important for development in which the entrepreneurial risk is high.
(vi) Establishment of institution aimed at directing financial and monetary funds to certain economic sector e.g. the Nigerian Agricultural Credit Bank.
(vii) Government also creates public enterprises to ensure balance and even development across the country.

Each of the parastatals is charged with specific responsibilities to smoothen the growth path of the economy. Though public enterprises in Nigeria have been road blocked in the way of achieving these afore mentioned targets, it would amount to sheer dishonesty to issue a blanket condemnation of public enterprises as inefficient. This is because the use of profitability criterion for evaluating the performance of public enterprises ignores the social objectives that informed their establishment. Public enterprises have contributed immensely to the Nigerian economic development as shown in the next section.

Contribution of Public Enterprises to Nigerian Economic Development

In addition to direct intervention through financial instrument in form of national budgeting, the government has also utilized public ownership of business indirectly to exercise influence upon business activities.

During the 1990s, Government owned independent public enterprises controlling many industries, including electricity, oil, coal, etc. Some of these public enterprises were expanded through additional government investment.

Public enterprises constitute a leading sector of the economy, in that they grew substantially more rapidly than the economy as a whole.

During the initial period of economic take off, public enterprises created forward linkage effects by transmitting growth to their industry. The second national development plan recognized the structural defcets in private business organization when it said: "what

Nigerians lacked in the past has been a sense of purpose, particularly in economic matters. The Federal Government will therefore occupy the commanding heights of the national economy in quest for purposeful national development and provide leadership and honest administration necessary for the attainment of a national sense of purpose".

Objective

The main objective of this article is to discuss the social cost of privatizing the public enterprises in Nigeria and the attendant consequence on the standard of living of the populace.

Theoretical Framework

Keyode M. O. (1986) defines commercialization as a move towards the pursuit of efficiency and effectiveness in attainment of objective with a dominance of financial consideration through the adoption of management styles that reward good and penalize poor performance.

While privatization and commercialization have identical goals, profit maximization and efficiency, they differ in their conceptualization. Privatization implies the transfer of government equity shares in these ventures to private owners while the latter retain these shares but realign the orientation like private enterprises (Kayode M. O. 1986). Privatization implies commercialization but the converse is not the case. The whole question about privatization cropped up as a result of efforts made by the liberals to stress the 'virtues" of private initiative and the 'superiority" of its management principles, as if these have universal validity and acceptability.

Milton Friedman (1982) in his conservative views does not see essence of government participation in economic activities. His argument centres on the "relative neglect the action will induce in respect of the primary roles of the government."

George Stigler (1983) provides empirical evidence from industrialized countries to reinforce Friedman's thesis. Like Adam Smith, they advocate market forces. The liberals on the other hand, doubt the efficacy of the price system in allocating available resources sufficiently without coercion.

Galbraith J. (1978) highlights the limitation endemic in the price mechanism. which government intervention can overcome with regulatory agencies, subsidization policies and the provision of services and utilities which the private sector produces little of. He was of the opinion that consumers are led by cut-throat advertising and other promotional efforts to purchase more of goods of marginal significance to them.

Samuelson (1983) sees price system as a coercive mechanism which awards available goods and services to those who can afford their equilibrium prices within a world economy whose income distribution is skewed against the large under-privileged class. Besides, within the process of award, people are awarded only a pittance by the price system and they will be coerced into discomfort and malnutrition. This situation from the point of view of the liberals is social-political injustice.

Privatization within the context of SAP is nothing but emphasis on market forces as expounded by Stigler and Friedman. Privatization of public enterprises is therefore a fiscal policy aimed at reducing government expenditure. It can be defined as a systematic and programmed withdrawal of government from those activities which private persons or undertakings can perform more effectively than government agencies or enterprises.

Social Cost of Privatization

In the last public pronouncement he made on the issue of privatization before he was overthrown, Major-General Buhari had this to say:

> "The government would rather go into commercialization----because as a result of the study Group on the commercial companies, we found that there is large public investment which would be unfair of this administration to sell to a few people (that investment) so that people who bought these shares will realize so much profit".

However, this statement is an outright rejection of privatization and the Buhari administration had not settled on the policy of privatization by the time it was over-thrown on 27 August, 1985. But certainly it showed considerable awareness of some of the political parameters involved in the issue especially in relation to the constitutional provision of wealth as contained in Section 16-1 (a and b) and Section 16-20 of the 1979 Constitution of the Federal Republic of Nigeria.

The social costs of privatization also vary from country to country. In Nigeria, it includes the following.

(a) Threats to 'public interest'. Public parastatals have the dual responsibility of':
  (i) operating in the public interest and
  (ii) seeking to achieve profits as a commercial undertakings.

  It is therefore obvious that once these enterprises are privatized 'public interest' will be thrown into the wind.

(b) Privatization leads to creation of private monopolies: This implies that in many instances privatization means a replacement of public monopolies with private monopolies. This may lead to an increase in the prices of the services provided by these parastatals, and since prices of commodities and services are inversely related with their value, the tendency is that the standard of living of the consumer would be lowered.

(c) Valuation problems: In the absence of a market for the shares of public enterprises, it is difficult to determine an appropriate issue price for the shares. This may lead to an over-subscription which may not be in the interest of the tax payers. For instance, American International in 1982, and British Telecommunication and Jaguar in 1984 were nearly over subscribed at giveaway prices. The prices at which these enterprises will be sold will be similar to that mentioned above considering the nature of the under-development of the stock market in Nigeria.

(d) Transnational Domination: It may be the case that where indigenous private sector could not raise funds for the purchase of these parastatals, foreigners may outright buy them up or use their local fronts. Hence, rather than alleviating the balance of payment crisis of the country, privatization may further compound it.

(e) Economic inequalities: Privatization will enhance economic inequalities and produce social polarization. Hence, succession to wealth and poverty will tend to become hereditary within particular social groups. Thus the line which distinguishes the 'haves' and the 'have nots' will be further thickened as the patterns of shares acquisition might succeed in transferring the bulk of the acquired shares into the hands of a few rather than to the hands of the generality of the people.

(f) It has been suggested that advocates of privatization confuse efficiency with money making, hence the false presumptive superiority assumption of the private sector to the public sector. The question is, is profit the only motivation for the establishment of these enterprises? Should we measure viability in terms of money alone? What about the provision of certain utility services, which the private entrepreneurs can, but will not, provide because of profit consideration? It has therefore been suggested that indicators of efficiency and effectiveness should take cognizance of the services and facilities these parastatals are to provide. Those who favour privatization do so considering the total amount invested and the returns therefrom. This approach is misleading since the primary objectives of some parastatals is not profit making. Certain services such as electricity, water supply and education should be fundamental rights for the citizens.

(g) Privatization may also lead to mass retrenchment of workers by new owners of acquired parastatals which might be subjected to private sector standard.

(h) If the privatization plan is carried out in accordance with the outlined policy spelt out in the 1986 budget speech, the Nigeria state will most certainly cease to control the major sectors of the economy. The long list of enterprises that will come under category A, total divestment, derives from the flexibility with which the terms 'commercially-oriented' or 'non-strategic' can be defined.

The implication of divestment in highly profitable enterprises such as breweries, banks and insurance companies will mean a huge profit will be shared among a small number of shareholders instead of being used to finance key social services like education, health and business.

Conclusion

It has been shown from the foregoing discussion that privatization may not end the fiscal crisis of the nation, but instead, it may compound it.

Though the privatization drive has been sanctioned by the present administration, we only hope that caution will be excercised to ensure a systematic privatization of the management of these parastatals, more so that it has been demonstrated that management problem is responsible for the inefficiency and low return that pervaded the functioning of these parastatals.

While a look at the perennial problems associated with these parastatals and the interminable scandal associated with their operation may suggest their divestment, experience has shown that rather than edging out economic crisis, countries that have adopted the policy have found that their crisis is further prolonged and exacerbated.

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