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PARTICIPATION OF GOVERNMENT IN BUSINESS

by
ECA Secretariat

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We shall be concerned primarily in this paper with public enterprise, its purposes and role in developing economies in Africa and we will take as accepted two basic principles: self-reliance, i.e., increasing substitution of factor inputs in production, marketing, research and experimental development, etc., and self-sustainment, i.e., dependence on internal demand stimuli instead of dependence on so-called world markets and world market prices and other incentives, combined with the promotion of intra-sectoral and inter-sectoral linkages in the economic structure.

In the African Region in general the small size and low level of development of national economies pre-supposes a considerable degree of intra-African co-operation.

We also need to take account of the broad pattern of impact of the colonial economic system of African economies. Until today most individual African economies have depended for the modernization process on the export of one or two primary products.

In the past twenty years no individual African country has significantly altered the export product pattern as a result of its own perceptions and efforts.

In consequence Africa is characterized by economies dominated by an unbalanced specialization in primary production for export. Worse still, decisions as to what part of the natural resource/raw materials base is to be identified, evaluated and exploited, on factor input choice, sources and terms of supply on product pattern, on markets, etc., are determined neither by African governments nor communities. In other words the African economy today is still an economy characterized by enclaves, semi-enclaves and dysfunctional relations and dependent for its direction, in substance if not in concept, on foreign agents of production and distribution.

The commodity and geographical constraints (by which a large part of the world that is developing is engaged in trying to export increasing quantities of the same range of commodities to the relatively small part that is developed) inherent in the colonial economic system has now brought about an international crisis whose seeds were built into the colonial economic system.

It does not matter what product is at issue, the constraint of supply ultimately outrunning demand is always present. It is for this reason that African governments have agreed on individual and collective self-reliance.

In the pursuit of this objective there are time limits. Some time limits are set by the nearness or distance of collapse of the export market on which individual countries depend for their dominant export primary product.

Other time limits depend on how long it would take for foreign exchange earnings to be converted into fixed, renewable productive assets which replace the existing source of growth and dynamism.

To facilitate our examination of this issue we need to define what we generally understand to be the objective of socio-economic policy in Africa, i.e. economic growth.

For us, economic growth means physical increases in the output of goods and services to meet the needs of the mass of the population. These increases, we believe, must be based on the exploitation of the natural resources/raw materials of the region, the level of complementary ties and therefore of production possibilities being raised through intra-African trade in, inter alia, industrial raw materials.

It is the raw materials base coupled with the pattern of final output (reflecting mass needs) that decide the kind of factor inputs that are imported or locally developed.

In regard to the balance between, e.g., technical assistance, there does not seem to be enough attention paid to technical assistance for doing something that needs to be done now but which there is no national capability for doing it and technical assistance to enable governments and communities to do for themselves tomorrow what they have decided to do.

Since governments know so little of the natural resource/raw materials base and since this figures so little in national planning it follows that factor input development is largely aimless and frequently irrelevant to the purposes of economic growth as defined.

The first challenge facing African governments, therefore, is to broaden the natural resource/raw materials base of modern production, since it is clearly unreasonable for policy makers and planners to expect that they can expand and diversify production, build up relevant factor inputs, reduce mass poverty and unemployment, establish not only the capital goods industries but also intra-sectoral and inter-sectoral linkages, integrate the domestic market, create the matrix for invention and innovation in both social and material technology by concentrating on exports of raw cotton or logs or diamonds or iron ore or copper or cofee, or cocoa...

The second task of government is to develop and substitute indigenous factor inputs for imported factor inputs.

A third function of government is to encourage the production and efficient social distribution of goods and services to meet the needs of the masses. Its fourth function is to assume the function of entrepreneurship where necessary, but at the same time to do everything reasonable to promote entrepreneurship within the community as a whole.

In the ECA one of our major pre-occupations today is with entrepreneurial capabilities in the sense that a minister, a permanent secretary, a director of applied scientific research or a businessman can be an entrepreneur. Our concern is not only with quantitative and qualitative aspects of entrepreneurship but with the range of entrepreneurial functions required for accelerated development and economic growth and its distribution.

One amazing fact is that the People's Republic of China is today engaged in developing a whole nation of entrepreneurs, inventors and innovators reaching down to the commune level.

A moment's thought will show that there is a close connection between entrepreneurial resources, their forms, quality and distribution and the time limits referred to earlier. A country such as Nigeria is faced with a particularly tough problem of time and therefore of initiating and sustaining the conversion of foreign exchange earned in large quantities within a short period into fixed, renewable capabilities for economic growth.

In a sense it has a massive problem of developing or improving entrepreneurial resources as well as other factor inputs. If one were asked to consider the Nigerian economy in terms of the challenge just noted and of the need for rapid structural transformation one would seek to discover the scope of technical knowledge of natural resources, the extent of development since 1961 of the mining sector and other extractive industries, of the solidity of the metals industry and consequently of the engineering industry; of capacity of the intermediate chemicals industry as a foundation for chemical products.

Similar questions would apply to fibres, raw materials for the food processing industries and energy.

A particularly striking question would be the role of the mining sector in deliberately promoting industry and agriculture and services through forward and backward linkages as was the case in South Africa.

In every one of these questions would be involved questions about the supply of indigenous entrepreneurs (public or private) and of the other factor inputs).

It is, at this point, necessary to draw attention to a factor of crucial importance but not always fully understood. The foreign exchange syndrome (i.e., the excessive pre-occupation of African policy-makers and planners with foreign exchange availability) is only in part due to the confusion of the act of investment with the use of money.

It does recognize the direct convertibility of foreign exchange into factor inputs or consumer goods and services. The difficulty is that the policy-maker and planner fails to see the relationship between money and (relevant) factor input supply when he moves into the area of domestic financial savings. It is here that the entrepreneurial resource and factor input supply constraints become most difficult.

In the ECA preliminary examination of the relation of African entrepreneurial resources to structural transformation has been going on and two striking features have emerged.

First, is the concentration of such resources in trade, services, small-scale production over a limited sectoral area.

The second feature is that today foreign entrepreneurship is rapidly taking over such small and medium scale businesses as garages, metal-working establishments, hairdressing establishments, laundries, pharmacies, restaurants, cinema chains, etc.

This raises doubts about the capabilities of African entrepreneurship for taking and sustaining initiatives in a wide range of production, R & D, marketing sub-sectors characterized by long gestation periods, investment indivisibilities, and unfamiliar parameters and characteristics.

How then can structural change be carried out without extensively and perhaps permanently handing over critical sectors and sub-sectors to foreign transnational corporations in one guise or another.

When one considers the history of national policies in Nigeria towards the indigenization of business it is difficult to see any clear, consistent, carefully thought-out philosophy and set of policy measures as well as actions.

Indeed, it may be said that the necessarily changing boundaries between areas allocated to indigenous competence and initiatives and foreign competence and initiatives have, in practice, not followed any clear principle.

Similarly, the also inevitably changing boundaries between the public and the private sector, tend to shift without perceptible guiding principles.

In any case the issue is no longer one of public versus private or indigenous versus foreign.

The issue is how to effect structural change at speed without betraying the principles of self-reliance and self-sustainment, i.e. in operational terms, how relevant factor inputs can be built up as fast as possible and how entrepreneurial resources (particularly indigenous entrepreneurial resources) can be mobilized and redeployed to carry through the changes needed with an eye on the clock.

In this operation no capabilities can be overlooked.

The central principle (other than motivation) guiding allocation of responsibilities must be an evaluated capability for design and/or execution. Evaluation will have two functions: to determine what can be carried without help or what help is needed to carry what needs to be carried; to monitor the expansion and improvement of entrepreneurial resources overall or within sectors and sub-sectors.

From this point of view one sees the public sector and the private sector as complementary to each other in many respects and therefore working close harmony.

One of the characteristic difficulties in a situation such as Nigeria's is the tendency to underestimate or to exaggerate the possible roles of the public sector. Another is the inclination to regard the frequently gross entrepreneurial and managerial deficiencies of public sector enterprises as irremovable and as naturally inherent in state-sponsored institutions everywhere and in every generation.

It is not at all difficult to point to public sector enterprises which are run in developed as well as developing countries with very high efficiency. These tend, in fact, to be ignored or to be regarded as special cases when the general charge is laid.

It is also not at all difficult to draw attention to the increasing number of private corporations of substantial size that are getting into financial difficulties in the most developed economies and that have required considerable state intervention to rescue them.

Indeed, as Peter Drucker recently pointed out, were strict asset replacement principles applied in the calculation of profits, many more large firms in developed economies would be seen to be in grave trouble.

The reform and extension of the public sector would appear to me to be necessary but except where central planning and direction of execution as in CMEA countries is practised it would seem to me that some guiding principles on the extension of public enterprise is necessary.

The public sector role in effecting structural transformation is so large and so duanting that it could hardly be expected to cover all major areas and activities, so that some areas and activities even though they would ordinarily fall within the public sector may have to be broken up and either entrusted to a gradually strengthened private sector or carried out as joint enterprises.

The share of investment between public and private sector is fundamentally not a share of money but of the factor inputs that money can be used to command.

At this point one is tempted to consider the roles of the public and the private sector in the improvement in quality and enlargement in supply of factor inputs.

I will forego this in order to consider more closely the role of public enterprise because of the conviction that its entrepreneurial duties are not demonstrated by profit-making or expanded capital formation. The role I see for public enterprise includes:

(i) intra-sectoral functions such as:

  (a) leadership in expansion of production to meet anticipated national needs;

  (b) manpower planning and development;

  (c) the promotion of sub-contracting;

  (d) the development of consultancy services;

(e) the promotion of standardization and quality engineering;

(f) research and experimental development and the promotion of innovation;

(g) the promotion of bulk procurement of supplies.

(ii) inter-sectoral functions especially concerned with the establishment of linkages, joint production planning, joint R & D, et cetera.

(iii) multinational level where the main function will be concerned with market assessment, organizing production and trade in raw materials, and intermediate goods, co-ordinating multi-national production and marketing, mobilizing and redeploying savings for multinational companies, co-ordinating multinational R & D and so on.

In respect to item (iii) I am firmly convinced that already, apart from national consultations among public utilities and enterprises on practical problems of entrepreneurial self-improvement, etc., these enterprises should also be meeting at multi-national level and by sectors to consider their role in structural transformation.

It will have by now become clear that the state as entrepreneur is faced with entrepreneurial activities in areas with substantial linkages and catalytic effects. In other words, the public sector in Africa in general and Nigeria in particular cannot resort to soft options in the way the indigenous private sector can and in spite of the fact that state policy should, reasonably, be aimed at shifting private sector investment preferences in the direction of harder options.

So far, we have confined attention, in respect of public enterprise, to its role in carrying through a process of structural transformation at some speed but there are often larger socio-economic purposes of the state and of society.

The most commonly cited is the fight against mass unemployment which, in a region of such ample natural resources, is an ironical pointer to the failure of socio-economic policy.

Much of the discussion on unemployment in international circles has been concerned with the volume of industrial investment in financial terms needed to absorb the openly unemployed but not much attention, even now, is paid to the role of entrepreneurship in organizing production, marketing, etc., and therefore in creating employment.

It may, therefore, be the purpose of government to promote employment in certain areas of the economy where otherwise this would not be created.

However, where private entrepreneurship is willing to take initiatives that would lead to employment creation it should be encouraged to do so in recognition of the already massive entrepreneurial load confronting government.

A second and widely recognized area closely associated with unemployment is the fight against mass poverty. Here the range of policy and entrepreneurial action may be quite considerable and again unless private entrepreneurship is unwilling to take on the load - if necessary on the basis of a system of combined incentives and limiting conditions - government should economize on the use of its entrepreneurial resources by taking up other areas of activity.

State enterprise may be necessary for several other well-known reasons: to deal with areas of the economy that constitute natural monopolies; to establish monopolies in strategic sectors; to regulate non-competitive market behaviour; to promote innovation; to rescue important enterprises in danger of collapse; to encourage medium-and small-scale enterprises.

The mix of reasons justifying any particular pattern of public enterprise is likely to differ from time to time and place to place. For example, the enormous and continuing spread of cartels and vertical integration covering practically all segments of the world economy today suggests that non-competitive behaviour will become an important determinant of the location of public enterprise.

Whatever the reasons for and the pattern of public enterprise in Africa today, the guiding principle should be the fullest mobilization and most efficient utilization of national entrepreneurial resources.