

Privatization and Economic Reform

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The text of the paper delivered on October 16, 2002 At a three-day Communication Workshop organized by the International Republican Institute, Nigeria, for the Leaders of Political Parties in Nigeria at NICON Hotel, Abuja.

It is a great pleasure for me to be here in this workshop organized for political parties' leaders. Except the newly registered parties, the existing parties have representatives at federal, state and local government level. Whatever decisions taken at these levels, it will go a long way in shaping the people's destinies. For all of us here, the future and its challenges for Nigeria are huge and enormous.

The questions I would like us to ask ourselves are: What explains the take-off into sustained economic growth first in Western Europe and North America, then in Japan and East Asia. Why has economic growth lagged in Nigeria? What lessons from this experience for Nigeria which in recent years suffered declines in living standards? What changes in public policy are needed to facilitate a "catch-up" of living standards comparable to what is the case in other clime?

Firstly, let me share this remark by Milton Friedman, the Nobel Prize- winning economist, in an event in his honour by President Bush on May 29,2002 for his extraordinary contribution as the greatest economist of the 20th century.

"When a man spends his own money to buy something for himself, he is very careful how much he spends and how he spends it.

"When a man spends his own money to buy something for someone else, he is still very careful about how much he spends but somewhat less what he spends it on.

" When a man spends someone else's money to buy something for himself, he is very careful about what he buys, but does not care at all how much he spends.

"And when a man spends someone else's money on someone else, he does not care how much he spends or what he spends it on.

"And that is government for you," he concluded.

Over the past two decades, there is trend towards removing government from the business of doing business. We should, however, not forget the fact that government has the mandate of the people to perform certain government business. The question is what type of business should government actually do? Goods manufacturing? Selling merchandise? Providing services?

What sorts of services? Services relating to the provision of security? Yes, that is government business. What of providing telecom services, water, power generating and selling? Over the years, government failed to do what it should do and do what it should not do. Reasons advanced for government involvement in the running of public enterprises no longer hold water. Initially created to alleviate the shortcoming of private sector and spearhead the development of the national economy, but most of the state owned enterprises SOEs actually helped stifle the local private sector and consequently fostered economic stagnation. Many (SOEs) have unenviable performance. They are notoriously inefficient. They cannot survive without tariff protection, preferences in public procurement, preferential access to credit and tax exemption. These SOEs drained national budget and continue to dominate many activities with very abysmal performance.

Given the parlous state of these SOEs and government dwindling revenue as well as the need to attend to citizens' need like the provision of security and maintaining law an order, there is the need to release itself from the burden of directly running these SOEs and to vigorously pursue sustainable reforms to achieve economic growth.

Privatization has therefore become a worldwide strategy for achieving sustainable economic growth and development. It was used by Margaret Thatcher in the U.K as the centerpiece of her government economic policy. In its frequent adopted sense, privatization is the transfer of state owned business organizations and shares to individuals and firms in private sector.

As an economic reform strategy, countries are employing it across the globe. Electric and gas utilities have been privatized in a number of countries. Several Asian nations have privatized their sea ports, Britain for example, also transferred its airport, seaports and water supply to firms and individuals in private sector. Highways have been privatized in many European countries, Latin America and Asia. Airlines have been privatized as witnessed in Kenya. Nigeria is also in the process of selling off its public enterprises. The first phase of privatization in the country has largely passed off as a success. The programme has now reached a critical phase which involves selling off major power and telecom utilities.

This paper looks at the rationale for privatization in Nigeria, arguments against it and its implementation. It goes on to show why privatization is not enough to achieve sustainable economic growth in the country.

WHY PRIVATIZE PUBLIC ENTERPRISES IN NIGERIA?

The Decree No.25 of October 1988 gave legal backing to the policy of privatization and commercialization in Nigeria. The policy was a part of the wider programme, Structural Adjustment Programme, put in place by General Ibrahim Babangida, for the purpose of restructuring the national economy.

According to President Obasanjo, there are over 1000 state-owned enterprises SOEs in Nigeria.

There are some reasons for the Nigerian government to consider selling or leasing these public enterprises. Some of these reasons are:

For government to establish and invest in state-owned companies is no longer considered sound economic policy worldwide.

- a. Virtually all-public enterprises are inefficient. In spite of billion naira spent on them, they yield no good results in terms of satisfying customers. It is estimated that annual returns on them have been well below 10 per cent.
- b. They are ravaged by corruption as a result of which governments are losing billions of naira.
- c. To achieve improved government efficiency by lessening the burden on the shoulders of the government through privatization.
- d. To achieve improved efficiency of the affected firms.
- e. To reduce the resources controlled by the government because it has been observed that government in Nigeria consume too many resources while their level of responsiveness to the people is low.
- f. To achieve increased government revenue because in the first place, purchase of government firms and shares would make much money available to the government. A drastic reduction of subsidy due to deregulation would also enable the government to conserve its funds.

ARGUMENTS AGAINST PRIVATIZATION

In spite of many reasons for privatization, some people still believe it will not serve the interest of a greater number of Nigerians. Greater opposition to the programme comes from workers' unions. We have occasions at which labour leaders threatened to embark on strike to make government reverse its privatization programme. Some scholars are also against privatization purely on ideological grounds.

According to those who oppose privatization,

- it will lead to workers losing their jobs.
 - Nigerians will suffer as a result of increased service charges.
 - Most of the public utilities are our national heritage, our collective property whose transfer to private hands will not be in the nation's interest.
 - Privatization of large monopolies like NEPA, Liquefied gas project seaports etc may not lead to competition.

A critical look at these arguments against privatization will reveal that most of them are not tenable. Job loss argument is frequently employed by labour union leaders in order to maintain their clout and area of influence. It is not in the interest of the majority of Nigerians. This argument should be opposed base on one of the principles of sound public policy compiles by Lawrence W. Reed, President of Mackinac Center for Public Policy in Midland, Michigan, United States, The principle is that "Sound policy requires that we consider long-run effects and all people, not simple short –run effect and a few people." The arrangement only considers few people who are the workers of the enterprises to be privatized and not the majority of Nigerians who suffer inefficiency and corruption of public utilities. There is also no evidence that privatization will lead to massive job loss since most of the workers will still be useful to the privatized utilities.

The argument that Nigerians will suffer as a result of privatization is also unacceptable selling off most of the public enterprise may relieve the people of the negative results of the inefficiency and corruption of them. However, their privatization must be done in a way that will lead to competition.

National heritage argument is not strong enough to ensure rejection of privatization. Nationalism should not be emphasized over economic performance. In reality, the public utilities are more property of some people than others are. It is when they are privatized that majority of Nigerians will benefit from them.

The private monopoly argument could be said to be strong. Truly if not well implemented, privatization may not lead to adequate competition.

IMPLEMENTATION OF PRIVATIZATION IN NIGERIA

According to Lawrence Reed, there is nothing worse for a “reform” idea than a poor implementation that leads observers to reject the idea outright. Some observations may be made about the implementation of privatization in Nigeria.

- a. There are instances where in the process of privatizing some public enterprises at the federal level, state governments participate in buying the enterprises. For example, Federal government shares in NAL Bank were sold to Kano State. Economy watchers call this an aberration since privatization means transfer of ownership of business enterprises from public to private sector. However, the Kano State has transferred the shares to Dantata investment, thereby making Dantata the single largest shareholder in NAL BANK. This has started generating a serious controversy. Also in November 2001, Ogun, Bauchi and Akwa Ibom State governments belonged to the Investors International London Limited that won the bid for 51% (majority) share in NITEL.
- b. The implementation is highly characterized by politics. The agency charged with the implementation of privatization, the Bureau of Public Enterprise, BPE, is always at loggerhead with the ministers of the ministries supervising public enterprise to be privatized. The BPE’s directors are hauled up to almost daily hearings at the National Assembly. Federal legislators have been delaying the passage of bills such as the power sector reform bill that may help implementation of privatization. Politicians and officials who enjoy powers of patronage from a dominant public sector are maintaining strong resistance to the sale of some public enterprises

c. The public enterprises (Privatization and Commercialization) Decree No. 28 of 1999 being used by the Bureau of public Enterprises (BPE) as legal instrument is a military formulation .It was design to suit such dispensation. It contains many provisions that are not consistent with democratic ideals. The decree gives incredible wide power to the National Council on Privatization (NCP) as well as (BPE). There are no adequate provision for checks and balances as NCP is accountable only to the president.

d. Privatization proceeds do not seem to be well utilized. They are used to finance budget. Millions of dollars from GSM were shared by the three tiers of government. In Europe and Latin America, debt reduction is one of the major uses of privatization proceeds and the important reason for selling state-owned enterprises.

A WORD OF CAUTION

Privatizing public enterprise is not enough to achieve sustainable economic development. The example of Russia points to this. It did its privatization in a way that created private centralized economic control (private monopolies) One of the key concerns shared by many is that privatization alone is being portrayed as a cure-all for the ills of an ailing economy like ours. If the expectation is that privatization alone will brings the economy back to life, we will all be disappointed. A well-managed privatization can only be successful if all the economy and social fundamentals are in place. The main driver of economic growth and reform is the quality of the quality of the rules of the game. That is, institutions that reduce the cost of innovating and transacting business for entrepreneurs.

The Heritage Foundation in Washington, D.C published its Economic Freedom rating for 2002 with Nigeria ranking 125 out of 155 countries. Also the Fraser Institute in Canada in its *Economic Freedom of the World, 2002 Annual Report*, Nigeria was ranked 101 out 123 countries behind high flyer countries such as Botswana and Mauritius .

The Heritage report as well as work done by the Fraser Institute does something much more important than publishing league tables on the quality of property rights and non-interventionism. It adds convincing evidence to a theory of

economic growth namely that “ it is the rules, the institutions that make for poverty or prosperity. The same conclusion emerges from weighty new research by Richard Roll and John Talbot.

Their research has shown that 85% of all differences between the poorest and rich societies is explained by differences in the protection of private property, political and press freedom as well as the absence of black market, discriminatory regulations, inflation and barrier to free enterprise. Liberal economic reforms and the assertion of basic economic freedom have boosted economic growth as well as high employment, the reduction in poverty and improvement as many other social fronts. The post-war economic reforms in Germany and Japan, in East Asia, even in China and more recent reforms in Botswana, Mauritius and to some extent Ghana have been rewarded by economic prosperity. Only people who disregard institutions could call these episodes “economic miracles” what has emerged is that poverty is the result of insecure institutions. Countries that have implemented competitive markets and protect private property have experienced tremendous growth.

When a country like Nigeria keeps violating the most basic economic and other liberties, favours widespread crony preferentialism, trade interventionism, and widespread market distortions, whatever economic policies or reforms embarked on will cut no ice. The question we also need to ask is: why are investments or international trade high in some countries but not in others. The real and deeper reasons lie with secure property rights, the freedom of contract and the equality of all, the well-connected and newcomers alike, before the law. What is even worse is when favoritism is introduced which in effect detract from equality of all before law. Over time, government thus erode genuine growth potential.

Institutions, Market vs. Government

When people interact with one another they have to trust that their counterparts will behave in predictable ways, fulfilling the promises they made. For example, when you sign an employment contract, you trust that many matters not spelt out in the contract will be handled reasonably and without your boss exerting undue arbitrary power. High living standard and economic growth depend on a gossamer web of rules that establish trust and coordinate our diverse activities with the plans of other. In some societies despite their culture differences, the rules work. In others, the rules are seen as not to apply to powerful. People who strike deals cannot be sure that promises will be delivered. They therefore abstain from even attempting certain transactions. As a consequence, economic growth remains

elusive. The almost invisible rules that guide human conduct entail sanctions “their quality, so to speak, form the cement that bind us together and allows us to conduct ourselves as members of communities. Communities enjoy low transaction costs when the internal institutions of the society favour spontaneous honesty, punctuality, and readiness to compromise in solving conflicts, and when the laws are universal and the courts operate expediently.

The right rules of the game for growth are, free enterprise and market, secure property right and the rules of the law. Where they suffer as the case in Nigeria, the economic outcomes are better imagined than being felt.

A market is a meeting place for buyers and sellers, each with the limited knowledge, seek and find information about what might be mutually advantageous to them. Buyers and sellers are engaged in open-ended process of knowledge research and exchange in which new wants are discovered, explored tested etc.

Market therefore is dynamic, it fulfil its functions in tackling the economic problem well if they:

- i. Facilitate entrepreneurial exploration and discovery
- ii. Spread useful knowledge around
- iii. Bring about the spontaneous correction of error, and
- iv. Control the concentration of economic power (monopoly)

All these add to economic growth

Government often denies citizens more equal opportunities. Those who are well-organized or connected obtain protection from competition at the expense of the unorganized or unconnected .In the interest of well-functioning market, those who are willing to compete must not be allowed to run to government, when government intervenes, it destroys an essential mechanism of market coordination. Managers are forced by competition for market shares to streamline their procedures, take risks, control their subordinates and eradicate avoidable costs and corruption. All this is good for the wealth of the nation but not welcomed by managers and workers who prefer a long tea break, a lunch at the club or a leisurely overseas trip.

Private entrepreneur is absolutely essential for economic development which is nothing but the discovery of new resources, wants, knowledge and means of production to merit what the people want. Centralized government entrepreneurship has rarely been very successful in development and has left many countries with strong aversion to a well-functioning market system with a legacy of white elephants projects and depressing foreign debts. Bureaucrats lack the knowledge and incentives to discover the right knowledge, instead of meeting the demand of the people and informing them what is possible, they tend to employ their energies to find opportunities to line their pocket. By contrast, profit-chasing competing private entrepreneurs tend to do what the market demands and adjust to evolving circumstances in the course of economic change.

Private Property Rights and Rule of Law

Another rule of the game for sustainable growth is the institution of private property. More than any other, it has enable people to escape from the mire of poverty. Property rights are capital, they give people incentives to invest in their land and they give an asset against which to borrow so that they might become entrepreneurs. It also includes intellectual property for those products and processes that require large investment in research development and marketing but for which the cost of copying is relatively low. Chemical, pharmaceuticals and biotechnology rely heavily on patent .The music, film, book, arts and software industries also rely on copyright. All manufacturers and sellers of brand goods rely on trademarks to guarantee the identity of the products.

All the above will be impossible to create wealth if property rights and contracts are not enforceable. Enforcement is only possible if they are efficient courts system to adjudicate. Enforcement of decisions requires the existence of a credible system of sanctions. One of the reasons rich countries have been able to become rich is that the policy-makers and the administrators of justice are generally trusted and are trust-worthy. This is not to say that they are free from corruption but the level of corruption is relatively low. In all that have said above, one is not implying that there is no role for the government. Such roles are basically restricted to maintenance of law and order as well as deter external aggression, formulating of clear and ambiguous rules the apply to every player in the economy. In some case, government can also intervene for the sake of continuing in the economy when there is a major disaster like flood, earthquake etc. Government can also regulate for health and safety reasons. Many have argue that we are too many so sufficient wealth cannot be created whether the economy is private driven or public driven.

Governance

Finally, what is worth mentioning here is that improving governance is key to effective privatization and genuine economic reform. The major thing is not how many privatizations have been done but did good things happen when you privatized or when you introduce any kind of market reforms. Without good governance, it is very, very difficult for good things to happen with or without privatization and with or without apparent economic reform. Good governance is good for economic development. Without improvement in governance, only the rich elites are likely to benefit from privatization or any economic reform.

Again whatever the reform agenda is, the generality of the people must be considered. Our ultimate resources lie in our numbers which create a vast and huge market for Nigeria. But the people have to be empowered. That empowerment must take two directions. It is empowerment in the form of business, improvement in the business environment. In terms of individuals, it is empowerment through education, health, and effective infrastructure delivery and through giving more control to the people.