

The Importance of the Public Sector

The developing countries are being constantly advised, and in fact, pressurized by the IMF to emasculate the public sector to prune government activities and cut government expenditure and hand over government-owned enterprises to the private sector. It is alleged that state-owned business enterprises are generally inefficient, operate at a loss, crowd out private enterprise, necessitate government subsidies which enlarge the budget deficit and distort prices and misallocate resources. The state, it is argued, cannot manage business ventures and therefore they should be left in the hands of private enterprise. Private enterprise, it is further stated, needs a free environment to operate efficiently and consequently the state should remove obstacles and hindrances by deregulation, decontrol, liberalization and downsizing of the state. In other words, the state should not interfere with the operation of market forces, which if left without interference, are assumed to increase production, allocate resources efficiently and promote growth and employment. The recipe for success, it is repeated, is downsizing the state and upsizing the private sector. The IMF Representative in Sri Lanka, for example, has echoed these views when he told Reuters recently as reported in the newspapers: "The one element holding back economic activity is the size of the public sector as well as the influence of the public sector".

This "one size fits all" formula firstly, ignores the stage of development of developing countries. Many developing countries for example, do not have a capable domestic entrepreneurial class that could mobilize capital and develop the economy; there is therefore no alternative but for the state to fill the gap. Secondly, it ignores the inadequacy and shortcomings of the private sector, for example, its tendency to invest in business which yield high profits quickly and showing little interest in business which yield low profits and that too over a long period, even when they are necessary to build up a viable economy, such as roads, railways and harbours. Thirdly, it does not pay attention to the social services, which do not yield profits such as schools, universities, hospitals (except fee-levying schools, universities and hospitals), irrigation schemes and clean drinking water.

The crucial importance of public investment in a developing economy cannot be overemphasized. Developing countries like Sri Lanka lack modern and efficient infrastructural facilities which are an essential prerequisite to any economic development. It is beyond dispute that the country needs more and better roads and railways, harbours and airports, irrigation schemes, power supplies and communications for any production (economic activity) to take place, and more and better hospitals, schools and higher educational institutions to provide health, knowledge and skills to people to engage more productively in economic

Dr. J.B. Kelegama *

activity. It is the responsibility of the state mainly to provide these infrastructural facilities which in turn require higher public investment. Thus, improvement of the infrastructure involves increased public investment and it is therefore necessary for public investment to rise in developing countries.

Public investment in infrastructure alone may not be enough to promote economic growth in some developing countries, particularly those which lack a capable domestic entrepreneurial class. In such countries the state may have no alternative but to invest directly in productive enterprises such as factories and banks. Public investment is also necessary in nationally desirable enterprises which the private sector shuns, for example, a building glass factory which the private sector has failed to establish since Independence in Sri Lanka. Public investment is also necessary in undertakings where public ownership is preferable to private ownership. For example, leaving vital necessities like electricity and natural gas to the tender mercies of the market is too risky, especially when giant private firms like Enron can vanish overnight. In all the rapidly growing economies of East and South East Asia, public enterprises and private enterprises co-exist without conflict in a complementary relationship.

Fourthly, it does not take an overall view of the economy in the long term and provide manpower

skills and training needed in the future. Fifthly, it forgets that the private sector cannot provide such services as national security, food security, preservation of the environment and biodiversity and regulations and controls necessary to prevent business malpractices and to ensure competition. Sixth, the pace of development by the private sector may be too slow to accelerate economic growth and create employment and public intervention would be needed to speed up capital accumulation and accelerate growth. Finally, it ignores the fact that in developing countries, there are several problems which cannot be solved by the private sector alone such as poverty, inequality in the distribution of benefits and unemployment and under-employment which if not solved, would tend to make things difficult for private enterprise and the free market to operate.

The crucial role played by the public sector was highlighted by the South Commission Report as follows:-

"There has hardly been a historical case of sustained economic growth and development without the active participation of the state as a regulator and promoter.



Some political groups, along with trade unions affiliated to them and civil action groups resort to protest demonstrations, against globalization and restructuring the state institutions.

By their very nature, unregulated market systems pay little or no heed to such strategic areas as basic industries, health and education services, scientific and technological research, and the preservation of the environment and natural resources. It is particularly unlikely that the free play of market forces would result in the growth with equity that a people-centered development strategy seeks to achieve. Excessive reliance on market forces can lead to concentration of economic power and wider disparities in income and

* Chancellor - Rajarata University

wealth, to the underutilization of resources, to unemployment and to the wastage of the savings potential, with the result that the pace of development and technical progress is retarded"

Thus, contrary to the IMF, the South Commission states that it is essential that the state plays a leading role in the economy both as a regulator and promoter. In fact, Asian experience indicates that an active state which increases public investment and guides and regulates the private sector, far from reducing, increases economic growth.

Private Investment Needs Public Investment

There will be little private investment without efficient infrastructural facilities. Expectation of private profits is as much related to infrastructural facilities as they are to tax and other incentives and infrastructure is most essential for private activity to take place at all. It is hardly necessary to point out that private investment will not be attracted by poor and inefficient infrastructure consisting of bad roads, railways, harbours and airports, frequent breakdowns in power and poor communications however attractive tax and other concessions are, for poor infrastructural facilities tend to raise the cost of production and to lower the profit margin. A major reason for three-quarters of the world's foreign direct investment (FDI) to flow into developed countries is the superior infrastructure of those countries. Again, Africa receives only 1.0 per cent of world FDI mainly because of its poor infrastructure while Latin America receives 10.5 per cent and Asia 12.2 per cent by virtue of their better infrastructure.

Public investment does not, as some say, crowd out private investment. On the contrary, public investment is a *sine qua non* for private investment. Without public investment in infrastructure, there will be little private investment. Further, public investment stimulates private investment by involving private firms through contracts in the creation and improvement of infrastructural assets and providing them with new business through orders for materials and equipment required in infrastructural investment. In most countries, private firms are selected on a tender basis, to build or improve roads, airports, seaports, irrigation and hydro-electricity dams and to construct buildings for schools, hospitals, administration and public housing. In addition, the equipment and materials needed by the government for these physical assets machinery, spare parts, motor vehicles, ships, aeroplanes, railway engines, generators and

other materials are purchased from private firms on the basis of tenders. So, expanding public investment results in expanding private investment in a symbiotic relationship. This is taking place in all developing countries, particularly in the East



Road passenger transport service was nationalised in Sri Lanka in 1958. After 20 years time, the state monopoly in this sector was withdrawn with a view to allow private sector participation. But state road passenger transport sector still plays a vital role.

Asian countries where high levels of public investment have created a favourable climate for private investment.

Declining Public Investment Reduces Economic Growth

The relative importance of public investment is however declining in the Sri Lankan economy. Public investment was 7.9 per cent of GDP in 1995 but it declined to 6.4 per cent in 2000 and to 5.9 per cent 2001 as shown in the table below:

Public Investment 1995-2002		
Year	Rs. Billion	As % of GDP
1995	52.8	7.9
1996	46.0	6.0
1997	51.3	5.8
1998	68.3	6.7
1999	71.4	6.5
2000	81.0	6.4
2001	82.7	5.9
2002 est.	84.9	5.4

The budget for 2002 continues this decline. Public investment for 2002 is estimated at 5.4 per cent of GDP the actual investment however tends invariably to be lower. In 2000, the actual public investment was 20.8 per cent lower than the estimate and in 2001 it was 22.2 per cent lower. Going on the basis of these figures, if the actual public investment is 21.0 per cent lower than the estimate in 2002, then the actual public investment will be around Rs.67.1 billion or 4.3 per cent of GDP. The Budget Speech itself underlined the importance of public investment in increasing the productive capacity of the economy. Referring to

the budgets of 2000 and 2001, it stated: "in spite of the increase in expenditure, public investment declined to 5.9 per cent of GDP in 2001 from 6.5 per cent in the previous year impacting adversely the future productive capacity of the country". Thus, the further reduction of public investment from 5.9 per cent of the GDP in 2001 to 5.4 (or 4.3) per cent of GDP in 2002 will be surely "impact adversely" the productive capacity even more.

Public Sector in Developed Countries

The developed countries have large public sectors although developing countries are being advised to have small ones. The developed countries are basically private enterprise based economies or free market economies and yet they maintain sizeable public sectors. Government spending as a percentage of GDP is 52 in Sweden, 50 in Denmark and France, between 40 and 50 per cent in Japan, Belgium, Italy, Germany, Netherlands and Canada, between 30 to 40 in the UK, Spain and Australia and 29 in the USA as shown in Table 1. Sweden has the largest amount of government spending in relation to GDP while the US has the smallest. Strangely, Sri Lanka's government expenditure in 2000 was 27 per cent of GDP, even lower than that of the USA and yet we are asked to emasculate the public sector.

Government spending in the 22 rich countries of OECD as a whole rose from 32.3 per cent of GDP in 1970 to 42.3 per cent of GDP in 1995. It is all right for them to increase government spending but bad for developing countries to do so!

Public spending on such a large scale is financed by high taxation. Total tax revenue exceeds 50 per cent of GDP in Sweden, varies between 40 and 50 per cent in Denmark, Finland, Belgium, France, Italy, Netherlands and Norway, between 30 and 40 per cent in

Table 1 General Government Spending as % of GDP 2001			
Sweden	52	Netherlands	41
Denmark	50	Canada	41
France	50	Norway	40
Greece	49	Iceland	40
Austria	47	New Zealand	39
Japan	46	UK	39
Belgium	46	Spain	38
Italy	45	Australia	33
Germany	45	Ireland	29
Finland	43	USA	29
Portugal	42	Sri Lanka	27

(Economist August 4, 2001)

Germany, Britain, Canada and Switzerland and 20 to 30 per cent in US and Japan. In Sri Lanka, total tax revenue in 2000 was only about 15 per cent of GDP much lower than in the developed countries. Corporate tax rate are 40 per cent or more in Canada, Japan, Italy, Belgium and US and 39 per cent in Germany more than in Sri Lanka where it is 35 per cent. Top income tax rate is 60 per cent in Netherlands, 50-60 per cent in Denmark, Finland, Sweden, Belgium, France and Germany and between 40 and 50 per cent in Spain, Italy and Britain as compared to 35 per cent in Sri Lanka. Yet, there are some who advocate a reduction in taxation to promote private investment when much higher corporate and individual income taxation has not discouraged private investment in developed countries.

State intervention in the developed countries take several forms such as subsidies to agriculture and industry, protection of domestic industries by high tariffs and import restrictions, bail-outs of bankrupt big businesses, prevention of monopolistic practices, social welfare schemes, and state ownership of assets. In fact, state subsidies are a major reason for the high level of government spending; agricultural subsidies in the developed (OECD) countries amounted to \$ 361 billion in 2001 equal to 40 per cent of the value of agricultural production. State aid to the manufacturing sector in the European Union alone in 1995-1997 amounted to \$ 48 billion or 2.8 per cent of value added; these subsidies are mainly to ailing industries such as shipbuilding, coal mining and automobiles. Subsidies to industry account for 5 per cent of German public spending. The US government has bailed out several large firms in difficulties such as Chrysler, Lockheed, Continental Illinois Bank and Long-Term Capital Management. In addition, there are export subsidies for agricultural products. Social welfare in Western Europe such as unemployment benefits, medical and health benefits and care of the aged account for a substantial part of general spending but it is much less in the USA. This is the main reason for income distribution to be more equal in Western Europe than in the USA.

All the developed countries protect their agriculture and industry: the US for example, protects its sugar, tobacco, groundnuts, dairy products, textiles, garments, automobiles, steel, lamb meat, catfish, etc. The EU protects its dairy products, wine, tobacco, vegetable oils, tomatoes, and citrus fruits and Japan restricts imports of rice and beef. Many seem to forget

that the USA through various trade restrictive measures such as the McKinley Tariff of 1890 and the Dingley tariff of 1897 became the most protectionist country in the world at the beginning of the twentieth century and Japan went even further by closing its doors to global market forces until its industries reached world standards. They also have legislation and mechanisms to prevent monopolies threatening consumer interests; the US court action to penalize Microsoft recently is a good example. Besides, they also intervene to protect the environment and biodiversity, to ensure food and fuel security and of course to guarantee national security.

State involvement in business activities is not unusual in the so-called free market developed economies. France, for example, has over 3000 state-owned and state-linked businesses; it has a majority stake in some 1500 companies and minority stake in about 1300. There are 6 million people in the public sector in France - a quarter of the workforce. The public sector contributes 10 per cent of the country's GDP. The state, for example, owns 44 per cent of Renault and majority stakes in Air France, France Telecom, Credit Lyonnaise and Caisse des Depots et Consignations. Few know that Japan has 163 public corporations involved in everything from construction to water works to airports for example, Housing Loan Corporation, Japan National Oil



In keeping with the open economic policies and the deregulation processes that were set in motion in early 1980s, huge investments were made by the private sector in passenger transport sector. However, maintaining of a delicate balance between the interests of the operators and the passengers always has been a very sensitive issue for the regulators.

Corporation, New Energy and Industrial Technology Development Corporation, Japan Highway Public Corporation, Japan Bank of International Cooperation, and National Space Development Agency.

Norway is a country where state capitalism is working successfully. Almost all health care, education (including 80 per cent of the running costs of church schools) pensions, water, electricity, roads, railways and fixed-line telcoms are state provided. The state dominates in oil and gas and has big stakes in manufacturing: it owns 45 per cent of the country's industrial giant, Norsk Hydro (oil, gas, chemicals, fertilizers, aluminium)

and 47 per cent of Den Norske Bank, the biggest commercial bank, 82 per cent in Statoil (oil), 78 per cent in Telenor (telecoms), 100 per cent in NSB (railways) and 100 per cent in Statkraft (power generation). Overall, the state holds about 40 per cent by value of the local stock market. One worker in three is in the public sector. State businesses operate on strict commercial lines, but the Norwegian authorities and the people oppose foreigners taking over Norway's natural resources. In fact, the government blocked a Finnish bid for a big Norwegian insurer recently. It is because of its fear of global market forces that it does not want to join the European Union (*Economist*, 15 December 2001).

Public Sector in East Asian Countries

The East Asian countries have for many years been the fastest developing countries in the world and indeed a model for other developing countries, but many are not aware that a major factor for their success is the active role played by the state. The government of these countries did not leave major economic activities to be determined by the invisible market forces; instead, they guided, supported and protected indigenous enterprises, sometimes in defiance of market forces, and actively participated in economic activity. They in fact selected the sectors in the manufacturing sector, which should be developed into major future industries and supported them by subsidies, concessional credit, restriction of imports and other concessions. They imposed restrictions on foreign ownership of property, such as land in South Korea and banks in Malaysia and Thailand and controlled foreign investments to discourage those which threatened or competed with them. None of these restrictions and discriminatory practices discouraged foreign investment; on the contrary the East Asian countries received more foreign direct investment than all the other developing countries.

East Asian countries do not see any conflict between encouraging private enterprises and maintaining state-owned business undertakings. Malaysia, one of the most rapidly growing economies in the world had more than 800 state firms in the mid-1980s, the largest of them being the Heavy and Industrial Corporation of Malaysia (HICOM) which established nine subsidiaries in such areas as steel, automobiles, cement and paper; much of the growth in the early 1980s was due to HICOM. Indonesia had 164 state-owned firms worth \$ 60 billion and employing 700,000 workers in 1997; state-owned BULOG has the monopoly of import of basic foods, rice, wheat, corn, sugar,

soybeans and fishmeal. South Korea has 141 state firms including banks and industries such as the Pohang Steel Works and Thailand 67 state firms. In Taiwan some of the largest banks and industries are state-owned while in Singapore, about 60 per cent of its GDP is generated by state-owned and state-linked businesses such as Singapore Airlines, the most efficient airline in the world, Singapore Telecom, Development Bank of Singapore, Government Investment Corporation (GIC) and its subsidiary GIC Real Estate, which owns 125 real estate investments in 25 countries. The major listed companies owned and managed by government's Temasek Holdings amount to 24 per cent of the total capitalization of the Singapore stock market. It is important to note that most of the state-owned firms operate efficiently and earn profits to feed government revenue.

Public investment in East Asia is nearly equal to private investment and plays a bigger role than in any other region. IMF's pressure resulted in the shrinking of the public sector in most developing countries but not East Asia. In 1997, public investment constituted only 16 per cent of total investment in Latin America, 28 per cent in South Asia (25 per cent in Sri Lanka) and 32 per cent in Sub-Saharan Africa but 45 per cent in East Asia. The rapid growth of East Asia which exceeded that of other regions owes much to its large and dynamic public sector. Latin America has the smallest public sector but its average annual growth of GDP per capita in 1990-1999 was 1.7 per cent while East Asia which has the largest public sector achieved 5.9 per cent. It should not be forgotten that the country with the highest growth rate of per capita GDP in the world - China with 9.5 per cent - has the largest public sector in the world. The oft-repeated IMF statement that the public sector needs to be reduced to promote growth has no foundation.

The East Asian countries are the most rapidly growing countries of the world, as a result of their high levels of domestic investment funded mainly by their equally high levels of domestic savings. They are also the biggest recipients of FDI among the developing countries. Some believe that investment is high in these countries because FDI is high, but actually it is the other way round - FDI is high because domestic investment is high. FDI though substantial as compared with other developing countries, funded only a secondary part of their total capital investment. Thus, in the ten years 1988-1998, FDI accounted for about one-fifth to one-fourth of total investment only in three of the 10 East Asian countries; it was negligible in two and was moderate - 5 to 10 per cent in the rest. In other words, the greater part of investment in

these countries was financed by domestic savings and it is these high levels of domestic savings and investment which attract FDI. Besides, domestic investment is high in these countries because public investment is high. It is the low ratio of public investment that results in lower gross domestic investment, little inflows of foreign capital and lower economic growth in South Asia and Sri Lanka.

High Growth from High Public Investment

The relationship between public investment and growth and between public and private investment is illustrated by Sri Lanka's experience in 1978-1981. The highest sustained average economic growth in the country was in the four years 1978-1981 when it reached 6.5 per cent from the low level of 2.6 per cent in the previous four years 1974-1977. The high growth of 1978-1981 was caused mainly by the high level of investment: average annual gross total domestic investment rose from 15.5 per cent of GDP in 1974-1977 to 26.9 per cent in 1978-1981. Total investment rose so sharply because public investment rose significantly - nearly doubled - from the average annual level of 7.8 per cent of GDP in the previous four years to 14.4 per cent in 1978-1981, mainly on account of the massive investment in the Accelerated Mahaweli Development Scheme and partly as a result of the new Parliamentary Complex, port development and expanded public housing. With the decline in public investment in these projects average economic growth dropped to 5.0 per cent in the four years 1982-1985 and then to 2.7 per cent in 1986-1989.

Increasing public investment in 1978-1981 also stimulated expanding private investment as contracts for the building and construction of dams and other projects in Mahaweli, for example, were awarded to specific private firms and purchases of equipment and materials were made direct from other private firms. In addition, the expanding employment and income from public investment, resulted through the multiplier effect in increased business in the private sector. Thus, average annual investment in the private sector rose from 7.8 per cent of GDP in 1974-1977 to 11.6 per cent of GDP in 1978-1981. In the previous four years public and private investment were equal but in the latter four years, public investment exceeded private investment. This rise in public investment instead of "crowding out" the private sector, boosted it and private investment increased by about 50 per cent.

Investment and Growth				
Years	Average Annual Growth of GDP %	Gross Domestic Investment as % of GDP		
		Total	Public	Private
1974-77	2.6	15.5	7.8	7.8
1978-81	6.5	26.9	14.4	11.6

The need to raise public investment to promote economic growth by improving the infrastructure and stimulating private investment is paramount. The current level of public investment is too low. In the last six years 1995-2000 for example, public investment amounted to 6.7 per cent of GDP - in contrast to 14.4 per cent in the highest growth years of 1978-1981. Average private investment was 19.1 per cent of GDP and total domestic investment was therefore 25.8 per cent of GDP. In the same period, investment ratios of East Asian countries, despite the serious economic downturn of 1997-1998, was much higher for example, average annual investment ratio to GDP was 38.4 per cent in China, 34.5 per cent in Singapore, 34.0 per cent in Malaysia, 31.0 per cent in South Korea and 29.8 per cent in Thailand. The major reasons for this high level of domestic investment in these countries are the high level of public investment and high levels of domestic savings.

It is pointed out by some that we are unable to increase public investment even if it is necessary because we lack resources. They fail to see that the government lacks funds because it has deliberately reduced its revenue by lowering taxes when the desperate situation demands higher taxation to finance rapid economic growth. It is not too late for the government to take measures to raise public investment - both by higher taxation and foreign borrowing - for that is the best method, as proved by East Asia, of increasing total gross domestic investment, attracting more FDI and achieving high economic growth.

Need for the Public Sector

The state cannot entrust the task of economic development to the market forces and wait patiently for the free market to deliver goods. In a developing country like Sri Lanka where private enterprise is still generally undeveloped, the state has a responsibility to regulate the market to prevent abuses and to undertake directly a good part of economic development. High economic growth and equitable distribution of opportunities and benefits require a dynamic public sector playing a leading participatory as well as interventionist role in the economy; without it, economic growth can never be pro-people can never provide them with opportunities for economic and social advancement, can never safeguard the interests of future generations. We have to be conscious of the fact that markets have no conscience and do not promote social justice; it is only the government, which can ensure it. This may sound as a heresy to those believing in the Washington Consensus, but as Joseph Stiglitz,

the former chief economist of the World Bank and economic advisor to President Clinton, pointed out recently, the most successful developing countries are those which have not followed the precepts of the Washington Consensus.

The role of the state in the era of globalization is as important as ever for capturing the new opportunities in trade, investment and migration, protecting people from the new vulnerability and insecurity created by the market forces, insulating the economy from external shocks, reducing the inequalities in opportunities for human advancement, to narrow wide economic disparities in income and wealth and to protect the indigenous culture and the environment. Open economy does not mean that the state should abdicate its crucial role in protecting its people and natural resources; it does not mean dismantling of subsidies, controls and regulations designed to protect, support and promote the country's economic and social interests - to increase domestic food and milk production to uplift the rural economy, to encourage import substitution while promoting export-oriented industries, to channel foreign capital to nationally important sectors such as electronics, automobiles and heavy industries, to utilize resources of international institutions and transnational corporations without allowing them to dominate our trade, industry and economic policy. Increased public spending on education to improve skills and raise productivity and on health and welfare to improve health and raise productivity and on better labour relations to produce a more contented labour force are in fact necessary to attract foreign capital to a country.

It is true that several state-owned corporations are running at a loss, but it is not because of state ownership but bad management, for nearly all state-owned firms in East Asia operate at a profit. The fact is that we have politicized public corporations by appointing all officers from the chairman down to the labourer for political loyalty than for competence, overstaffed them with cronies and interfered with their policies and inevitably they operate at a loss; and when they are making losses we call them inefficient and call for privatization. Virtually all public corporations can be run efficiently if they are allowed to operate as commercial enterprises freed from political interference; and then they can become assets providing revenue to the government as in East Asia.

Public ownership does not discourage foreign

investment as the IMF argues. In fact, the *Economist* of September 29th 2001 emphasizes it as follows:-

"As for public ownership, on balance, global capital doesn't much care. Investors lending to publicly owned enterprises may see advantages, in fact, notably government guarantees on the debt. China has many state-owned enterprises, and seems to have no trouble attracting inward investment".

Critics of public business enterprises, conveniently ignore the inefficiency of large private business enterprises. Enron, the 6th largest energy company in the world, crashed in the biggest corporate bankruptcy in US history in December 2001 amid accusations of abysmal management, dubious accounting, hiding true facts from shareholders and the public, bribing "auditors" with excessive fees to project a false picture, lies and fraud, with many losing their life savings and jobs. Wall Street's credibility and faith in the free market have been shattered. Deregulation has suffered a severe blow: if a huge private company like Enron can go bankrupt due to mismanagement and dishonest practices, how can you trust other private companies to provide you with electricity, gas or water! The *Newsweek* of December 10 2001 refers to the Enron crash as follows:-

"It claimed it would revolutionize life and commerce by substituting the efficient hand of the market for the clumsy hand of government regulation. But Enron's leaders proved to be every bit as bungling as any government bureaucrat. Sift through the financial debris, and you see that Enron lost a total of about \$ 7 billion on four dumb investments..."

As to deregulation/privatization of utilities the same *Newsweek* has this to say:-

"But deregulation has caused lots of problems. In 1998 the Midwest had huge electricity price spikes and rolling blackouts; some utilities had sold power outside their service areas and the traders they were relying on to replace that power didn't deliver. Upstarts have dropped in and out of retail markets in several states, sticking established players with big costs. And of course, there's California, which got caught with too little energy in the spring (helping 'Enron and others make big profits) and now is stuck with too much expensive energy. This has crippled the state's finances, driven its biggest utility into bankruptcy and

clobbered customers. Leaving vital necessities like electricity and natural gas to the tender mercies of the market is too risky. Especially when a big player like Enron can vanish overnight".

Further, theoretical and empirical research on privatization does not provide clear and definite support to the IMF view that privatization of state enterprises increases efficiency and contributes to rapid growth. The evidence is mixed; some support it while others reject it. Studies of Stephen Martin and David Parker (*The Impact of Privatization: Ownership and Corporate Performance in the UK, 1997*) for example, conclude "Generally the great expectations for privatization evident in Ministerial Speeches have not been borne out". In reviewing a number of other international studies that compared state and private sector enterprises, they find that the evidence is mixed; there are several studies that point to superior efficiency in the public sector. They conclude: "In sum, the international studies do not provide unequivocal support for privatization programmes". John Weiss who studied 500 largest enterprises in Mexico in 1985-1990, concludes in his book "*Mexico: Comparative Performance of State and Private Industrial Corporations*": "In terms of the influence of ownership, which is the main focus of this analysis, there is no support for the view that state ownership *per se* implies poor performance... What is clear... is that the results give no support for privatization of the remaining enterprises on efficiency grounds".

The crux of the matter is that both the public sector and the private sector are the engines of growth: one alone is inadequate. In a growing economy there is room for both to co-exist. There are enough projects, which the private sector can undertake and there are many others, which are shunned by the private sector, which the state can undertake. Public investment in developing countries complements rather than displaces or crowds out private investment. Both are necessary. As Professor Toynbee has pointed out, every social system in history has been a mixed system combining the public with private enterprise. In our own times, the highest economic growth rates have been achieved by the mixed economies of East Asia.