1 The Private Sector's Role in Adjustment

1.1 Introduction

Sensible people do not get involved in arguments about whether economic progress is due to government activity or to individual initiative; they know that it is due to both, and they concern themselves with asking only what is the proper contribution of each. (Lewis 1955: 376)

... competitive markets are the best way yet found for efficiently organizing the production and distribution of goods and services. (WDR 1991: 1)

... An effective state is vital for the provision of the goods and services – and the rules and institutions – that allows market to flourish and people to lead healthier lives... (WDR 1997: 1)

The above quotations are perspectives on the role of the state relative to that of the market/private sector which are elaborated in this chapter within the context of the origins of enterprise development. In the macroeconomic policies of adjustment, a pivotal role is given to the recovery of the private sector. These policies are aimed particularly at increasing the volume and efficiency of private investment in the traded goods sector.¹ The removal of domestic market distortions and of barriers to trade are viewed as enabling factors for economic agents to respond to market-determined price incentives. The role of the state is diminished in favour of a market-driven private sector. Guided by the market, private sector investment is viewed as the mechanism through
which sustainable growth ought to be achieved. In adjustment there is an implicit understanding that ownership implies efficiency.

The underlying philosophy behind the view that the market can deliver what is best for the individual (or firm) as well as for society (or the economy) can be traced back to the doctrine of economic liberalism. Justification for the faith in the market and perfect competition finds support in welfare economics, with perfectly competitive factor and product markets seen as achieving Pareto optimality optimality. The maximization of social welfare assumes that there are no increasing returns to scale, no technological external effects and no uncertainty or informational asymmetry, all of which can lead to market failure.

In this chapter, the focus is on the role of the private sector in adjustment: its origins, its theoretical justification and its effect on private investment. Section 1.2 discusses the origins of enterprise, the functioning of markets, the claims to efficiency and the role of incentives. Alternate views on market functioning are contained in sections 1.3 and 1.4, which look at the Structuralist (including the neo-Structuralists) and Post-Keynesian perspectives, respectively. The role of the private sector in adjustment and its capacity relative to private investment is discussed in section 1.5. A comparison of the Structuralists and other traditions is contained in section 1.6. Conclusions follow in section 1.7.

1.2 The Background of Adjustment

1.2.1 The origins of enterprise development

The general economic approach to adjustment is neo-liberalism, which was a resurgence in the late 1970s of the tradition of economic liberalism. Dating back to classical political economics, neo-liberalist ideas reflected an opposition to state intervention. This tradition held that a free competitive market was the most efficient means of guiding resources into production. In this system the pursuit of individual interests and that of society are thought to be in harmony. One of its main themes as expressed by Adam Smith was the process of surplus extraction and capital accumulation in economic growth (Walsh & Gram 1980).

Productive capacity was seen as dependent upon the accumulation of capital whose source was the profits of production. Increasing demand ensured that capitalists continued to invest, increasing the intri-