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FINANCIAL ASPECTS OF MANUFACTURING ENTERPRISES IN THE PUBLIC SECTOR 1/

by

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1. [illegible]

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[illegible]

[illegible]

[illegible] followed by the [illegible]

[illegible] "public enterprise" [illegible] to be found [illegible] undertakings [illegible] by [illegible] similar entities). [illegible] enterprises [illegible] system of [illegible] distribution [illegible] and [illegible] boards) [illegible] corporations. Such [illegible] are attempting [illegible] "public sector" and "public [illegible]".

[illegible] are classified [illegible]:

[illegible] and footwear, wood and cork, [illegible] printing and publishing, leather [illegible] and coal products, mineral [illegible] electrical equipment, transport [illegible]

[illegible] quantitative estimate of [illegible] sector, (b) public enterprise, and (c) public [illegible] of the various reporting countries, [illegible] questionnaire [illegible], where the [illegible] national rapporteurs. We [illegible] governments have chosen [illegible] in the pursuit of their long-term [illegible] the use of public enterprise [illegible] enterprise [illegible] ideological or empirical [illegible] private entre- [illegible] "stabilizers". As, however, this [illegible] the report of the Geneva Seminar on [illegible] Public Enterprises" and its annexed documents [illegible] not chosen to devote much space to it in the present report, of which the major part is concerned with the following topics:

The capital structure and financing of public manufacturing enterprises;

The [illegible] (a) the [illegible] formulation [illegible] with regard to the [illegible];

The promotion of operational efficiency among both managers and workers.

2. **Public and Private**

The factors that influence the relative roles played by the public and private sectors in the total economy are well-known. A government's decision as to what it should itself undertake and what it should leave to the initiative of private individuals and corporations may be taken partly, or mainly, on ideological grounds. The countries of centrally-planned economy, for instance, have decided to adopt policies which aim at eliminating the private sector, or at least at reducing it to insignificant proportions. Practical considerations, however, will strongly influence the manner in which this is attempted and the pace at which it is accomplished. By contrast, there are other countries whose governments believe that little or nothing should be done in the public sector which cannot be done - according to their view, equally well or better - in the private sector. These, therefore, endeavour to reduce public sector activities to the inescapable minimum. There is also an "intermediate" group whose governments display no very strong preconceptions in either direction and think in terms of a public-private "mix" which fluctuates over the years, in accordance with the changing balance of political forces and the apparent dictates of economic necessity. In point of fact, all countries outside the "centrally-planned" group, and indeed some within it, are operating mixed economies of one kind or another. Clearly, no country can dispense with certain essential public services, and in most countries - particularly the less developed ones - there is a wide range of other services which could, in theory, be provided by private parties but in practice are provided only by the state. Indeed, shortage of private initiative and of private capital compels many of the governments of the less developed countries to create a public sector far larger than, on ideological grounds, they would wish to be responsible for. This is particularly so with governments which aim atachieving rapid economic development from a comparatively low level. When both ideological and

[illegible]

[illegible] between the contributions [illegible] various [illegible] by [illegible] government", "public enterprise" and "public [illegible] enterprises" [illegible].

Always bearing in mind these limitations, we [illegible] the following findings based on the information [illegible] in the tables. [illegible] findings the USSR has been excluded, [illegible] that [illegible] questions on which the tables have been based [illegible] to it. (Its report, which is of very great interest, should be considered separately.)

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

per cent in 1960. (India, whose commitment to a "socialist pattern" by no means precludes her from giving [illegible] to private enterprise in the manufacturing industry, [illegible] to provide the necessary figures). Much more important [illegible] entrepreneurship and of private funds [illegible]. Also of considerable [illegible] particular country [illegible] from the tabular information. If [illegible] heavy industry, which is capital-intensive, [illegible]. [illegible] on the other hand, [illegible] turn, it is much more likely that the [illegible] for public [illegible] will be a higher one than [illegible] industry [illegible].

The table does provide [illegible] general rule that countries low [illegible] devote proportionately more of their public investment funds to [illegible] enterprises than do countries higher [illegible]. [illegible] readily explained. For instance, Greece, which has a low figure under "Manufacturing", is a country far less deficient in private entrepreneurial talents than [illegible] - Ceylon, [illegible], Iran or the Sudan, but [illegible] some effort to develop manufacturing industry, [illegible] mainly for economic growth on commerce and tourism, into which [illegible] found [illegible] energy and initiative. If the Greek [illegible] effort towards manufactures, they would probably do so by providing [illegible] incentives for private enterprise rather than by establishing public enterprises. [illegible] has a low "Manufacturing" figure for completely different reasons; [illegible] country low in the [illegible] league by per capita income [illegible] to think only very recently in terms of establishing [illegible] industries [illegible] encountered formidable difficulties in [illegible] in the [illegible] of the private sector. The comparatively low figure [illegible] that she is a country, highly committed to [illegible] "free enterprise" perspective of economic development, [illegible] entrepreneurial talent and [illegible] point [illegible] described as that of "take-off". Only [illegible], with [illegible] per cent of her public investment currently devoted to manufacturing enterprises, offers a real exception to the rule [illegible]. [illegible] understand it, one has to study the peculiar economic history of the country, and in particular to trace the evolution of her gigantic publicly-owned "holding company", the IRI, as a result of whose operations, she has become the most "socialistic" country in Western Europe - if "socialism" is to be equated with the extent of public enterprise. One also needs to remember that Italy, although highly-placed in the development league, has an extensive under-developed area of her own, the *mezzogiorno*.

Correlations between the percentage of total investment in the various divisions of public enterprise and the percentage of employment generated by them do not provide, in the absence of further data, information of any clear significance. As one might expect, however, transport and communications in most of the reporting countries both absorb a high proportion of total investment and generate a high proportion of employment. Iran, where an investment of 1.6 per cent would appear to generate an employment of 26.5 per cent, seems to constitute an exception; but the discrepancy here is so great as to suggest the need for a re-examination of the figures provided in that country's report. The amount of employment in public manufacturing enterprises, as a percentage of total employment in all public enterprises, is at its lowest in the Sudan and at its highest in Iran, both of these countries occupying comparatively low positions in the *per capita* income tables.

The profitability figures also provide information which is difficult to interpret. The existence of monopoly and imperfect competition preclude their use as measurements of the efficiency of investments in the public enterprise sub-sector. They could conceivably provide a rough-and-ready measure of the contribution made by public enterprise to capital-formation, but only if supplemented (particularly in respect of the "infrastructural" enterprises) by sophisticated cost/benefit calculations of a kind that even the developed countries have begun to undertake only in recent years. That all the reporting countries submitting data on this subject show substantial profits in their electricity, gas and water undertakings, therefore, is of little significance. The degree of monopoly enjoyed by these undertakings makes their profitability, to a very considerable measure, a function of pricing policies; and the question of whether they might have given greater stimulus to economic development by reducing their prices and therefore their profitability is a very open one. Similar considerations apply to Transport and Communications, where heavy losses have been incurred except in Sweden and the Sudan. Although these losses might conceivably have been reduced or eliminated by greater efficiency of operation, one cannot judge the contribution of such undertakings to the total economy of a country simply by examining their profit-and-loss accounts. As for manufacturing enterprises, the significance of profitability here depends on the extent to which they are subjected to the discipline of a competitive market. In some of the developed countries, where this discipline can be fielded, the making of an average or above-average profit provides *prima facie* evidence of high efficiency; in most of the less-developed countries, however, it provides no such evidence, since competition between manufacturing enterprises, whether in the public or in the private sector, is either weak or non-existent. Nor, under these conditions, can profits be regarded, without further enquiry, as constituting contributions to capital formation, since the profits of the public enterprise may be won at the expense of profits elsewhere in the economy - in the public sector, the private sector or both.

In general, then, the figures provided in the tables, although suggestive of possible correlations and of lines along which further research might usefully be undertaken, do not allow us to reach any conclusions which add significantly to the knowledge about public enterprise that has already been acquired.

4. Government Policy towards Public Enterprises

Having dealt, to the best of our ability, with the quantitative data provided by the national rapporteurs, we now turn, very briefly, to the role which governments envisage for public enterprises in general, and for manufacturing enterprises in particular, in the economies of their various countries. As before, we confine our remarks to those countries which are attempting to operate "mixed" economies, where public enterprises and private enterprises co-exist. What we have to say is of little or no relevance to the countries of centrally-planned economy, where the problems encountered, as explained in the report from the USSR, are qualitatively different.

In most of the "Third World" countries, the main motive for the establishment of enterprises in the public sector by the government is a developmental one. This involves the adoption by the state of a pioneering and entrepreneurial role. Government brings into existence new enterprises and undertakes their management, either temporarily or permanently, through public agencies subject to its ultimate control. It may also, of course, nationalise existing private enterprises; but this is an exercise of less importance, unless there are clear indications that the government could run such enterprises more efficiently, or with greater regard for the national interest, than their private owners. It must nevertheless be recognised that political factors may impel a government to engage in extensive nationalisation, even when its economic rationality is open to some doubt. It may, for instance, be under strong pressure to expropriate assets owned by entrepreneurial groups whose behaviour has rendered them unpopular or whose alien origins cast doubt on their devotion to the interests of the country in which they have taken up residence. There may, moreover, be a not-unreasonable fear that a small group of rich property-owners may come to exercise excessive political influence, with the result that their particular interests, rather than the general national interest, will dominate the decision-taking process at the highest level. Again, where certain large privately-owned enterprises play a basic role in the economic life of the country, the government may well come to the conclusion that there are economic as well as political dangers in permitting them to remain in the private sector. Motives of this kind, as well as ideological ones of a more general kind, have been responsible for the very considerable nationalisation of private industry that has occurred in countries such as the United Arab Republic, Iraq, Syria, Algeria, Guinea, Mali and Burma. Once such nationalisation has taken place, however, the government concerned must concentrate its attention to the further development of the economy, through the expansion of the enterprises now under its control and the creation or stimulation of new enterprises. Options between public and private will, of course, still be open; but even if one eliminates ideological considerations the very fact of wholesale nationalisation will to a very considerable extent have decided the issue in favour of the public sector. In other circumstances - and particularly when the government has a predisposition in favour of private as against public enterprise - the issue will be decided mainly in relation to the extent to which private entrepreneurial talent and private investable funds are available, as we have already pointed out.

Among other motives for the creation of public enterprises are the following:

(a) Fiscal. This may be exemplified by the so-called "state monopolies", pioneered by the French and adopted by many countries to which French administrative ideas have penetrated. In Turkey, for instance, the state monopoly of the production and wholesale distribution of tobacco, salt, gunpowder and alcohol is an important revenue-earner. As a motive for the establishment of a new public enterprise, however, this is nowadays of very minor importance, since a government may equally well obtain the needed revenue by imposing excises on the products of privately-owned concerns. Only where excise-collection proves difficult, or where private enterprise shows reluctance to produce the goods which the government desires to tax, is the creation of public enterprises for purely fiscal purposes likely to be considered.

(b) Strategic. Enterprises are sometimes located in the public sector because they are considered essential for defence. Bismarck's nationalisation of the German railway system, for instance, was strongly influenced by this motive. In many countries today the government assumes direct responsibility for certain types of defence production, and sometimes entirely excludes private interests from these fields. In India, for instance, the state has a monopoly of the production of arms and ammunition.

(c) Socio-Economic. This is not easy to distinguish from the "developmental" motive, but there is a definable difference of emphasis. One might well describe as socio-economically motivated the "rescue" operations carried out by many governments during the major economic crisis of the 1930s, when public financial agencies were created to support private undertakings threatened with bankruptcy and many such undertakings (particularly in Italy) were wholly or partially acquired by the state. In this category may also be placed those public works programmes where the provision of employment is a major objective. Equally important, under the same heading, are public enterprises created to eliminate or more effectively control monopolies which, in private hands, are regarded as inimical to the public interest. To break a monopoly, the government may start up a competing enterprise, as the New Zealand government did with its State Fire Insurance Corporation in 1903. Alternatively, when there are conveniences in monopoly as such but inconveniences or dangers in private monopoly, however effectively controlled, the state itself may become the monopolist. It may even create a monopoly where none previously existed, by bringing together independent units into one large undertaking in order to achieve economies of scale, as with the nationalisation of the coal, gas and electricity industries in Britain and France. Cultural and moral factors (which, for the sake of convenience, we will include under the "socio-economic" heading) are, in certain other cases, responsible for the choice of public as distinct from private enterprise. One might instance the British Broadcasting Corporation or the Swedish wine and spirits enterprise known as the AB Vin and Spirit-centralen.

The above distinctions [illegible] public enterprise [illegible]. [illegible], the decision [illegible] be [illegible] their [illegible] is intended [illegible] possibly [illegible].

Most of [illegible] described as "policy [illegible] for [illegible]", [illegible] are regarded [illegible] that have created [illegible]. [illegible] those public enterprises [illegible] permanent basis, [illegible] less permanent [illegible], by private [illegible] are given, vis-a-vis private enterprise, [illegible] role.

In the first [illegible] itself responsible, wholly or partly, for the [illegible] commodity or the provision [illegible]. [illegible] made *ad hoc* or [illegible] Industrial Policy Resolution [illegible] for whose development the [illegible] that should be [illegible] private enterprise [illegible] in competition with [illegible]. [illegible] more pronounced in [illegible] political and administrative [illegible] private "mix" [illegible], long before the publication of the [illegible] government, partly for ideological and partly [illegible] that certain industries, [illegible] public sector, whether or not [illegible] who were prepared to [illegible] similar [illegible], whatever [illegible] certain enterprises, particularly [illegible] conceivably be regarded [illegible]. [illegible] of the Indian government's [illegible], [illegible] continuation of a mixed economy, it [illegible] in the public sector [illegible] enterprises - and particularly many manufacturing enterprises - [illegible] such [illegible] and were so regarded elsewhere (e.g. [illegible] country, Pakistan).

[illegible] the substitution of public for private enterprise. [illegible] it, from other countries, spring readily to mind. [illegible], for instance, [illegible] kept the famous Renault Motor Works in the public sector, [illegible] undertaking would [illegible] the private investor. The Germans, on the [illegible] to the private sector an equally successful public [illegible]. Both of these countries, however, were confronted with [illegible] or retention or disposal was there. [illegible], particularly in the less developed countries, the continued [illegible] "substitution" policy is often enforced by circumstances, even [illegible] favour it. Turkey in the 1950s [illegible]. As the tables show, this country has a [illegible] invested in public enterprises, which play an important role in [illegible] economy. When the Democratic Government came to power [illegible] of "denationalising", either by selling public enterprises [illegible] or by inviting the public to subscribe to their share capital. [illegible], the "[illegible]" - not so much because potential investors lacked [illegible], having looked at the profitability record of the public enterprises, they preferred to put their money elsewhere. Not only were [illegible] the number of public enterprises during the period [illegible] the Government's tenure of office, significantly increased! Today, although [illegible] government no less devoted than its ill-fated predecessor [illegible] "[illegible] enterprise", Turkey is still - by the criteria of the [illegible] public enterprises - a highly "socialistic" country. Governments [illegible] "policy of substitution", therefore, should realise that it may be difficult to reverse.

Even the most "substitution-minded" of the mixed economy countries, however, [illegible], to varying extents, the "catalytic" technique. Essentially, this is [illegible] public enterprise to stimulate private enterprise. In a sense, of course, [illegible] is unavoidable. So long as private entrepreneurship and investment [illegible] permissible (even though it may not be positively encouraged), it will derive benefit from the investments made in the public sector - unless it is taxed so heavily to pay for them that it has no resources left! Private enterprise will use the expanded transport facilities and power supplies, provide goods and services on contract to the various public agencies engaged in the promotion of economic development, and take advantage of whatever new purchasing power may be injected into the economy. Its response, indeed, may surprise and even alarm the planners, as happened in India during the period of the Second Five Year Plan. Here, however, we are concerned not with this "natural" stimulus that the private sector may receive, but with deliberate attempts to stimulate it. Even more specifically, we are concerned, not with <u>all</u> attempts to stimulate it (which include a very wide variety of devices, particularly in the fields of fiscal and financial policy) but with the role which public enterprise is called upon to play.

There are few countries of mixed economy that have failed to equip themselves with such public enterprises. Prominent among them are industrial and agricultural finance corporations of various types, created for the purpose of providing private entrepreneurs with credit on terms more favourable than they could obtain from private agencies. Where entrepreneurial energies are being inhibited by shortages of long-term and medium-term loan capital, these public enterprises can play an important role in both stimulating economic development and in steering it. If they are to do so effectively, however, they require careful management and well-defined terms of reference. Unless their role is clearly indicated, there may develop contradictions, difficult to resolve, between the aims of the managers of such institutions and those of the government. The managers will tend to select enterprises for assistance in terms of the security they can offer and the prospects of their profitable operation; the government, on the other hand may well be looking to the finance agency to rescue enterprises of national importance which are encountering difficulties, or to assist in the industrial diversification of comparatively backward areas. Furthermore, there may be a tendency for the agency to do little more than make loans on special terms to entrepreneurs quite able to afford the "going rate" for loan capital. These problems have actually been encountered in many countries. More serious, however, is the problem that arises - as it did in Pakistan during the early years of Independence - from the comparative failure of the finance agency to find entrepreneurs able and willing to use its services. For if private entrepreneurship is extremely weak, it is unlikely to be significantly stimulated merely by the offer of loan capital, even if this is accompanied by the offer of financial advice and technical services. Under these circumstances, it is likely that public development agencies will be able to make a much greater contribution to economic growth than public finance agencies.

Indeed, most mixed economy countries have established development corporations of one kind or another. Here we are interested only with those concerned with the development of manufacturing industry. The usual plan is that the development corporation, using capital provided by the government from budgetary sources, shall itself create, manage and bring to maturity manufacturing undertakings of various kinds, either on its own initiative or in accordance with the priorities laid down by the political authorities. If necessary, or if considered preferable, it may use its own funds exclusively not looking for supplementation elsewhere; alternatively, and if opportunity offers, it may enter into partnership, right from the beginning, with the private investor, who may conceivably be attracted by the security offered by government commitment to the development of the undertaking. The operation, however, is not necessarily a catalytic one. That depends on the projected future of the subsidiaries that the development corporation brings into existence. If they are to remain in the public sector, the policy is one of substitution; it is only catalytic if they are to be sold out to the private investor. Whether they actually can be sold out or not largely depends on the availability of private capital and on the prospects of profitability that the new undertakings offer. The legitimacy of the "sealing out" policy is clearly controversial, and the government's view of it will depend on the prevalent political ideology. If a "socialist" pattern of society is aimed at, the transfer to the private sector of enterprises pioneered by public agencies will be regarded as illegitimate, except possibly in certain special cases; if, on the other hand, a "free enterprise" system is favoured such transfer will be positively encouraged. What one must here note is that the intention to sell imposes certain constraints on the manner in which a development coporation may treat its subsidiaries, and indeed on the kind of subsidiaries that it may create. For if they are to be attractive to the private investor, they must necessarily have achieved, by the time that the sale is attempted a level of profitability at least equal to that which corresponding private undertakings can offer him. This means, first, that they must be chosen with the prospects of profitability primarily in mind, and secondly, that they must not be burdened with "excessive" social obligations, either to their own labour force or to the general public.

In the more socialistically minded countries, the industrial development corporation may not play a very important economic role, as the government may well prefer to undertake the development of industry in a more direct manner, through setting up a public corporation or state-owned company for each separate undertaking or group of undertakings. Moreover, this may be considered administratively more desirable, as [illegible] when that country abolished its Industrial Development Corporation and gave independent existence to the former subsidiaries of that body. Elsewhere, the development corporation sometimes becomes a major agency of industrial growth. Both economic and administrative advantages have been claimed for it. Economically, it may have the merit of enabling the government to develop a comparatively large amount of industry with a comparatively small expenditure of public funds, since success in the selling-out operation provides the corporation with "revolving" capital. (On the other hand, of course, the profits of the successful undertakings are lost to the public sector of the economy, except to the extent that they are subject to taxation). Administratively, the responsibilities of the government are kept within limits, at least in the field of economic administration; since it is concerned, through the development corporation, only with those undertakings which are in their early stages of growth, and not with those which, having reached maturity, are taken over by the private investor.

One further broad distinction may be made. The development corporation, in general, has a more important part to play in the economies of the developing countries than in those of the developed ones, particularly if it is being used for "catalytic" purposes; for in the developed countries private industry has comparatively little need of the kind of stimulus that the development corporation exists to provide, whereas in the less developed ones such a stimulus may be essential to it. The major exception to this rule is Italy, where, as we have seen, the development corporation known as the IRI has played a major role, both substitutory and catalytic.

Public enterprise, therefore, may be used either as a substitute for or as a stimulus to private enterprise - and in most countries of mixed economy it operates in both capacities. There is, however, also another possible use for it which deserves at least brief mention. In some countries and at certain times, it has been used as a "stabiliser" for the national economy. Its potential in this respect was seen as soon as governments, under the influence of Keynesian economic concepts, began to pursue policies aimed at "full employment". It seemed that one of the ways of counteracting a downward swing of the trade cycle was to pump more resources into that sector of the economy over which the government [illegible] raised full [illegible]. [illegible] when there was down-turn of private [illegible] activity [illegible] deflationary [illegible] began to make themselves felt. [illegible], the [illegible] sector, with its concomitant [illegible] "full" employment [illegible] by a contraction [illegible]. [illegible] the British Government [illegible], in which it first clearly accepted responsibility for [illegible] of employment. [illegible] been specifically repudiated, for very [illegible]. Firstly, there is no case for making public enterprise bear the burden of the upswings and downswings of the trade cycle, since methods other than the expansion or contraction of public enterprise are available for influencing the general level of economic activity. To use public enterprise in this way, although perhaps easy and tempting, is to make it the "handmaiden" of the private sector. Secondly, the pursuit of such a policy imposes unjustifiable distortions on the economic pattern and tends to make the planned and coherent development of public undertakings, over a long period, very difficult if not impossible. Thirdly, it has a very deleterious effect on the morale of both managers and workers, who feel that their enterprise is at the mercy of governmental decisions which have little or no relevance to the interests of the enterprise as such. Unless, therefore, the use of public enterprise as a stabiliser forms part of an overall economic strategy which has regard to the correct proportions between the various forms of economic activity, it is to be strongly discouraged. This, of course, does not rule out decisions to "take up the slack" by initiating or intensifying programmes of public works in periods of economic depression; nor does it mean that public enterprise can be regarded as occupying a privileged position. It does mean, however, that every effort should be made to avoid treating the public sector as something that can be arbitrarily "turned on" and "turned off" as general economic conditions deteriorate or improve.

5. Capital Structure and Financing of Public Manufacturing Enterprises

When a public manufacturing enterprise is being established, one of the most crucial decisions that has to be taken is about the amount of capital with which it shall be endowed, the source of this capital, and the terms on which it shall be provided. The provision of capital may be from internal or from external sources or from both. We will begin by considering internally-provided capital.

[illegible]

[illegible] initial capital, [illegible] of the loan is that it [illegible] difficulty [illegible] although this difficulty [illegible] enterprise from "[illegible]" [illegible] more to [illegible] grant is that it [illegible] that are writ large [illegible] method has been employed [illegible], by contrast, combines [illegible]. The enterprise is expected to [illegible] "yield" or [illegible], but [illegible] that it contributes to the government is adjusted to the [illegible] that it achieves. Except in the [illegible], the enterprise, of course, will ultimately be equipped [illegible] and loan capital. The proportion that the [illegible] should bear to the other is a matter of considerable controversy, which might well be [illegible] subject of discussion at this seminar.

The provision of equity-type capital, however, by no means involves the handing over to the state of all the profits made by the enterprise, after provision has been made for depreciation and reserves, and for the payment of interest on any loans that may be outstanding. In many cases, the enterprise is permitted to retain a proportion of its profits for reinvestment - indeed, if such permission is refused, it may lose an important stimulus to improved performance.

The state's share in the profits of the enterprise may be permanently fixed by law or decree or may be subject to year-to-year decision by the public authorities. Among the reporting countries, Iran has chosen the former alternative, requiring the enterprise to pay to the state twenty per cent of its profits from the first year in which it becomes profitable. In Italy, arrangements for servicing equity-type capital vary from one group of enterprises to another. Profits paid to the state by the IRI "are considered (in terms of the agency's statutes) not as remuneration on capital invested but as a reimbursement of the State's contribution", whereas those paid by all the other state enterprises are treated as dividends. Some countries, however, insist that most, if not all, their enterprises hand over the total net profit that they make, subsequently returning to them such portion of it as they require for the expansion and re-equipment they are enjoined to undertake in accordance with the national economic plan. In Sweden, for instance, those enterprises which have not been given the form of joint-stock companies pay their total net revenue into the Exchequer. The danger here, which is obviously far more acute in underdeveloped countries than in those that have achieved the Swedish level of prosperity, is that the profits will be used not for purposes of capital-formation but to finance current governmental expenditures. Sometimes the profits on state-provided capital have to be divided up in accordance with a special formula. In Argentina, for instance, each state enterprise is required by law to distribute 10 per cent to the managerial staff, technical staff, employees and workers, 10 per cent to the National Treasury, 10 per cent to a fund to finance reserves, and 70 per cent to re-investment in accordance with approved budget estimates. We have no knowledge of the manner in which this rather complicated method of "servicing" state-provided capital actually operates; but to us it would appear to possess a degree of inflexibility that does not invite wide-spread imitation.

The distinction between a loan and an outright grant is by no means always clear. If, for instance, an enterprise is financed with a non-interest-bearing, non-repayable "loan", this is obviously equivalent to a grant. Moreover, if the loan is made at a rate of interest well below the current rate in the country concerned, it clearly contains a "grant" element. This is the case, for instance, in Greece, where the rate of interest on loans made to public enterprises varies between 0 and 3 per cent. (The Greek rapporteur, however, does not say whether, or to what extent, these loans are repayable.) The provision of cheap loan capital to public enterprises is a practice quite common among the countries reporting for this survey. It obviously requires special justification and is therefore a topic that might be usefully discussed.

In general, it may be said that unless a public enterprise is expected to make some return on the capital invested in it, by way of dividends, interest-payments or amortisation, its financial future may be seriously impaired and its contribution to capital-formation [illegible] proportions. This situation is always undesirable, and particularly unwelcome in the less developed countries. On the other hand, its [illegible] it should not be regarded [illegible], for [illegible] and the likelihood of reductions in [illegible] generally inhibit the public authorities from imposing [illegible] cost/benefit calculations [illegible] in the [illegible]. It must also be remembered that [illegible] long-gestation [illegible] other undertakings by public enterprises [illegible] them the prospect of making [illegible] profits. In such cases, [illegible] the provision of loan capital on specially favourable terms – such as low interest rates, moratoria and unusually long periods of repayment – is clearly justifiable.

The domestic financing of public enterprise [illegible] the mobilisation of private capital. It can take the form of inviting [illegible] the public to take up a minority of their shares, thus involving the formation of "mixed" enterprises which, although controlled by the government, are not wholly owned by it. This form of capitalisation, however, can be undertaken only when the prospects of profitability are sufficiently favourable, unless the government itself chooses to take the risk of guaranteeing a minimum rate of return, which may involve it in raids on its own funds. An alternative is to invite the public to subscribe to the loan capital of the enterprise, by purchasing stock bearing a fixed, government-guaranteed rate of interest. As those who buy such stock have no rights in the enterprise, other than the right to receive certain annual sums from it, both ownership and control remain with the government. This method of raising capital funds was the normal one for the British nationalised industries – apart from the National Coal Board – up to the year 1956, since when they have been exclusively financed by advances from the Exchequer. Its success depends partly on the rate of interest offered (which, of course, must be considered in relation to the extra security that a government-guaranteed investment carries with it) partly on the degree to which a market for securities has been developed, and partly on how familiar the people of the country are with this particular form of saving. In Britain it was abandoned largely because the enormous sums required by the nationalised industries placed a heavy strain on the securities market, often at very awkward times. It cannot, however, be ruled out as a method of financing public enterprises, although few of the less developed countries are likely to be able to use it with conspicuous success. A third method is for the Government itself to mobilise private capital, through the issue of bonds and development of small savings, and then to invest the proceeds in the public enterprises of its choice. This "indirect" method of financing [illegible], of course, also [illegible] by the Industrial Development [illegible] and Investment [illegible]. In the less developed countries, it is subject to [illegible] the limitations [illegible] listed above. Liquidity is a particularly serious [illegible], in countries where [illegible] virtually non-existent. If this is overcome by [illegible], there are severe limitations [illegible] which the resultant funds can be used for long-term investment. The conclusion is that, whereas the less developed countries of mixed economy should be encouraged [illegible] of public enterprise to the [illegible] ability, the main financial burden is likely to continue to rest, for a long time to come, on the shoulders of the national exchequer.

It is in the light of these considerations that one must evaluate the demand, made most frequently but not exclusively in the developed countries, that public enterprises, like private ones, should be required to "go to the market" for their capital funds. This proposal was made for the British nationalised industries by the Report of the "Herbert" Committee on the Electricity Supply Industry, but was never accepted by the Government. Indeed, [illegible] the "Herbert" Committee reported that the Government decided, as we have seen, that the industries should meet their capital requirements exclusively through loans from the Exchequer. Subsequently, the "Radcliffe" Committee on the Working of the Monetary System rejected the policy of "going to the market" on both theoretical and practical grounds, and it has been [illegible] often [illegible] politicians [illegible], such as Enoch Powell. If, therefore, the policy is regarded as impracticable in a country such as Britain, one discovers with some surprise that it has been advocated for India by Indians. The Indian [illegible] that "it has been argued that the [illegible] security of Government financing [illegible] fails to instil the necessary sense of financial discipline in the management [illegible] and that it would be [illegible] better if they were asked to resort to borrowing from the market on their own credit even for capital expenditure". The point about "financial discipline", is, of course, an important one; but the enforcement of such discipline through the automaticity of an allegedly "free" capital market is as impracticable for India as it is for most other developing countries. Moreover, there is some difficulty in envisaging how it could be combined with effective national economic planning.

This does not mean, however, that in mixed-economy countries efforts of the kind listed above should not be made to mobilise private savings for investment, whether directly or indirectly, in public enterprises. Where capital is in short supply, no government can afford to neglect any possible source from which it may be obtained. Nor, on the other hand, does it mean that public enterprises, simply because they _are_ public, should invariably and necessarily obtain their capital requirements more easily and on better terms than private enterprises; for the selection of particular enterprises in the public sector does not _in principle_ indicate that it is more important for national economic development than are other enterprises left alone in the private sector. Indeed, private enterprises may urgently need concessions of a kind that they cannot obtain from the commercial banks or (should these exist) the remaining capital market: hence the establishment, in many countries, of _public_ financial institutions to assist in the financing of _private_ enterprises. One must therefore examine with some care, during the course of the seminar discussions, the role to be played as between public enterprises and private ones in their inevitable competition for access to capital. The reports from France, Italy and Iran suggest that in these countries both have roughly equal terms, although there is _some_ tendency to give government-owned enterprises favoured treatment. That this is a general tendency is also noted by the OECD in its "Capital Markets" study. [illegible], [illegible] must [illegible] from operating [illegible] the [illegible] sector, yet no [illegible] alternative methods of financing capital requirements, to achieve optimum results economically, have been devised. In the less developed countries, of course, there is nothing that can be described as a capital market (or at the most an embryonic one). The overall responsibility for "financing", therefore, lies squarely with the public authorities; but [illegible] thought, [illegible] way, [illegible]. [illegible] the governments of the developing countries the tendency to "[illegible]" [illegible] enterprises is stronger than among those of the developed countries, particularly when they receive sudden "windfalls" of capital resources, as, e.g., countries did during the so-called "Korean boom" and as Libya did when her abundant oil resources began to be exploited. The principles that should regulate government capitalisation of public enterprises, particularly in circumstances where there is virtually no capital market to measure the scarcity of capital funds and to give them a "price", therefore require careful discussion.

Also of the greatest importance is the extent to which a public enterprise should be required to engage in auto-financing, through the ploughing back of its profits. To answer this question in general terms is, of course, impossible. Much depends on the nature of the enterprise. There are some enterprises, particularly of the infrastructural kind, that are not required to make more than a limited profit, if any at all, and consequently cannot engage in auto-financing to any significant extent, even if they should wish to do so. On the other hand it is sometimes among the infrastructural enterprises (e.g. electricity supply) that the highest profits in the public sector are made, through the exploitation of a monopoly position. In such cases the profits represent a tax on the consumer and the ploughing back of profits is tantamount to forcing the consumer to contribute, without reward, to the enterprise's expansion. In the less developed countries, public manufacturing industries can often impose a similar "tax" on their clients, if they are operating - which, as we have seen, they frequently are - in non-competitive or imperfectly competitive conditions. Although such "taxation" is obviously different from profits won through low-cost efficient production and superior service to the consumer in a competitive market, it is not necessarily to be [illegible]; for it may be an important means of building up capital resources in a country where, for political or administrative reasons, the taxation weapon can be only lightly used, and where lending money to the government (or to its enterprises) is unfamiliar to or unpopular with members of the public. Nevertheless, a reckless pursuit of this policy may have wide and extremely unfortunate repercussions on the national economy. The <u>total</u> impact of a given level of auto-financing, therefore, needs to be carefully estimated.

Finally, methods of financing public enterprises must obviously be considered in relation to the preservation of financial stability. Inflation is a persistent bugbear, particularly in countries engaged in forced-draft, state-led development and the financing of public enterprises often contributes to the creation of an inflationary spiral. The extension to them of bank credit, unbacked by real savings, is the method of financing which has most potential danger. In so far as such credits do not bring into employment previously unemployed resources, and in so far as the "[illegible]-goods" [illegible] will [illegible], with the result that the consumer will suffer [illegible] of "taxation", [illegible] unequal and capricious in [illegible]. [illegible] is undetermined, [illegible] will be [illegible]. [illegible] of an inflationary [illegible]. [illegible] inflation [illegible] but [illegible]. Moreover, "natural" [illegible] developing economy, [illegible] government deliberately [illegible] "forced savings". [illegible] finance public enterprise [illegible] provides one of the [illegible] adopted by the government [illegible] part brief, [illegible] governments of most of the countries [illegible] danger.

Having considered [illegible] of public enterprise, we now turn, [illegible], [illegible] capital. The [illegible] comprising [illegible] loans from private [illegible]), and equity capital. [illegible] [illegible] [illegible] tion [illegible] provision [illegible], the result is [illegible] "public" according to the criteria [illegible] government [illegible] majority of the [illegible] in the [illegible].

The [illegible] publicly-provided capital from external sources depends on [illegible] development [illegible] capital resources, [illegible] former imperialist or imperialist-type [illegible], the position which it occupies in international political [illegible], and its capacity effectively to utilise funds from abroad. The first two of these are of decisive importance in determining the degree of need for foreign assistance. The others will influence, to a greater or lesser extent, the amount of foreign assistance that the country concerned actually receives.

It occasions no surprise, therefore, that the highly-developed countries producing reports for this seminar (e.g. France and Sweden) do not depend in any way on public foreign finance for their public manufacturing enterprises, or indeed for any of their enterprises. It is rather more surprising, however, to find the Turkish rapporteur being as ready to accept the view that the "role of foreign assistance" received by that country's enterprises, although "unknown", is of little significance; for it is well known that, over the years, Turkey has been a considerable recipient of "aid" and it is difficult to believe that, directly or indirectly, some of this has not been used to strengthen the financial position of enterprises which, in the past, have not been in an economically healthy condition. By and large, however, the national reports confirm that there is an inverse correlation between level of development and abundance of domestic capital on the one hand and degree of dependence on foreign aid on the other. Among the reporting countries, the extreme case is Ghana, where the contribution of public foreign capital to public enterprises reaches the figure of 80-90 per cent.

Sources of such aid vary very widely from country to country, for obvious reasons. In some cases, e.g. India and Turkey, bilateral aid is coordinated with multilateral through the formation of foreign aid "consortia." Major sources of multilateral aid are the World Bank (with its various associates) and the Inter-American Development Bank. Bilateral aid is sometimes provided through specially-constituted financial institutions, such as the Import-Export Bank of the USA. The aid provided by the centrally-planned group of countries generally takes the bi-lateral form. Indeed, in general, bilateral aid is quantitatively of much greater importance than multilateral, as is well known.

Foreign public capital for public enterprises is generally in the form of medium and long term loans and/or contributions in kind to fixed assets. In some cases, the provision of capital is accompanied by that of technical expertise, particularly when the capital is specifically "project-oriented". Among the reporting countries, however, only Ghana has normally written "management participation" arrangements into her aid contracts with foreign countries - for the purpose of "securing efficient management and technical skills".

In no cases that have come to our notice has an enterprise been given freedom to acquire foreign public capital on its own responsibility. Invariably, the approval of some higher governmental authority, such as the Ministry of Economy and Planning in Iran, is required. Even in India, where foreign assistance is sometimes negotiated directly by the enterprise concerned, the government must give its approval to the final transaction, and such approval is by no means merely formal. This is necessary, of course, for coherent economic planning, particularly as balance-of-payments questions may be involved; moreover, the foreign lender or donor may not be prepared to make the funds available in the absence of a governmental guarantee.

Major questions involved in the foreign public financing of public enterprises relate to balance of payments, "project-tying" and political relations between the assisting country and the assisted. Balance of payments considerations, both long-term and short-term, will inevitably influence a government's decision as to whether acceptance of a particular form of aid is economically worth-while. The "tying" of aid to a project may itself cause balance of payments difficulties and perhaps also tend to create a bias in favour of the project in which the foreign aid-giver happens to be interested, at the expense of other possible projects which might be more advantageous from the point of view of overall economic development. There is a possibility, too, that excessive dependence on the aid provided by a particular country may cause a government to lean more heavily than it would otherwise have done in the direction of a particular pattern of economic development and even to adopt foreign policies which are not, in the long term, in its own best interests. These matters might well receive some useful discussion during the course of the seminar.

Foreign private capital that flows from developed to developing countries has a marked tendency to be invested in the extractive industries, such as petroleum. For well-known reasons it does not find manufacturing industry so attractive; and in <u>public</u> manufacturing industry there is very little of it indeed. However, most of the reporting countries, both developed and less developed, allow <u>some</u> participation of private capital in this field. Even France has made some limited use of it. In that country, according to the rapporteur,

"(a) Foreign loans have occasionally been contracted by public utilities such as Electricité de France; any public enterprise can raise a loan either on the domestic market or on foreign markets;

(b) In the case of a few public enterprises, foreign private entities have a share in the capital, either under conditions identical to those applying in private firms (such as the Société Nationale d'études et de construction de moteurs d'avion, 10 per cent of whose capital was made over to the American firm Pratt and Whitney in exchange for the franchise of servicing that firm's motors in Europe), or under an international agreement establishing a multinational association or company, but only in the case of public services (Société internationale de la Moselle)."

In Italy, public enterprises "can draw on foreign financial sources for any kind of credit on the same conditions and subject to the same limitations as are applicable to private enterprises", and have indeed made considerable use of this privilege to enter into partnerships with foreign firms, as the following table, extracted from the Italian report, clearly indicates:

	Sector	Company	Shareholders
(a)	Petroleum and Chemicals	STANIC	ENI-50% Standard Oil (US) - 50%
		Chimica Ravenna	ENI-51% Wacker Chemie (W. Germany) - 49%
		Phillips Carbon Black Italiana	ENI-50% Phillips Oil Co. (US)- 50%
(b)	Steel	Terninoss	IRI-50% US Steel - 50%
(c)	Electronics	Selenia	IRI-45% FIAT-10% Raytheon (US) - 45%
(d)	Nuclear Fuel	Fabbricazione Nucleari F.N.	IRI - 55% G.E.(US) - 45%
(e)	Electrical Engineering	ASGEN	IRI-50% G.E.(US) - 50%
(f)	Engineering	FAG Italiana	IRI-49% FAG(W.Germany)-51%

Note ENI and IRI are the two greatest Italian public enterprises of the "holding company" type. ENI - Ente Nazionale Idrocarburi; IRI-Istituto per la Ricostruzione Industriale.

Foreign private capital assistance can be in the form of a subscription to equity capital, the making of a loan, or the provision (in return for a fee and/or a share in profits) of technical assistance. India has made use of all three. Foreign equity capital in her public enterprises, however, plays a role of little significance, except in Treveni Structurals Ltd., where it almost equals the government's own participation. Loans are more important. The Fertilizer Corporation of India, for instance, in which the central government has invested Rs.487.37 million, has received a total of Rs.179.73 million from foreign lenders while the Heavy Engineering Corporation, with a government-subscribed capital of

Rs. 758.06 million, has received Rs 100.38 million. In two very much smaller enterprises, Hindustan Teleprinters Ltd. and Indian Telephone Industries Ltd., foreign loans amount to more than twice the government-subscribed capital. An example of technical collaboration is provided by Heavy Electricals Ltd., which has concluded a consultancy agreement with the Associated Electrical Industries of the United Kingdom.

In addition to the above types of assistance, the extension of suppliers' credits can be of great importance in enabling public manufacturing enterprises to achieve financial viability. Such credits, of course, can come from either public or private sources; if from the latter, they will most usually be underwritten, both at the supplier's end and at the recipient's, by some form of government guarantee. Of the reporting countries, Argentina, Ghana and Ceylon make specific mention of this type of "aid", and the last of these countries provides a statement of Supplier Credits negotiated between 1960 and 1966 for the benefit of a series of public manufacturing enterprises. Down payments vary from 15 per cent to 40 per cent; the repayment period between 2 and 10 years; and the rate of interest from nil to 5½ per cent. Generally speaking, Ceylon's experience seems to be that suppliers' credits from the centrally-planned groups of countries carry the lowest rate of interest but are accompanied, on the average, by higher down payments. Both the United Kingdom and Sweden, however, have extended interest-free credits. The most expensive in terms of interest are those from Italy and Western Germany, which, however, have comparatively long repayment periods.

The terms on which foreign loans are made to public manufacturing enterprises show, as might be expected, a marked divergence between those that come from public sources and those that come from private ones, the latter tending to carry higher interest rates and higher repayment terms. It is for this reason, if for no other, that Sudan, a very poor country, has relied entirely on government-to-government loans and on those supplied by international agencies, and has made no attempt to raise loan capital from foreign private sources. As far as publicly-provided loan capital is concerned, the centrally-planned group of countries tend to offer the most favourable interest-rates; the repayment periods they specify, however, are often shorter than those specified by other countries. When a developing country is confronted by a choice between different potential suppliers of loan capital, these are some of the factors that have to be weighed in the balance. Another, and sometimes much more important, factor is the extent to which the loan commits the recipient to purchase the relevant supplies exclusively from the donor country. If these can be obtained only at relatively high cost, or if their suitability to the recipient is comparatively low, a loan made on terms that appear to be favourable may prove, in real terms, unexpectedly costly. As, however, we are here concerned only with a small group of countries and as they do not all provide adequate information about their loan-raising experiences, we cannot at this stage reach any conclusions on the subject.

Those countries attempting to use privately-provided foreign funds in the form of equity investments have to consider carefully what regulations they wish to make about the repatriation of both dividends and capital; for it is clear that there may be a sharp divergence of interest between capital-provider and capital-recipient in this respect. Many of the reporting countries have passed laws that simultaneously impose certain restrictions on the foreign investor and guarantee him certain rights. Those that are particularly anxious to attract foreign capital, whether to the public or the private sector of the economy, tend to emphasise the guarantees rather than the limitations. Such is true of the Ghanaian Capital Investment Act, the Turkish Law for the Encouragement of Foreign Investment, the Iranian Law for the Protection and Attraction of Foreign Capital, and the Greek Decree No.2687. These, however, are more concerned with investment in private enterprise than with investment in public enterprise. Argentina reports that both repatriation of capital and "transfer of payments" are "effected freely."

It would be interesting to ascertain the proportion of foreign capital (both public and private) to domestic capital engaged in the public manufacturing enterprises of the various countries. One would then be able to draw up a table showing relative dependence on foreign sources of finance, and perhaps derive some valuable insights from it. The information [illegible] provided, however, is too sketchy to enable us to attempt this exercise.

6. <u>The Financial Operations of Public Manufacturing Enterprises: (a) Budgeting and Accounting</u>

In any large commercial enterprise, whether public or private, [illegible] objectives of budgeting and accounting [illegible]. [illegible] is essentially a forecast, in financial terms, [illegible] over a given period. A statement of accounts provides, [illegible], of the actual out-turn of the enterprise's operations [illegible]. Conventionally, the period used is an annual one. For most enterprises, however, both forecasting and the assessing of results need to be undertaken for much longer periods, although the documents which record these exercises are not generally placed in the category of budgets and accounts. Here following the lead given by the national rapporteurs, we shall be concerned mainly with budgeting and accounting in the conventional (i.e. annual) sense.

One of the reasons why public manufacturing enterprises are usually given "autonomous" status (e.g. that of a public corporation or state-owned company) is that they need to use budgeting and accounting systems different from those used by ordinary government departments. Sometimes they are specifically instructed by higher authority, [illegible] similar [illegible] private businesses; sometimes they are left free to devise [illegible] most suited to their peculiar needs; [illegible] budgets and keep their accounts [illegible] commercial in character [illegible] agencies, information [illegible] enterprise. Sometimes [illegible] specified by law or decree, but [illegible] necessarily [illegible] - although [illegible] additional [illegible] supplementary [illegible] internal financial control.

Of all [illegible] their public [illegible] systems. [illegible] which [illegible] attained, [illegible] the [illegible] ; "the [illegible] with [illegible] which [illegible] to [illegible] " [illegible] between [illegible], the profit and loss account [illegible], the [illegible] standardised [illegible], is [illegible]. The [illegible] price per unit [illegible] "taking the cost price determined at the [illegible] level [illegible] adding on a certain percentage of it representing the administrative or commercial expenditure peculiar to the product, and the general expenditure incurred by the enterprise that could not be incorporated at the lower level". As might be expected, such cost accounting is invariably preceded by cost estimating on a similar pattern; moreover, the whole process is conducted on a monthly as well as on an annual basis. The budgetary and accounting record, therefore, offers facilities for a continuous comparison between estimated and actual costs per unit and hence provides the foundation for "performance budgeting." Thus, as the French rapporteur says, it is "of the greatest value in management and control." One might add that, in the absence of the information so provided, many of the data essential to the efficient operation of the French planning system would not be available. For its operation, however, it requires the services of a large number of highly-trained accountants and statisticians and involves the use "of at least ordinary computing machines in the case of the smaller enterprises and of electronic computers in the larger ones". It cannot, therefore, be simply recommended for imitation by countries less developed than France. Nevertheless, it does represent something in the nature of an ideal to be aimed at, by appropriate stages over the course of time.

There are, of course, disadvantages in standardisation, which the French allow for, as we have seen, by permitting the presentation of accounts to be "adjusted, where necessary, by ministerial decision to the requirements of the various industries". Nor is standardisation an absolute necessity; for in certain countries, equal in level of economic development to France, and with an equally important collection of public enterprises, it has not been applied. In Britain, for instance, the various nationalised industries are entirely free to devise their own budgetary systems, although the form in which they present their annual accounts is subject to approval by the relevant minister. However, many countries, particularly in the developing category, would clearly benefit by the introduction of a greater measure of standardisation than they have as yet achieved. In India, for instance, although the formal accounting system is reasonably satisfactory (providing "in a fairly detailed manner" the essential information about an enterprise's assets, liabilities, income and expenditure), the budgetary techniques used by many of the enterprises leave very much to be desired. Although some of them, such as the Chittaranjan Locomotive Factory, Bharat Electronics Ltd., and the Heavy Engineering Corporation (which are among the "stars" of Indian public manufacturing enterprises) prepare detailed, commercial-type budgets, which include "programmes of production, revenue and expenditure in each of the major units" as well as the more conventional items, others use budgets framed on "the traditional pattern" in which "the principal magnitudes" are "more or less confined to expenditure and receipts in financial terms", and yet others "prepare only summary budgets". These wide variations, says the Indian rapporteur, "indicate that the public enterprises are not guided by any uniform set of principles or objectives in preparing their budgets" and that "much ground" has yet to be covered before "a sophisticated budgetary system" becomes generally adopted by enterprises in the public sector. That, in a country which takes economic planning as seriously as India does, advances towards greater sophistication are essential is clearly recognised by the political authorities; so is the need for greater standardisation. The Estimates Committee of the Lok Sabha, writes the Indian rapporteur,

> "recommended that the public undertakings should prepare performance and programme statements for the budget year together with the previous year's statement. It further recommended that these enterprises should be encouraged to prepare business type budgets ... The Government gave an assurance to the Committee to take the necessary steps in this direction".

If India, with her comparatively lengthy experience in running public enterprises, is aware of her deficiencies in these respects, other countries with less industrial experience must be even more so. Indeed, some of the national reports show the extent of this awareness. Ghana, for instance, reports that although methods of budgetting are prescribed for each state enterprise by its Instrument of Incorporation, they "have not always been adhered to since most of the enterprises have no qualified accountants"; systems of accounting, moreover, "differ from one enterprise to another, depending on the ability of the officer in charge of the accounting department, who is sometimes no more than a book-keeper".

For Ghana, as indeed for all the other countries suffering from lack of trained staff, an accelerated programme of accountancy training is an obvious requirement. Advising such countries to improve their methods of financial control is beside the point if there is a persisting lack of personnel with a knowledge of reasonably up-to-date techniques.

The budgets and accounts of public manufacturing enterprises serve the needs of two different groups of people: the managers of the enterprises themselves and the "higher" authorities, whether political, administrative or quasi-judicial, that are endowed with powers of control over the enterprises. We turn our attention, first, to the latter group.

Methods and degrees of control vary very widely from country to country, but nowhere does a public manufacturing enterprise enjoy complete _de jure_ "autonomy" - although in certain Latin American countries there are enterprises which have achieved something approaching _de facto_ independence. Of the various "control points" specified by law, the enterprise's budget is obviously one of the most important, since the submission of this document to higher authority enables the latter to relate the enterprise's proposed operations to national economic plans and financial priorities.

In most of the countries reporting for this survey public enterprises are required to submit their budgets to some kind of ministerial approval. Normally, it is the Minister of Industry, of Commerce or of National Economy who is primarily concerned, although the Minister of Finance can hardly avoid taking an interest, and often the final decision is lodged with the Cabinet, Council of Ministers or President. Sometimes the budget of the enterprise is also laid before the legislature; in this case it is usually "annexed" to the national budget. For obvious reasons, few countries attempt any literal "integration" of the enterprise budget with the national budget. As the accounting system of an enterprise differs radically from that employed by a government department, such integration would be a futile as well as a difficult exercise. The national budget, however, will invariably show the sums made available to an enterprise by way of loans, grants and advances from budgetary sources, together with the sums paid into the exchequer by the enterprise by way of interest on loans, dividends on "equity" capital, or prescribed share of any surplus that may have been made on operating account.

The use made of the enterprise's submitted budget by the higher authority that receives it varies widely from country to country. France, for instance, reports that the Minister of Finance and Economic Affairs normally approves the enterprise's budget "without comment". The reason for his apparent lack of interest, however, is not that he is unconcerned with the enterprise's proposed operations, but that the general pattern of these has already received approval during the course of a planning process which looks far beyond the annual budgetary exercise. In the developing countries, on the other hand, the enterprise's budget is often subjected to a very close and critical scrutiny. The characteris-tic purposes of such scrutiny are clearly set out in the report from Ceylon. There the Minister of Planning and Economic Affairs reviews both the operational and the capital budgets of public manufacturing corporations with a view to assessing (a) the relationship between production programmes and installed capacities and the impact of production programmes on the planned targets for import substitutions; (b) the anticipated financial results and the consequences for the government's own budget of any surpluses that may be generated or deficits incurred; and (c) the national economic implications of the pricing policies that the enterprises propose to adopt. These, of course, do not provide an exhaustive list of the possible reasons for review. Among others, there is one that may be particularly important in countries where financial expertise at the enterprise level is as yet extremely deficient: review for the purpose of identifying omissions from the budget [illegible] and correcting errors in it. If this is to be done properly, it clearly requires the presence somewhere in the central government apparatus of persons qualified to undertake it on behalf of the relevant minister. If such persons are scarce, it is obviously good policy to concentrate them rather than to disperse them. The same applies to persons possessing other forms of technical expertise for which the enterprises have common use. This kind of concentration was attempted - not, however, with any great success - through the creation of the State Enterprises Secretariat, as a Presidential agency, in Ghana. One should note that it is always very much of a "second best", to be used only until such time as the enterprises themselves become equipped with personnel possessing the appropriate qualifications.

In itself, budgetary review tends to be rather a "hand-to-mouth" exercise, in which the enterprises find themselves at the mercy of whatever policies the Minister of Finance happens to be using to cope with the current exigencies that are occupying his mind. Ideally, review should be no more than one stage in a coherent long-term or medium-term planning process, and the purpose of the review should be confined to making such modifications to the enterprise's annual budget as a changing economic situation may require. This is the practice in all the three developed countries, France, Italy and Sweden, which have reported for this survey. The Italian report spells it out in some detail, viz.

"Taking IRI's experience, which is not very much different from that of the other State shareholding groups, the preparation of ... programmes, apart from their examination by Parliament, involves the participation of the Interministerial Committee for Economic Planning, the Ministry for the Budget and Economic Planning, the Ministry of State Shareholdings, and the management agencies, and falls into three distinct planning phases.

First of all steps are taken to check that individual sector plans or projects by the State shareholdings (and also significant changes in them) are consistent with the objectives of the national economic programme; this procedure is carried out every time that individual plans or projects by the State shareholdings are so important as to affect the country's development, and therefore require ... assessment in terms of economic policy ...

Secondly, there is a periodical definition of development objectives taking as a basis the decisions approved by Parliament and, as a consequence, coordinated formulation of policies and instruments for their implementation. This comes every five years with the drafting of the National Economic Plan. The State shareholdings are called in to contribute to this phase with their own projects for investment...

Lastly, there is the yearly task of review and control of the implementation of the national plan, besides the updating of forecasts and interventions, referring to what remains to be done under the plan still in force. The State shareholdings play their part in this phase as well, providing each year, through the Ministry of State Shareholdings, suitable documentation on the state of progress on projects decided on together with an outline of new investment decisions taken during the year".

It is the last stage of this integrated process of consultation and control that corresponds with what we have called budgetary review. In the total context, it has a significance of which it would be almost wholly deprived if it were conducted as an isolated annual exercise. Experience of this kind needs to be carefully studied by the less developed countries which are anxious to use the budgets of their public manufacturing enterprises as instruments in a process of national economic planning.

As we have already suggested, the enterprise budget is not merely a means of providing information required by the higher authorities; its essential purpose is to provide the enterprise with a series of targets, expressed in financial terms, against which its actual performance may be periodically checked. The budget, in fact, is - or should be - an aid to efficient management. To what extent it is capable of functioning as such very largely depends on the principles on which it is constructed. If it consists of little more than a series of itemised headings of anticipated expenditure and receipts on current and capital account, it is not of much use, since such a budget does not help management in the identification of the specific areas of activity where things are going wrong and corrective action is required. Only a budget which is based, as in France, on the isolation of certain "cost centres" and the estimation of unit costs can serve as an instrument of effective managerial control. In its most advanced form, such a budget becomes a performance budget, by means of which each divisional and sectional manager in the enterprise may regularly measure, in strict quantitative terms, the degree of his success or failure in the performance of his assigned tasks.

As we have already indicated in our remarks on the budgetary system operated by the French public enterprises, the introduction of a system of performance budgeting requires the mobilisation of skills in accountancy and statistics that are in short supply, even in the more developed countries. We must therefore receive with some scepticism the statement of one of the rapporteurs from the less developed countries, that performance budgeting techniques are generally used in their public manufacturing enterprises; for it is evident that they have attended to the terms [illegible] rather than [illegible] generally accepted. On the other hand, it is interesting to note that the Iraqi rapporteur is himself engaged in introducing performance budgeting techniques to the companies controlled by Iraq's State Organization for Industry.

What seems to be the position in most of the less developed countries is that forms of budgeting which (although falling short of performance budgeting) enable management to keep a rough check on progress achieved, are being gradually and unevenly introduced. Where they have not yet been introduced, management has to rely for purposes of internal control almost exclusively on "physical" targets, sometimes gathered together, as in Turkey, in the form of a "work programme". India's experience in the field of enterprise budgeting is interesting, and deserves thorough discussion. "In the case of the enterprises, the budgets of which have a fairly detailed coverage," writes the Indian rapporteur,

> "reporting in respect of the [illegible] incorporated in the budget keeps the management informed of the achievements and failures of the enterprise in the different facets of its activities. The budgetary practices of the Fertilizer Corporation of India and the Hindustan Electronics provide ample evidence of this. The budgets of these enterprises incorporate details regarding production and the management is kept informed of the achievements in respect of these at regular intervals during the budget period. The reporting is usually on a monthly basis, and supplemented by a quarterly assessment of performance against the budget estimates.
>
> The position in respect of the enterprises which confine their budgeting to financial aggregates is significantly different. In the case of these, reporting in respect of [illegible] included in the budget provides the top management with only a partial assessment of how the enterprise is functioning. The financial aggregates are, of course, generally based on the relevant estimates in physical terms, but as these are not taken into account explicitly in budgeting, reporting in respect of budgeted expenditure does not provide an account of the extent to which they are being realised.
>
> However, many enterprises which ... confine their budgeting to more or less financial aggregates do have some system of management reporting in respect of physical targets, although it does not form part of the budgetary process".

The rapporteur concludes by saying that "on the whole, the limited coverage and the traditional objective-wise classification in the budget of most public enterprises limit them as aids to management". Some of the other reporting countries also express this view. The budget ought to be an aid to management, they say, but in point of fact is not so, being primarily a means of providing higher authorities with the information that they require. It should be added, however, that a budget which is of no use to management is not likely to be of much use to anyone else.

The manner in which the enterprise presents its accounts at the end of the annual exercise is not a subject on which the questionnaire asked for information. Nevertheless, it is important, since a full and accurate account of the annual financial out-turn provides essential information by which the performance of an enterprise may be judged. All countries now recognise that an enterprise's accounts, to be useful and intelligible, must be presented in standard "commercial" form; but this ideal has not yet been universally realised. The deficiencies are partly due to a "hang-over" from the days when enterprises, being organised as government departments, used "normal" departmental accounting procedures, more or less modified to meet their special requirements; they are also due, in some cases, to ignorance of commercial accounting practices among the members of those quasi-judicial organs (such as Courts of Accounts and Comptroller-and-Auditor-General's Departments) which both audit the accounts and prescribe (either directly or by way of advice to the relevant minister) the form in which they shall be kept. Whatever type of auditing body may be employed, the essential thing is that it (or that part of it which is concerned with the accounts of public enterprises) should be staffed by persons who understand the principles of commercial accounting and are given the necessary freedom to apply them. One may add that it should not operate merely as a watch-dog - although this may well be its most essential function - but as an aid to management, by pointing out weaknesses in the internal accounting system, where these exist, and helping the managers of the enterprises to correct them. At the same time, it must sedulously avoid interference in day-to-day financial operations. The application of any kind of "pre-audit" system to a public enterprise can be deadly. It may conceivably prevent certain minor misapplications or misappropriations of funds, but it inevitably cramps the style of management, slows down the operations of the enterprise to a "bureaucratic" crawl, and hence results in the waste of far more resources than it saves.

Here we can do no more than mention this important subject. Further information about it may be found in the "Selected Papers" on Organization and Administration of Public Enterprises (United Nations, New York, 1968, ST/TAO/M36), pages 42-45.

7. <u>The Determination and Control of Production Costs</u>

In public manufacturing enterprise the stimulation of cost-consciousness is of particular importance, since some of the "normal" incentives to keep costs down are weak or even non-existent. The pressure of competition is not always strongly felt, there is no fear of bankruptcy, and - except possibly in "mixed" enterprises, share-holders are not clamouring for the maintenance or increase of profits. Under these circumstances, it is all too easy for a manager to cease to worry about costs, unless he is made keenly aware by superior authority that one of the criteria by which his performance will be judged and his promotion determined is his ability to keep costs down and his determination actively to seek ways and means of reducing them.

In many of the more developed countries, cost-consciousness is an established managerial characteristic. It has been instilled into public enterprise managers through their professional training and is maintained through the application of sophisticated techniques of cost-measurement, as the report from France clearly indicates. In some of the less-developed countries, however, the situation is less satisfactory, since the training of managers is more rudimentary and methods of cost-control are neither sufficiently well-known nor very vigorously pursued. Moreover, managers are sometimes under pressure to increase rather than to reduce costs, as when an enterprise is being used as a "make-work" agency or when it is compelled to purchase its supplies from the more expensive rather than the less expensive sources.

The urgency of cost-reduction, however, does not mean that <u>all</u> methods of reducing costs can or ought to be employed indiscriminately. The under-payment of labour, for instance, can be automatically ruled out - particularly as it is likely to achieve its cost-reducing objectives only temporarily; so, of course, can the reduction of the quality of the goods or services provided to a level unacceptable to the consumer. Either of these forms of cost-reduction will prove, in the long run, to be self-defeating. Other methods must be sought.

Nothing of permanent value can be achieved unless it is based on a serious attempt to identify and attribute costs of production. The development of systems of cost-accounting is essential. Some reference to the use of these in French public enterprises has already been made. Here a more-or-less standard pattern has been introduced, applicable to all undertakings in the public sector. The report from Sweden also makes reference to standardised systems, of which two are commonly employed, viz. the "full cost" method, used in the publicly-owned engineering companies, and the "contribution margin technique" used mainly in the publicly owned processing industries. These, however, are not fully described, and it is to be hoped that more information about them will be provided during the course of the seminar discussion.

Information from the other reporting countries tends to be rather sketchy. Italy, for instance, reports that the manner of determining and classifying production costs in the public sector of manufacturing industry is the same as in the private sector - and so does Argentina. Ceylon and Turkey report that they vary from enterprise to enterprise, while Sudan admits that most of her very new public manufacturing enterprises have not yet introduced a "proper system." In Iraq, "arbitrariness" is gradually being replaced, at least in the 50I enterprises, by more up-to-date and efficient costing systems. India reports that although "process" costing, standard costing and unit costing have been introduced into some of her more efficient public enterprises, there are still great variations of practice.

Clearly, it is necessary, at the very minimum, to have a system for the precise recording of all production costs, both direct (e.g. materials, salaries and wages, fuel etc) and indirect (e.g. insurance, taxes, repairs and maintenance, depreciation etc). On this basis, a classification of costs can be developed, showing absolute amounts and percentages under the several heads for any given line of production over a specified period. Such a classification is essential for the introduction of realistic techniques for cost-control.

The reported means of reducing costs are expectedly familiar: the rationalisation of processes of production, work simplification, improved lay-out, intensified education and training, the standardisation of products, the improvement of control systems, the introduction of shift working, the effecting of savings on overheads and on auxiliary services etc. At this stage, and in the absence of more specific information from the reporting countries, we can do no more than simply catalogue these methods. There are, however, a few other aspects of cost-reduction on which comment may be appropriate, particularly for the benefit of the less-developed countries.

The first is the use of consultants. No-one can doubt that management consultancy firms and agencies provide services of the greatest potential utility. They need to be selected and employed, however, with very great care, particularly if they are <u>foreign</u> firms required to operate in an unfamiliar environment, since transfer of cost-reducing experience from one country to another is invariably fraught with problems. Methods used successfully in developed countries can hardly ever be used with equal success in less developed ones without careful adaptations to the indigenous quality of management, characteristics of the labour force, and general features of the political and social circumstances. As foreign consultants are not always sufficiently [illegible] with these special features, their recommendations may be dangerously irrelevant. There is also the danger of regarding consultancy as a kind of panacea: a "once-for-all" exercise which will correct whatever may be wrong with the enterprise. Unless the personnel of the enterprise receives prolonged training in the use of the new methods and in the techniques of "management engineering," [illegible] "internalised", the likelihood is that the enterprise, after an initial shake-up in which everyone makes a rather half-hearted effort to adapt to the new patterns of prescribed behaviour, will quickly revert to its [illegible]. This experience has been repeated so often that one hesitates to refer to it again. One must do so, however, because there is plenty of evidence that its lessons have not yet been fully learnt.

The second and more specific aspect of cost-reduction we should single out for mention is the curtailing of "administrative" [illegible]. Here, in most of the enterprises in developing countries, [illegible] economy, since the managerial structure is often top-heavy. [illegible] elimination or redeployment of "assistants" who simply duplicate work already being done by their superiors; by boldly decentralising the decision-making [illegible]; by simplifying [illegible]; by [illegible] communications, upwards, downwards and sideways; by [illegible]. All too often, however, the *wrong* kind of economies are made — in the [illegible] of essential staff services, for instance. In the less developed countries, it is often found that the [illegible] departments of [illegible] are weak, understaffed, untrained [illegible]. In these and other fields, *extra* expenditure on trained personnel and improved office machinery may be urgently required to achieve long-term cost-reduction. Indeed, one might generalise the point by saying that *true* economies almost invariably involve some initial outlay, and that a "cheese-paring" attitude towards cost-reduction never pays off.

Thirdly, there is the question of labour costs. The employment of an excessively large work-force is a familiar enough phenomenon. Sometimes, one may admit, it only *appears* excessive, since the productivity of labour is comparatively low and the capital-labour "mix" were heavily biased on the side of labour than in corresponding enterprises in the developed countries. But very often it is really excessive, sometimes as a result of the employment policies imposed on public enterprises by the governmental authorities. This results in two forms of diseconomy. First, the wage-bill of the enterprise is unreasonably inflated; second, the efficiency of the enterprise is reduced as a result of the excessive subdivision of tasks. In the worst possible case, the marginal product of the extra workers is not merely zero but negative. The enterprise is then being used, to its own detriment, as a means of unemployment relief. Clearly, it would be better if the surplus workers were being paid for doing nothing, even if their "wages" remained a charge on the enterprise itself. The political and social reasons, however, make this hardly feasible. The obvious answer is to refrain from embarking on a "make-work" policy, and to look for ways and means of employing the unemployed not in public manufacturing enterprises but in constructional work or in public utility activity and low capital intensity, such as road-building, drainage, soil-conservation and afforestation. But once they have been given work in a public manufacturing enterprise, it is always socially inhumane and sometimes politically impossible simply to "fire" them. The only solution is to rely either on the expansion of the scope of the enterprise's operations or on "natural" wastage or on both to restore the capital-labour balance; in other words, to suspend recruitment of those categories of labour to which past recruitment has been excessive. This, too, may be difficult; but it is a policy for which managers seriously concerned with cost-reduction must press as hard as they can.

Fourthly and lastly, there is the possibility of effecting economies by the reduction of inventories - a suggestion specifically made by the Turkish rapporteur. The holding of excessive inventories is a very expensive practice - and a very familiar one in many developing countries. Yet inventory control is one of those tools of management that has now been reduced to almost scientific principles. The reason for its neglect is partly ignorance of these principles; but not entirely. Whenever supplies are deficient or irregular, managers of enterprises will tend to compete with each other in accumulating stores far in excess of their current or easily-foreseeable needs, as a kind of insurance policy, thereby unproductively locking up much of their capital resources. This is particularly the case when the flow of the relevant commodities is dependent on the vagaries of the government's foreign trade policies, which tend to be determined by the current balance-of-payments situation rather than by the needs of manufacturing enterprises. In these circumstances, of course, one cannot blame the managers; it is the government that has the responsibility for devising some effective "rationing" system. Nevertheless, one must clearly recognise that uneconomic inventory policies are not exclusively the result of external conditions over which management has no control, and that the art or science of inventory-calculation is one that the cost-conscious manager needs to learn.

8. The Determination and Administration of Pricing Policies

No subject is more controversial than the pricing policies that ought to be pursued by public enterprises. In the developed countries - including those with centrally planned economies - it has recently been discussed with considerable vigour. Moreover, the literature it has produced is now very bulky. To deal with it thoroughly, therefore, would involve the writing of a lengthy economic treatise. In a report such as this, all we can do is to indicate some of the alternatives and attempt to classify a great variety of practice.

If, in a "mixed" economy, a public manufacturing enterprise is operating in a fully competitive field, its pricing policies will be dictated to it by the forces of the "market." To make a profit or to "break even" it will have to offer its goods and services to the consumer at prices comparable with those offered by its competitors, quality for quality. If this method of price-determination is regarded as a desirable one, the government will need to take positive steps to preserve the freedom of the market, by preventing the formation of monopolies and forbidding price-fixing agreements and other "restrictive practices", through instrumentalities such as the Monopolies Commission and Restrictive Practices Court in Britain. Moreover, it will have to ensure that its public manufacturing enterprises do not enjoy any privileges, such as open or concealed subsidisation, that are not available to comparable and competitive enterprises in the private sector; likewise it must refrain from imposing on its public manufacturing enterprises, without adequate compensation, unremunerative responsibilities from which the private sector is exempt.

In some of the developed countries reporting for this survey, there is some approximation to these conditions. In France, for instance, it is reported that

> "public manufacturing enterprises fix their prices themselves in exactly the same way as private enterprises and subject to the same reservations (there are, for example, cases in which the Government retains the right to control prices in a given branch of industry, or on rare occasions fixes a price and offers a subsidy as compensation; but these cases are encountered in both public and private enterprises)".

Even those enterprises (other than public utilities) that once had monopoly characteristics are said to be feeling the impact of "the availability of competitive products". Thus,

> "the tobacco monopoly now operates in combination with a growing proportion of imports; the coal mines have been nationalised, but importing is allowed; the explosive materials monopoly is not rigidly maintained and is to be discontinued; and the petroleum monopoly is delegated to private, mixed and public enterprises, all of which compete with one another".

Apart from a few exceptions, therefore, public manufacturing enterprises operate on a competitive basis - one that has recently been considerably widened as a result of reduction to insignificance of customs duties on manufactured goods as between the members of the European Economic Community. "Administered" prices are consequently hardly used except for public utilities, and for these the principle of marginal cost pricing has been more widely applied, since the adoption of the famous "green tariff" by Electricité de France. This principle is intended to reconcile the interests of the enterprise with those of its customers and of the nation as a whole, by encouraging resort to the less costly forms of consumption and thereby ensuring the optimum use of capital equipment and providing a guide-line for the making of the most economical forms of investment.

The French, therefore, have adopted a consistent pricing policy for their public manufacturing enterprises (which does not mean, however, that it is necessarily the best one or can be regarded as exempt from criticism). For most manufacturing enterprises, competition sets the prices, and the freedom of such competition is guaranteed, as far as possible, by legislation which renders liable to prosecution before the courts enterprises "which take advantage of a dominant position to engage in agreed or arbitrary price-fixing". For other enterprises, mostly in the public utility field, where competition is absent or limited, prices are set in accordance with principles that most economists, at least in the mixed-economy countries, have come to consider valid.

In Sweden, the situation is not substantially different. There, "for enterprises working in competition, prices are set according to what the market will take", while "for monopoly enterprises or enterprises that have some sort of price-leadership prices are set to cover costs including a certain profit". How generally marginal cost pricing is used by the latter type of enterprise the Swedish rapporteur does not make entirely clear, but he refers to its use by the State Power Board and "several" other companies. For those undertakings which are run by central administrative boards, as distinct from those that have been given company"status", the government has price-fixing powers, but in most cases it has delegated this right to the undertakings themselves.

Information from Italy on these subjects is somewhat deficient, but the rapporteur strongly emphasises that all the State Shareholding Companies (i.e. those subject to the "IRI formula") must "accept market prices" since they "operate in a competitive market".

In the less developed countries the situation is far less clear. Some of them claim that the pricing policies of some of their public manufacturing enterprises are determined by market forces, and one of them, Ceylon, mentions a particular enterprise, ie. the Ceylon Leather Products Corporation, which engages in free price-competition with analogous enterprises in the private sector. In general, however, the public manufacturing enterprises of these countries enjoy a "sheltered" market, sometimes because they are the only manufacturing enterprises in their particular fields, sometimes because the division of the market among the enterprises, both public and private, has in effect been "frozen" by the operation of an industrial licensing system, sometimes because effective demand so exceeds actual supply that there is a more-or-less permanent "sellers' market". Hence, even though in some cases the enterprises are in theory free to fix their own prices, they must necessarily be guided in doing so by certain rules made for them by higher authority. Such rules, however, are rarely formulated with any precision, and all too often the enterprises are compelled to sell their products at prices somewhat arbitrarily fixed by supervising ministers in the light of conceptions of the "national interest" which tend to fluctuate according to the political fortunes or prospects of the government. (It must not be imagined, however, that such arbitrariness is confined to the developing countries. In Britain, the price policies imposed by ministers on some of the nationalised industries during the 1950s have often, and with considerable reason, been condemned as economically-unjustified and politically-inspired).

Many developing countries report that, as a matter of general principle, prices are determined by adding an unspecified "margin" to average costs. This may be good enough as a rule-of-thumb, provided that a serious effort is being made to keep costs down and that the "margin" is decided in the light of some coherent policy governing the contribution that each class of enterprise is expected to make towards its own expansion and general capital-formation. Others use "import parity" as a standard (i.e. the landed price of comparable goods from foreign sources). This makes some sense only if the price of the imported product has not been already raised, by means of import duties, to a level roughly comparable with the cost of the indigenous product (calculated on an average-cost plus "margin" basis). One country, Iran, reports that the aim of its pricing policy is "stabilisation for the benefit of the consumer" - which suggests, in default of further information, that it may be subsidising its public enterprises in order to sell their products at prices which do not cover the costs of production. Argentina says that it has "no general rules", while Ghana reports "no pricing policies". The fullest and most coherent accounts of what is being done and not being done are provided by India and Ceylon, to which countries we must now give some attention.

The Indian rapporteur, after saying that "price policies of public enterprises are significantly conditioned by the market situation in which they are operating", immediately qualifies this by reference to a "sheltered market" in which "demand exceeds supply for most of the time." Even when there is potential competition, he adds, it often fails to become actual because the government decides to introduce "some system of administered prices". Such a system has been applied, for instance, to the steel, fertiliser and (to some extent) coal industries, and has been justified on the following grounds:

"(a) the relative scarcity of the productions in question;

(b) the desire of the government to prevent the private enterprises in the industry from making what it regards as unreasonable profits;

(c) the anxiety of the government to protect the financial interests of enterprises operating at high capital (or even operational) costs; and

(d) the anxiety of the government to ensure the supply of the products of the industry to users at reasonable prices".

These familiar reasons for the fixing of "administered" prices have frequently been criticised by economists who put their faith in the virtues of a free market. They may well provide the subject for a thorough discussion at the Seminar.

Although, except in a very few cases, there is no mention of price control in the statutes establishing the enterprises, the government does in fact assume the responsibility - either formally, through the application to the enterprises of general price control legislation, or informally, through the giving of "advice" by the ministerial representatives who sit on the Boards. Furthermore, "the general policy announcements by the Planning Commission on price levels "tend to be taken as policy directives" by the enterprises.

As, therefore, inter-enterprise competition is of very limited scope, and as the Government both possesses and uses virtually unlimited powers to fix prices, it might be hoped that some consistent principle would be applied. This, however, does not seem to be the case. In general, prices are fixed "with a view to covering production costs and making a surplus"; but as surplus-making obligations "have not been indicated to the public undertakings in precise terms", their pricing policies "are bound to contain an element of arbitrariness." Furthermore, it is not unknown for prices to be fixed at levels which do not permit the enterprise even to cover its costs of production. Several important enterprises are quoted in the report as having "suffered losses owing to fixation of unrealistic prices", and the management of one of them, Fertilizers and Chemicals (Travancore) Ltd., is reported as saying that "in fixing the prices, the Government usually assumes an ideal attainable capacity with little resemblance to actual achievement".

These practices are under constant criticism, particularly by the auditors appointed by the Central Government, and it is fair to say that in India discussion of the principles of pricing policy proceeds vigorously. As yet, however, no satisfactory solution has been found to the problems inherent in an administered price system.

In Ceylon, the situation is not substantially different. Although public manufacturing enterprises are "free under the law" to determine their own prices, the authorities that decide, de facto, what they shall be allowed to charge for their goods and services are the supervising ministry, the Ministry of Planning and Economic Affairs, and the Cabinet. Hitherto, such decisions appear to have been taken rather arbitrarily. "There have been instances," writes the Ceylonese rapporteur, "where prices of enterprise products have been kept frozen at levels fixed earlier with a view to achieving certain policy objectives sanctioned by the Cabinet." Some progress has been made, however, towards the formulation of principles and the laying down of procedures by which price-fixing decisions should be taken. A Committee reporting in 1966, for instance recommended that the two main aims should be

"(i) a minimum return (after tax) to the Government of at least one per cent above the current borrowing rate of government on the capital and capital reserves; and
(ii) an allocation to capital reserves such as would be adequate, taking the nature of the enterprise into consideration".

It is also suggested that when, for reasons of public interest, the Government wished to diverge from these principles, the minister concerned should communicate to the enterprise his actual proposals in writing, that the enterprise should indicate the estimated financial consequences on its operations, and that, where loss of income was involved, the Minister should seek parliamentary sanction for a subsidy to the enterprise.

These recommendations have not as yet been put into effect, and discussions as to the principles that should inform a rational pricing policy are still in progress. According to the rapporteur, these are likely to be based on the following criteria:

"(a) the level of profitability to be aimed at by the enterprise;

(b) the contribution to revenue to be expected from the enterprise and the development reserves to be credited to self-financing;

(c) the manner in which the earnings of the enterprise should make good any losses to government revenue through import substitution;

(d) the level of operational efficiency and the unit costs which should be taken as a standard for price determination;

(e) the comparative levels of market and c.i.f. prices of the imported equivalents of enterprise products; and

(f) the impact of enterprise prices on other sectors of the economy".

Clearly, these criteria are more complicated than those recommended by the Committee which reported in 1966. Far from "adding up", they may well point in contrary directions and thereby give the government a scope for manoeuvre which advocates of a "strict" pricing policy would regard as undesirable. Nevertheless, it is encouraging to see that Ceylon is making some progress towards the formulation of principles to govern an area of decision-taking where considerable arbitrariness has hitherto prevailed. One may also commend the recommendation to the effect that an enterprise which has had "uneconomic" pricing policies imposed on it should be able to seek compensation by way of a subsidy. This practice, although obviously open to abuse, can have a restraining effect on governments which may be tempted to use their powers of control over their enterprises' prices for purely political purposes. Compensation for the imposition of uneconomic obligations is already used in many countries, both developed, such as Britain, and less developed, such as Uganda.

It has sometimes been suggested that, where "administered" prices are regarded as necessary or unavoidable, the decision as to the levels at which they should be fixed can be "taken out of politics" by being confided to a quasi-judicial tribunal. In former days, Britain made use of such a body, the Transport Tribunal, to control the fares and freights charged by her railway transport undertakings. Prices, however, are ultimately a matter of national economic policy, which is something which cannot be determined by contentious proceedings before a panel of judges.

The "right" price will not automatically emerge from a quasi-judicial balancing of the respective claims of the enterprise and its customers, which is the type of exercise in which a tribunal inevitably tends to perform, even though it may not be specifically enjoined to do so. It is not surprising, therefore that, with one possible exception, none of the reporting countries makes use of this device. The possible exception is Ghana, whose rapporteur indicates the existence of a price tribunal for public enterprises; it is not clear, however, whether this is something different from the Price Control Unit of the Ministry of Trade, which presumably plays an expert advisory rather than a quasi-judicial role.

On the other hand, there is everything to be said for the establishment of bodies with the duty of keeping prices under review and of making recommendations to the relevant decision-taking authorities, particularly if such bodies are staffed by persons adequately trained in the relevant branches of economics. Such bodies can help the government to develop coherent and consistent pricing policies and thereby reduce the element of arbitrariness in the decision-taking process. There is, in fact, a very strong case for insisting, by law, that the minister to whom approval of the prices proposed by the enterprise is confided should be compelled to seek the advice of such a body and publicly to state his reasons if he decides to reject or alter its recommendations. Whether this proviso is included in the law or not, there is now ample evidence of the value of central agencies for price-investigation. Britain has her Prices and Incomes Board, France her Technical Committee on Price-Fixing, and Sweden her National Price and Cartel Office - bodies very differently constituted and empowered, but all concerned with investigation and recommendation. Such expert bodies are almost certainly to be preferred, for most countries, to "mixed" ones, such as the Italian Interministerial Committee on Prices, in which the politicians outnumber the experts by 10 to 3.

In the last resort, of course, an "administered" price is a matter of <u>judgement</u>, since a government running a mixed economy has imperfect knowledge of the impact of a whole number of exogenous factors which ought to be influencing its decisions. In this respect, it is in a very different position from the government of a centrally-planned economy - particularly if such an economy is relatively self-contained. Ideally, if not always in reality, the latter kind of government has all the factors under its own control. Even when such control is reasonably complete, however, there will remain a conflict of objectives which somehow has to be resolved; for there are very few public enterprises, even in the field of manufacturing industry, which have not been given wider social objectives as well as the latter clearly have to be taken into consideration when deciding price policies; but the ever-present danger is that they will be used as excuses for bad policies rather than as reasons for good ones. Hence the importance of at least starting the price-fixing exercise by the most rigorous application of the best economic principles that are currently available. In the opinion of most "western" economists, these are summed up in the phrase "marginal cost pricing" - although there is still plenty of controversy about the techniques of calculating marginal costs, about the precise circumstances that warrant the application of the short-term as distinct from the long-term marginal cost principle and vice versa, and about the modifications that may have to be made, particularly if it is decided that full accounting costs also have to be covered. The use of such pricing policies, as is well known, is impossible unless the right kind of accounting information is available to properly-trained accountants. One would therefore hesitate to recommend it for immediate adoption by the less developed of the mixed-economy countries. Nevertheless, it should certainly be seriously studied by them, with a view to possible future adoption.

9. Profitability and Efficiency

Profit policies are hardly less controversial than pricing policies, to which they are obviously closely related. Most of the countries reporting for this survey, taking their lead from the questionnaire, consider the profits of public manufacturing enterprises from two separate points of view. The first concerns the validity of profit making and the uses to which profit should be put. The second concerns the appropriateness of regarding profitability as a measure - or as one possible measure - of operational efficiency.

Official policies on profitability show extremely wide variations from one country to another. Among the countries reporting that their manufacturing public enterprises are not required to show a profit on their operations are Argentina, Greece, Iran, and Sudan - although they do not always make clear precisely why they regard profit-making with comparative indifference. Iran once again emphasises the importance she attaches to price stabilisation, which may be incompatible with profitability and inevitably is so if the general economic situation is characterised by inflation. Sudan says that "self-sufficiency" is the fundamental aim of her industrial policy, which means that profit-making, although not the "ultimate goal", is certainly not ruled out as a subsidiary one. Argentina, in saying that profit-making is not a "basic requirement", likewise suggests that profits may be by no means unwelcome.

Of the other reporting countries, France states her policy most clearly on this subject, as on others. Profits in French public manufacturing enterprises, we are told, are the result of efficiency in production for a competitive market, and are normally required of them for the financing of expansion. Sweden reports that long-run profit-maximisation is the goal of her public manufacturing enterprises that operate under competitive conditions. Italy follows the criterion of "economicità", requiring her enterprises to remunerate at current rates of interest that portion of their capital which is raised from a competitive market. (The enterprises' "endowments funds", however, are rarely so remunerated "because of the costs the managing agencies have to stand in pursuing public objectives".) In Turkey, by Law 440, profitability is declared "essential"; in Iraq, it is normally fixed at 10 per cent "of the total cost of the products"; in Ceylon it is "required" and in Ghana "expected". India, under her Five Year Plans, expects public manufacturing enterprises to yield, <u>in toto</u>, a given sum (e.g. Rs.4,500 million during the Third Five Year Plan) towards the capital resources required for plan fulfilment.

The variety of attitudes thus illustrated is by no means an entirely random one. It reflects, for instance, a distinction similar to that we have already noted between the developed "mixed" economy countries and the less developed ones. In France, Italy and Sweden, public manufacturing enterprises are subject to the "discipline" of competition; their profitability, therefore, is not only expected but taken as at least a rough-and-ready measure of their efficiency. Elsewhere, competitive conditions are either non-existent or extremely imperfect, particularly in those lines of production in which public manufacturing enterprises tend to specialise; profitability, therefore, is neither correlated with efficiency nor regarded as a means of measuring it. Where expected, it is deliberately planned for as a means of providing self-generated resources for enterprise expansion and re-equipment or as a contribution to general capital-formation in the total national economy.

There is also a very broad and imperfect distinction between those countries which have extensive systems of public manufacturing enterprises and those which, either because they rely more heavily on the private sector or because their industrial development is still in its early stages, have comparatively limited ones. The former group, which includes India and Turkey, necessarily regard the generation of surpluses by their enterprises as an important means of economic growth; the latter place less emphasis on this objective. In Greece, for instance, surpluses accruing from the operations of public manufacturing enterprises can hardly be more than marginal in their effect on the total economy, while for Sudan the immediate objective is the initial establishment of enterprises which can lead to greater industrial self-sufficiency, irrespective of their profitability, at least in the short term.

Where profit is not the more-or-less automatic result of success in competition, it has to be planned for, by the enterprise itself or by the public authorities or by both, through a process of consultation and collaboration. Here, again, practices differ, depending, at least, partly on the extent to which the profits of the enterprises enter as important elements into the resource-calculations made for the national economic plan. Only Ghana, where "financial planning is very elementary", whether at the enterprise level or the national level, reports that there are virtually no profit-targets. In Argentina, Ceylon, Iran and Sudan, the targetting is undertaken by the enterprises themselves - and Turkey, rather surprisingly, also reports that this is her standard practice. Iraq has the rather curious system by which one group of enterprises (i.e. those directly under the control of the government) have their profit-targets set by the national plan, while another group (i.e. those dependent on the "holding company" known as the State Organisation for Industry) set their own. However, the distinction between the two different kinds of arrangement for profit-targetting should not be very strongly emphasised, for it must be remembered that, to a considerable extent, expected profitability is closely related to investment and pricing policies, in respect of which the enterprise is rarely if ever endowed with autonomy. Hence, even when the enterprise is left free to plan for the realisation of a particular level of profit, it does so within economic parameters stringently determined or at least powerfully influenced by the public authorities.

Of all the countries reporting for this survey, India is the one where the government concerns itself most seriously with the profits that its public manufacturing enterprises are expected to realise. The Third Plan, as we have seen, sets an overall target of Rs. 4,500 million, while the Fourth Plan - which is at present in the course of reformulation - specified that enterprises should aim at a rate of return of 11-12 per cent per annum on their capital. According to the Indian rapporteur, however, these targets have been fixed too generally, too arbitrarily, and without sufficient consultation with the enterprises themselves. This has led the Indian Committee on Public Undertakings (which is an evaluatory body comparable in function with the British Select Committee on Nationalised Industries) to make the following observations:

"The Committee regret the manner in which the assessment of surpluses from the public undertakings has been made for the Third Five Year Plan and feel that such assessment of surpluses is unfortunate as it raises hopes which cannot be fulfilled and exposes the undertakings to public criticism. The Committee trust that while making provision in the Fourth and subsequent Plans the estimates of surpluses from public undertakings would be made on a realistic basis and in consultation with them."

We ourselves would underline the guidance of these observations. Indeed, it would seem that an overall target for the profits to be realised by public enterprises is not very meaningful unless it represents an aggregate or average of the individual targets for each of the enterprises, which can be realistically formulated only by a process of close consultation with the managements of the enterprises themselves, who alone can say what is possible and what is unrealisable in the conditions under which they are required to conduct their operations.

It may be usefully added, for the sake of the record, that whereas certain countries appear to be little concerned with the profitability of their public manufacturing enterprises, and others - the majority - expect them to make profits or hope that they will do so, none accept, as a general rule, the so-called "break even" policy. This policy was originally written into certain of the British "nationalisation" laws, which required the newly-nationalised industries to bring into balance their receipts and expenditures on current account, "taking one year with another". Ambiguous in meaning and unenforceable as an injunction, it has been de facto abandoned even in the country of its origin, and there are now few who would seriously recommend its general adoption, particularly for public manufacturing industries - although it may have its merits, in particular circumstances, for public utilities. Of the reporting countries, only Greece suggests that their enterprises normally operate on the break-even principle; they do not, however, say that they are required to do so, nor that breaking-even has any particular virtue, except as a financial out-turn which is regarded as preferable to the making of a loss.

When losses are registered by public manufacturing enterprises, they may be covered by a great variety of methods, all of which receive illustration from the countries reporting for this survey: straightforward subsidisation from national budgetary funds; the granting of a loan, sometimes interest-free; the waiver of service charges on outstanding loans or the declaration of a moratorium on loan-repayments; the use of the enterprise's own reserves; the raiding of its depreciation funds. It is impossible to say, except in relation to particular circumstances, which of these methods is to be preferred in relation to others. There are, however, certain principles which may be recommended with some confidence.

Much depends on the precise reason for the loss. In some cases, as we have seen, it is the result of deliberate government policy. For social or political reasons, the government may have refused the enterprise permission to charge prices that will enable it to cover its costs of production, or have imposed upon it loss-making obligations which "put it in the red" in respect of the totality of its operations. In such cases, open subsidisation, however arranged, is invariably the best method of covering the loss. Such subsidisation, however, needs to be calculated with great care, since the enterprise (and sometimes the government itself) may be under strong temptation to attribute to extraneous factors losses which are in fact the result of managerial inefficiency. We would therefore suggest that the circumstances under which subsidisation may be legitimately employed and the techniques that may be used for the calculation of its amount are subjects to which the seminar ought to pay careful attention.

If an enterprise is expected to pay its way, but fails to do so for reasons unconnected with any directives it may have received from the government, then the use of the grant or even of the interest-free loan is normally an inappropriate method of covering its losses. One must, of course, make due allowance for the enterprise with a lengthy maturation period, which may have been allocated to the public sector precisely for the reason that, during its first years of operation, it will inevitably be loss-making. A large number of public manufacturing enterprises initiated by the less developed countries do indeed fall within this category, and proper financial provision has therefore to be made for their "running-in" period. If the project analysis has been adequately done, however, the expected yield on invested capital is no more than delayed. The enterprise, therefore, is entitled to a moratorium on rather than a waiver of the financial obligations it would normally incur. Hence the appropriate way of covering losses is to make a loan on which interest-payments and amortisation instalments are deferred for a number of years. Admittedly, this is a counsel of perfection, and it may well be that circumstances will compel the government eventually to write off the charges, as a result of the inability of the enterprise to meet them, and thus in fact convert the loan into a grant. It may even be - as has been the case with some of the British nationalised industries - that some portion of the enterprise's original capital will have to be written off. But these are measures to be used only in the last resort, when all else has failed; for if the enterprise starts its life in the expectation that a solicitous government will provide it with "easy" money to cover any losses it may incur, its incentives to improve its efficiency and to achieve profitability will be reduced to a very low level. In this context, the

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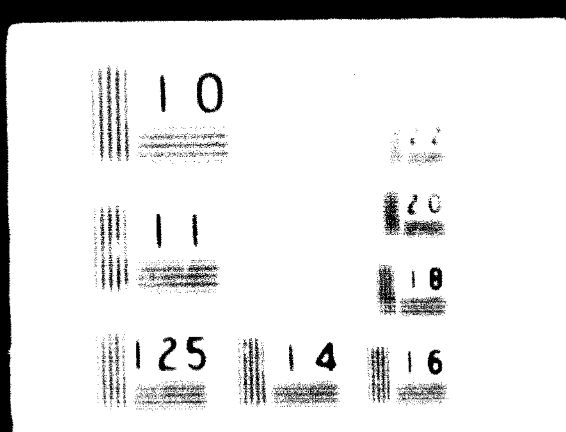

We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.

terrible example of a number of Nigerian enterprises that recklessly squandered funds made far too easily available to them by the Produce Marketing Boards should never be forgotten.

The raiding of depreciation funds is also a loss-covering device not to be recommended, except as a strictly temporary measure; for if it is continuously resorted to, the financial affairs of the enterprise will become more and more confused, and eventually its soundness as a commercial entity completely undermined. The use of reserves, however, falls into a different category, since the covering of temporary losses is one of the purposes for which the accumulation of reserves is intended. In the developed countries, such as France, losses are normally met in this way, with the exception of those which arise from the slow maturing of a project or from the need for its radical reconstruction. But it is obvious that reserves have to be created before they can be used, and the ability of an enterprise to have recourse to this method is in itself evidence that it has already achieved a considerable financial success.

When an enterprise makes a net profit, the question of its disposition arises. We have already devoted some attention to this, and in particular have quoted from the Argentinian decree providing for the division of the enterprise's profits as between different purposes. Other countries use similar formulae, sometimes of rather remarkable complexity. In Iraq, for instance, the manufacturing enterprises under the control of the State Organisation for Industry (SOI) are required to operate the following scheme:

> "After deducting 25 per cent of the net profit of the enterprise for expansion purposes, the balance will be taxable, if it exceeds the yearly allowance for the first ten years of its profitable operation. After deducting the income tax, the remaining balance of the net profit, which is called 'ready-for-distribution' profit, has to be distributed according to the law as follows:-
>
> (1) 25 per cent ... is allocated to the employees (management and workers) ... as follows:
>
> (a) 10 per cent ... in cash ..., according to the number of their working days and the income they received during the year the profit was realised, on the basis of 50 per cent for the working days ... and 50 per cent for the income received ...;
>
> (b) 5 per cent ... to the social services and housing projects for the employees of the enterprise;
>
> (c) 10 per cent ... to the central and common social services and housing projects ... of the SOI companies.
>
> (2) The remaining 25 per cent of the ... "ready-for-distribution" profit has to be transferred to the SOI headquarters to be distributed as follows:-

(a) An interest [illegible] paid by the [illegible] of the nationalised companies;

(b) Of the remaining balance - (i) 30 per cent to the redemption of these bonds; (ii) 30 per cent to the national budget; and (iii) the remaining 40 per cent to the expansion of the SOI's existing projects or to the establishment of new projects".

Such a scheme (some of the complexities of which are inherent in the "two-tier" structure of the SOI Group) has certain manifest advantages. There is no doubt about the manner in which profits are to be distributed, and consequently their purely "political" use is ruled out, so long as governments and managements treat the law with respect. In particular, the government is inhibited from using its successful public manufacturing enterprises as sources for the replenishment of its general revenues, except to the extent that their profits are subject to taxation. Furthermore, both managers and workers are given - or appear to be given - incentives to the achievement of greater efficiency and higher productivity. On the other hand, the scheme would seem to have a degree of rigidity which might well prove difficult to reconcile either with coherent national economic planning or with the periodical adjustment of the distribution of investment resources made necessary by changing economic circumstances. One might suggest, therefore, that the scheme's actual operation will need to be studied carefully in order to judge whether it does not unduly tie the hands of both governments and managements.

At the other end of the scale is India, which has no "clear and specific methods" for the distribution of the profits generated by its public manufacturing enterprises. In practice, most of the enterprises "have been ploughing back their profits in the form of various reserves, e.g. general reserve, development rebate reserve, etc.", as the following figures, relating to the distribution of a net profit of Rs 299.4 million generated by 43 central government concerns in the year 1966-67, clearly show:

Appropriation	Rs. million	
(1) Central and other Reserves	155.3	
(2) Development Rebate Reserve	72.6	
Less transfers from reserves	3.1	
		224.8
(3) Dividends		
(i) for the year 1966-67	73.4	
(ii) for the previous year	0.7	
		74.1
		298.9
Balance carried over		0.5
		299.4

Such flexibility, of course, [illegible] short-term adjustment of the national economy; but it is also open to abuse by governments less responsible and development-minded than the present Government of India, and does not embody any system of "incentives" that might guarantee rewards for managers and workers who make special efforts to achieve the targets they have been set.

Other countries without laws for the regulation of profit-distribution report varying practices. [illegible] enterprises, for instance, normally retain their profits but "sometimes" pay "some" of them into the Treasury. The [illegible] enterprises use their profits, apparently in accordance with a series of *ad hoc* decisions by the government, for repayment of capital, payment of dividends, and transfers to reserves.

There is also a group of countries, [illegible] reporting for this survey, that specify by law the distribution of certain portions of their enterprises' profits but leave the remainder to be used as the enterprise or the government sees fit. In some cases, the law confines itself to setting the principles upon which bonuses shall be allocated to managers and workers. In France, for instance, the Act of 17 August 1967 on "Participation by Workers in Gains through Expansion" obliges enterprises with more than one hundred employees to pay their employees a sum calculated in the following way:

> " The company tax plus an additional 5 per cent, representing the return on the capital invested by the enterprise itself in France, are deducted from the taxable profit. Then the adjusted profit is multiplied by a coefficient, equal to the ratio between 'wages and salaries paid out and value added' and reflecting the share of labour in the creative activity of the enterprise. Half of the amount calculated in this manner is distributed among the employees in proportion to their salaries (but it may not exceed a yearly profit-sharing ceiling of 7,000 francs, or about $1,400)."

In other cases, the law makes general provisions for reserve-creation and debt-redemption. Swedish companies, for instance, are required to contribute 10 per cent of their profits to reserves until the reserve fund is equal to 20 per cent of the shareholders' capital, and to use a further 10 per cent for debt redemption so long as outstanding debts are greater than total equity capital. The remaining profits are used for reinvestment or for the payment of dividends to the state, in accordance with decisions taken by the managements of the companies themselves. Ceylon has a simpler system, which leaves the widest possible discretion to the relevant minister, acting on the advice of the enterprises' managements. According to the Industrial Corporations Act of 1957, "That of [illegible] shall, with [illegible] ... [illegible] ... such be [illegible] with [illegible] ... [illegible] shall with the [illegible] of the Minister of Finance, be [illegible] to the [illegible] [illegible] ...ion".

There are [illegible] countries which, while not having [illegible] legal regulations for the distribution of profits, apply [illegible] to all enterprises falling within [illegible] sector, or embody [illegible] provisions within each enterprise's constituting law. Turkey is an [illegible] - although she also has a law (No. 440) which, among other things, "foresees [illegible] of [illegible] dividends from the net profits to the personnel [illegible] in increasing the productivity" of labour at the economic enterprises. In Italy, the matter is entirely decided by the [illegible] to the management agency concerned. The IRI, for instance, is required by its own law to contribute 20 per cent of its profits to a reserve fund, 15 per cent to vocational training, [illegible] training, and technical and social assistance, and 65 per cent to the State Treasury.

The above analysis illustrates the enormous variety of practices governing profit distribution. Circumstances differ so widely that it would be foolhardy indeed to recommend any one system, or even group of systems, as the best. We shall therefore confine ourselves to stating four general principles which, in our view, should as far as possible be universally observed. Firstly, the pattern of profit-distribution should be thought out in advance, and not left to a series of purely ad hoc decisions. Secondly, it should not be so rigid as to inhibit distribution in a manner compatible with the requirements of the national economy as a whole. Thirdly, it should give the maximum practicable freedom to the managements of the enterprises and contain provisions designed to provide both managers and workers with financial incentives for the improvement of their performance. Fourthly - and perhaps most importantly for the less developed countries - it should ensure that the highest possible proportion of the enterprise's profits should be either "ploughed back" or used for purposes of general capital-formation. We are aware, of course, that these principles are by no means complementary; indeed, they may frequently come into acute conflict with one another. What we are saying is simply that they should all be borne in mind by those who are entrusted with the making of decisions on this important subject.

As to the actual effect of profits policy on the morale of both managers and workers, one must make a distinction between (a) the general effect deriving

[illegible]

[illegible] ... efficiency. Such a situation, [illegible], prevails in the less developed countries. Both managers and workers, therefore, may be living in a fool's paradise. Indeed, profit which has been obtained as a result of no particular effort may induce complacency rather than stimulate initiative. As for management's freedom to use the profits that it makes – or [illegible] significant proportion of them – for its own self-determined purposes, there is a general opinion – which we, on *a priori* grounds, are inclined to endorse – that the greater the freedom accorded, the higher will be the morale. This view is endorsed by at least one of the countries reporting for this survey, Ghana, whose rapporteur says that the practice of paying total net profit to the national Treasury is "very much criticised by management". This is a matter, however, which requires further empirical investigation. Clearly, managers cannot be accorded total freedom to dispose of their net profits. If an enterprise is not scheduled for further expansion, it would be simply foolish to allow them to pursue an indiscriminate policy of "ploughing back"; such a course would simply restrict the possibilities of capital-formation in those areas where it was really required, and would be incompatible with coherent national economic planning. On the other hand, it would at least seem to be inimical to managerial morale if all the fruits of success were arbitrarily taken away by higher authority, to be used – perhaps – for purposes which seemed to the managers themselves to be of comparatively low priority. Perhaps the key word here is "arbitrarily", and it may be that what managers really want is not the right to dispose of the profits they have made but to be *seriously consulted* about the disposition of such profits. There is

[illegible]

[illegible]

[illegible] in some of the [illegible]

Much [illegible], [illegible] productivity and [illegible] individual and collective; [illegible] to measure [illegible] productivity and [illegible] for it. S[illegible] the simpl[illegible] is the method of piece-work [illegible]; [illegible] upon the nature of the enterprise's [illegible] form of remuneration, which differ[illegible] from country to country and from industry to industry. In some of the [illegible] countries, productivity bonuses of various kinds are paid *in addition* to profit-based bonuses. The French [illegible], for instance, have both profit-sharing schemes and "output" bonuses, individual and collective. Ir[illegible] supplementation [illegible] fully-[illegible] profit-sharing plan by what it describes as "additional remuneration for meritorious performance"; but does not explain precisely how "merit" is measured. What is obvious is that there is plenty of room for fruitful experiment and for interchange of different national experiences in this field.

[illegible]

[illegible]

[illegible] Different [illegible] methods. [illegible] countries, [illegible] on the [illegible] Lack [illegible] however, [illegible] within [illegible] particular country, [illegible] for comparing [illegible] performance [illegible] different [illegible].

[illegible] efficiency of the [illegible]

[illegible] which they [illegible]

[illegible]

[illegible]

[illegible]

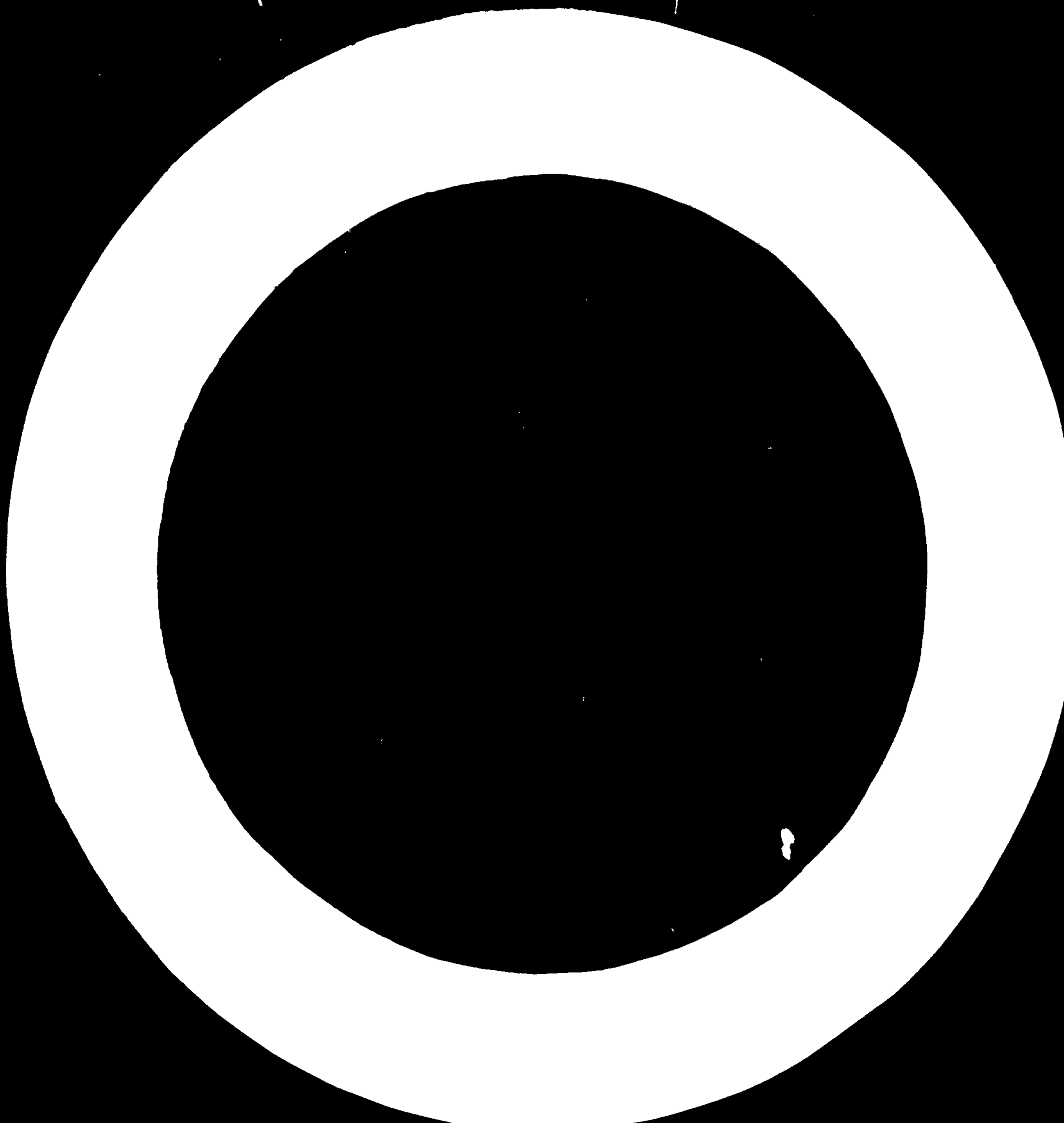

TABLE I

Relative Shares of Public and Private Sector Employment in the National Economy

PERIOD	COUNTRY	PUBLIC SECTOR		PUBLIC SECTOR Total	PRIVATE SECTOR Total	TOTAL
		Central Government	Public Enterprise			
[illegible]-63 *	Argentina	17.	[illegible].1	[illegible]	7[illegible].	100
1960-66	Ceylon	[illegible].0	1.3	[illegible]	[illegible]	[illegible]
1966	France	11.0	7.0	1[illegible].0	[illegible].0	100
1960-66	Ghana	3.0	5.0	[illegible].0	[illegible].0	100
1960-65	Greece	4.4	1.4	[illegible]	[illegible]	100
	India	n.a.	n.a.	n.a.	n.a.	
1960-66	Iran	n.a.	n.a.	9.0	[illegible]1.0	100
	Iraq	n.a.	n.a.	n.a.	n.a.	
1965-66	Italy	[illegible].1	5.[illegible]	[illegible]	[illegible]	100
	Sudan	n.a.	n.a.	n.a.	n.a.	
1965	Sweden	n.a.	n.a.	[illegible].0	7[illegible]	[illegible]
	Turkey	n.a.	n.a.	n.a.	n.a.	
	U.S.S.R. **					

* Signifies average for stated period, e.g. [illegible]60-6[illegible]

** Centrally planned economy: no private sector

TABLE 11

National Gross Fixed Investment by public and private sectors

PERIOD	COUNTRY	PUBLIC SECTOR		PUBLIC SECTOR TOTAL	PRIVATE SECTOR TOTAL	TOTAL %
		General Government	Public Enterprise			
				%	%	
1960–6[illegible]	Argentina	n.a.	n.a.	[illegible]	[illegible]	100
1960–66	Ceylon	27.[illegible]	15.0	[illegible]	[illegible]	100
196[illegible]	France	[illegible]	[illegible]	3[illegible].8	[illegible]1.2	100
1960–6[illegible]	Ghana	[illegible]	[illegible]	67.[illegible]	[illegible]	100
1960–65	Greece	1[illegible].6	14.6	[illegible]	[illegible]	100
1960–61 1961–62	India	[illegible]	[illegible].4	[illegible].7	[illegible]7.3	100
1960–6[illegible]	Iran	[illegible]	n.a.	[illegible]	[illegible]	100
	Iraq	n.a.	n.a.	n.a.	n.a.	
[illegible]	Italy	[illegible]	1[illegible].2	34.	[illegible]	100
[illegible]	[illegible]	[illegible]	n.a.	70.	[illegible]	100
[illegible]	Sweden	n.a.	n.a.	[illegible]	[illegible]	100
[illegible]	Turkey	[illegible]	17.[illegible]	[illegible]	[illegible]	100
	[illegible]*					

** [illegible]lly planned economy: no private sector.

The contribution of [illegible] sectors to Gross [illegible]

PERIOD	COUNTRY	[illegible]		[illegible]	[illegible]	[illegible]
		[illegible]	[illegible]			
[illegible]	Argentina	..	..	[illegible]	[illegible]	
1960-66	Ceylon	15.0	[illegible]	[illegible]	[illegible]	[illegible]
1966	France	[illegible].8	10.[illegible]	[illegible]	1.[illegible]	[illegible]
1960-66	[illegible]	1[illegible].[illegible]	10.0	[illegible]	[illegible]	[illegible]
1960-65	Greece	9.[illegible]	[illegible]	[illegible]	4.7	[illegible]
1960-61 1965-66	India	5.7	[illegible]	[illegible]	[illegible]7.[illegible]	[illegible]
1960-66	Iran	n.a.	n.a.	[illegible]0.[illegible]	80.[illegible]	[illegible]
	Iraq	n.a.	n.a.	[illegible]	n.a.	
1965-66	Italy	[illegible].6	1[illegible].3	[illegible]	[illegible].1	[illegible]
1961-66	Sudan	n.a.	n.a.	n.a.	n.a.	
1965	Sweden	n.a.	n.a.	[illegible]	71.[illegible]	[illegible]
	Turkey	n.a.	n.a.	n.a.	n.a.	
	U.S.S.R.*					

* Centrally planned economy: no private sector

Comparative [illegible] and investment to Gross [illegible] Public and Private sectors

PERIOD	COUNTRY	[illegible] Public Sector %	[illegible] Private Sector %	INVESTMENT Public Sector %	INVESTMENT Private Sector %	CONTRIBUTION TO G.N.P % Public Sector	CONTRIBUTION TO G.N.P % Private Sector
[illegible]	Argentina	[illegible]	7[illegible].1	[illegible].1	[illegible]	1[illegible].2	66.8
[illegible]	Ceylon	[illegible]	[illegible]	[illegible]	[illegible]	20.5	79.5
[illegible]	[illegible]	16.0	84.0	[illegible]	61.2	19.0	81.0
[illegible]	Ghana	8.0	92.0	67.0	33.0	22.0	78.0
[illegible]	Greece	5.5	94.[illegible]	30.[illegible]	6[illegible].8	15.3	84.7
[illegible]	India	n.a.	n.a.	52.7	47.3	12.2	87.8
[illegible]	Iran	9.0	91.0	35.0	65.0	20.0	80.0
	Iraq	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
[illegible]	Italy	14.5	85.5	34.[illegible]	65.[illegible]	24.9	75.1
[illegible]	Sudan	n.a.	n.a.	70.[illegible]	29.[illegible]	n.a.	n.a.
[illegible]	Sweden	22.0	78.0	44.0	56.0	29.0	71.0
[illegible]-67	Turkey	n.a.	n.a.	[illegible]	46.5[illegible]	n.a.	n.a.
	U.S.S.R.*						

* Centrally planned economy: no private sector

TABLE V

Analysis of public sector contribution to gross national product in terms of employment and investment

PERIOD	COUNTRY	[illegible]		[illegible]		CONTRIBUTION TO G.N.P.	
		General Govt.	Pub.Ent. [illegible]	General Govt.	Pub.Ent. [illegible]	General Govt.	Pub.Ent. [illegible]
[illegible]	Argentina	17.[illegible]	[illegible]	n.a.	n.a.	8.4	4.8
1960-66	Ceylon	8.0	1.3	27.0	15.0	18.0	2.5
1966	France	11.0	7.0	14.0	24.8	8.8	10.2
1960-66	Ghana	3.0	5.0	26.0	39.0	12.0	10.0
1960-65	Greece	4.4	1.4	15.6	14.0	9.8	5.5
1960-61) 1961-62)	India	n.a.	n.a.	13.3	8.4	5.7	6.5
1960-66	Iran	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Iraq	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1965-66	Italy	9.1	5.4	15.6	19.2	12.6	12.3
	Sudan	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1965	Sweden	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1963-67	Turkey	n.a.	n.a.	35.94	17.55	n.a.	n.a.
	U.S.S.R.*						

* Centrally planned economy: no private sector

TABLE VI

Distribution of persons employed in the various sectors of Public Enterprise.

Period	Country	Manufacturing	Agriculture and Forestry	Mining	Construction	Electricity Gas and Water	Transport & Communications	Others	Total
1965	Argentina %	24,249 6.8	-	26,850 7.5	-	48,52[illegible] 13.6	256,[illegible] 72.[illegible]		356,493 100.0
1966	" %	2[illegible] 7.4	-	28,716 8.0	-	50,544 14.[illegible]	25[illegible] 70.[illegible]		358,882 100.0
1965	Ceylon %	[illegible],998 7.8	1,636 1.4	-	3,000 2.6	[illegible],434 4.[illegible]	93,[illegible] 81.4	2,[illegible] 2.[illegible]	115,004 100.0
1966	" %	1[illegible],457 8.[illegible]	2,147 1.7	-	6,880 5.4	5,650 4.4	99,[illegible] 78.[illegible]	2,[illegible] 2.2	127,037 100.0
1966	France %	183,000 12.8	18,500 1.3	179,800 12.9	5,000 0.3	156,000 11.0	[illegible] 51.5	147,[illegible] 10.2	1,428,600 100.0
1965	Ghana[2] %	1[illegible],500 -	n.a. -	15,000 -	n.a. -	5,000 -	n.a. -	n.a. -	n.a. -
1966	" %	12,500 -	n.a. -	12,500 -	n.a. -	5800 -	n.a. -	n.a. -	n.a. -
1965	Greece %	5,47[illegible] 15.2	-	-	-	15,284 42.5	15,200 42.3	-	35,959 100.00
1966	" %	[illegible] 15.[illegible]	-	-	-	15,165 42.2	15,400 42.8	-	[illegible] 100.0
	India	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1965	Iran %	[illegible] 52.[illegible]	[illegible],400 1.[illegible]	-	1,400 1.0	18,200 11.4	42,400 26.5	1,000 0.6	16[illegible] 100.0
1965	Iraq %	131,000 [illegible]	783,000[3] 47.5	-	61,000 3.[illegible]	-	270,000[3] 16.5	398,000[4] 24.[illegible]	1,645,000 100.0
[illegible]	Italy %	258,000 27.[illegible]	n.a.	n.a.	n.a.	81,000 8.5	480,000 50.5	133,000[5] 14.[illegible]	952,000 100.0
[illegible]	" %	264,[illegible] 27.[illegible]	n.a.	n.a.	n.a.	81,000 8.5	495,[illegible] 50.[illegible]	134,[illegible] [illegible]	98[illegible] [illegible]
[illegible]	Sudan %	1,50[illegible] 2.[illegible]	18,[illegible] 25.[illegible]	-	-	3,[illegible]4 5.5	37,290 55.[illegible]	[illegible] 2.[illegible]	67,[illegible] 100.0
[illegible]	" %	5,404 7.5	18,[illegible] 25.[illegible]	-	-	4,2[illegible] 5.5	38,[illegible] 53.[illegible]	[illegible] [illegible]	71,229 100.0
[illegible]	Sweden %	21,464 11.[illegible]	8,[illegible] 4.5	7,[illegible] 3.8	n.a. n.a.	8,7[illegible] 4.[illegible]	133,341[6] 68.5	14,[illegible] 7.5	194,707 100.0
[illegible]	" %	21,[illegible] 11.[illegible]	[illegible] 4.4	7,2[illegible] 3.7	5[illegible] [illegible]	8,784 4.5	134,120[6] 68.[illegible]	15,047 7.5	195,965 100.0
1965	Turkey	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	299,200
1966		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	317,000
1965	[illegible][7]	[illegible]	[illegible]	n.a.	n.a.	[illegible]	8	25	100.0
1966	"	[illegible]	[illegible]	n.a.	n.a.	-	8	25	100.0

1. Includes a total of [illegible] employed in Financial Institutions. French national accounts treat [illegible] as intermediaries which have no part in the gross national product except in respect of their earnings and net consumption.
2. Actual numbers employed in categories given. Other figures not available.
3. "Estimate" figures; their reliability is therefore questionable.
4. Includes "[illegible] employees of the governmental and semi-governmental sectors".
5. Includes Banking but excludes Postal Bank (i.e. postal current account service) and Insurances.
6. Includes also the Postal Bank (Number of employees in 1965 was 5,[illegible]).
7. Figures available in percentages only.
8. Includes "Construction"
[illegible] many countries used the [illegible] without giving the precise meaning for

TABLE VII

Investment distribution in the various sectors of Public Enterprise.

Period	Country	Manufacturing	Agriculture and Forestry	Mining	Construction	Electricity Gas and Water	Transport & Communications	Others	Total
1965 %	Argentina	10,705 9.0	-	26,043.5 23.0	-	45,253.8 40.0	31,992.6 28.0	-	113,994.9 100.0
1966 %	do.	8,927.6 8.0	-	28165.6 24.0	-	44,616.2 38.0	34,884.7 30.0	-	116,507.1 100.0
						(million Argentine pesos)			
1965 %	Ceylon	[illegible] 26.4	36,605 2.7	-	3,509 0.3	414,093 31.0	490,861 37.0	87,652 9.0	1,33[illegible],697 100.0
1966 %	do.	342,561 24.5	39,264 2.8	-	12,690 0.9	39[illegible],812 28.3	511,651 30.6	95,612 9.9	1,397,550 100.0
						(Ceylonese Rupees)			
1964 %	France	1,810 6.7	60 0.2	1,050 3.9	4,680 17.4	11,270 41.8	7,340 27.1	1,000[1] 3.7	27,000 100.0
						(thousand million francs)			
1965 %	Ghana[2]	548 -	n.a. -	231 -	n.a. -	22,552 -	n.a. -	n.a. -	n.a. -
1966 %	do.	9,355	n.a.	622	n.a.	14,559	n.a.	n.a.	n.a.
						(thousand [illegible])			
1965 %	Greece	265.3 5.8	-	-	-	3,183.5 69.9	1,104.0 24.3	-	4,552.8 100.0
1966 %	do.	434.3 10.0	-	-	-	2,945.0 67.8	967.0 22.2	-	4,346.3 100.0
						(million drachmas)			
	[illegible]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1965 %	Iran	177,100 89.6	2,400 1.2	-	1,500 0.8	12,000 6.0	3,000 1.6	1,500 0.8	197,500 100.0
						(Iranian Rials)			
1965 %	Iraq	14,701 29.9	6,262 12.7	-	15,500 31.4	-	12,778 26.0	n.a.	49,241 100.0
1966 %	do.	22,941 40.8	8,239 14.6	-	10,591 18.8	-	14,528 25.8	n.a.	56,299 100.0
						(thousand Iraqi Dinars)			
1964 %	Italy	527 38.8	n.a.	n.a.	n.a.	338 24.9	373 27.4	122 9.0	1,360 100.0
1965 %	do.	415 31.8	n.a.	n.a.	n.a.	342 26.2	440 33.7	108 8.3	1,305 100.0
						(million Italian lire)			
1965 %	Sudan	9,616 8.4	872 0.8	-	-	8,815 7.7	74,252 65.0	20,687 18.1	114,242 100.0
1966 %	do.	15,225 12.0	635 0.5	-	-	9,729 7.6	79,854 62.8	21,784 17.1	127,227 100.0
						(thousand Sudanese pounds)			
1965 %	Sweden	137 8.2	29 1.7	208 12.4	n.a. n.a.	321 19.2	874 52.3	102 6.2	1,671 100.0
1966 %	do.	177 9.9	27 1.5	145 8.1	8 0.4	359 20.1	950 53.3	119 6.7	1,785 100.0
						(million Swedish kroner)			
1965 %	Turkey	1,177.3 52.0	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	22[illegible].7 100.0
1966 %	do.	957.0 32.7	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	2928.4 100.0
						(million Turkish lira)			
1965	U.S.S.R.[3]	29.0	12.7	-	2.1	- -	13.0	43.2	100.0%
1966	do.	29.5	12.5	-	2.2	- -	13.0	42.8	100.0%

1. Includes an amount of 500 thousand million francs, invested in French Financial Institutions.

2. Actual amount invested. Other figures not available.

3. [illegible]

TABLE VIII

Profit (+) and Loss (-) in operations of various sectors of Public Enterprise

Period	Country	Manufacturing	Agriculture and Forestry	Mining	Construction	Electricity Gas and Water	Transport & Communications	Others	Total
1965 1966	Argentina "	[illegible],[illegible]8.1 25,[illegible]7.0	- -	-1555.2 -2,066.1	- - (million Argentine pesos)	6,237.1 10,393.5	-1[illegible],197.5 -49,482.7	- -	-31,567.5 -15,558.3
1965 1966	Ceylon "	1[illegible],609 22,147	[illegible],524 7,286	- -	n.a. n.a. (Ceylonese Rupees)	30,967 34,992	-35,854 -2[illegible],4[illegible]2	19,283 20,611	39,529 56,574
1966	France	2,110	10	380	480 (thousand million francs)	3,[illegible]	[illegible]	930[1]	6,370
1965 1966	Ghana[2]	9,914 16,863	n.a. n.a.	-3,559 -[illegible],473	n.a. n.a. (Thousand N₵)	5,859 5,272	n.a. n.a.	n.a. n.a.	n.a. n.a.
1965 1966	Greece "	4[illegible] -3.4	- -	- -	- million (drachmas)	630.0 494.0	-446.0 -500.0	- -	188.0 57.4
	India	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1965	Iran	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1965	Iraq	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1964/65	Italy	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1965 1966	Sudan "	-1,2[illegible] +1,119	n.a. n.a.	 -	- - (thousand Sudanese pounds)	[illegible]42 [illegible]	1,[illegible] [illegible]	2,[illegible] 2,[illegible]	4,105 2,531
1965 1966	Sweden "	[illegible] 95	2[illegible] 1[illegible]	1[illegible] 1[illegible]4	n.a. n.a. (Million Swedish Kroner)	3[illegible]4 3[illegible]4	21[illegible] 219	25[illegible] 276	999 1,026
1965 1966	Turkey "	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	854.7 1100.8
1965/66	U.A.R.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

1. Includes an amount of 450 (thousand million francs) in French Financial Institutions.

2. Actual profits. Other figures not available.

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