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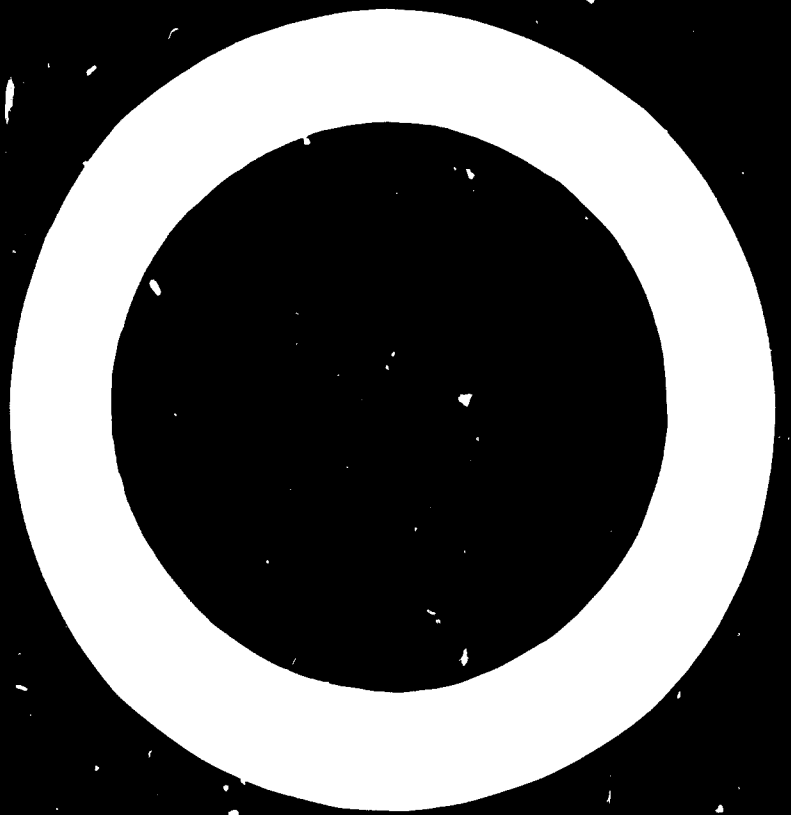
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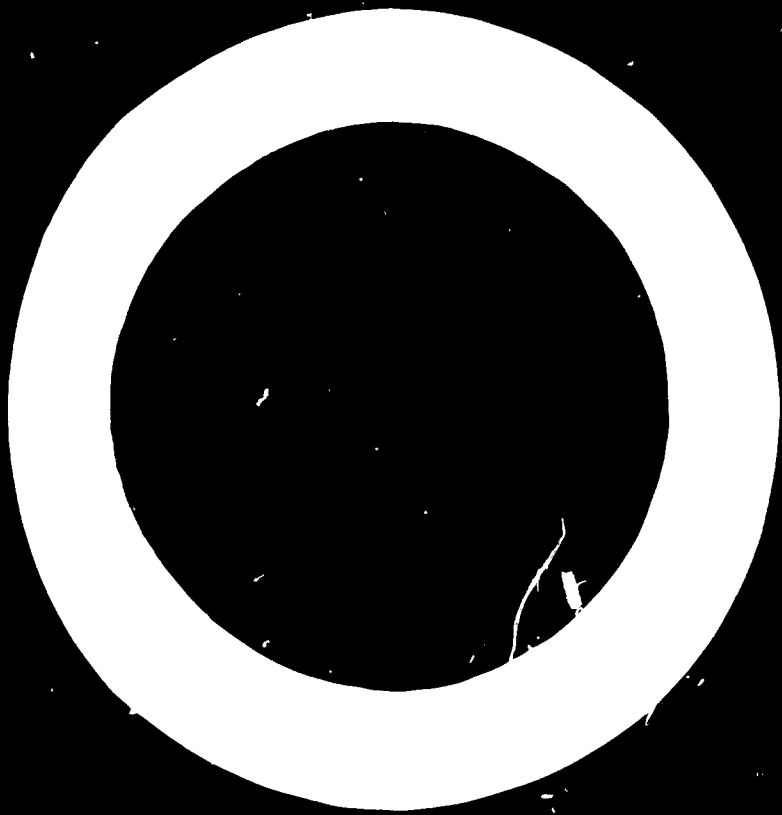
INSTITUTE OF THE WORLD ECONOMY AND INTERNATIONAL RELATIONS

**THE ROLE OF THE STATE AND THE STATE
SECTOR IN THE INDUSTRIALISATION
OF THE DEVELOPING COUNTRIES**

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Institute of the World Economy and International Relations

THE ROLE OF THE STATE AND THE STATE SECTOR
IN THE INDUSTRIALISATION
OF THE DEVELOPING COUNTRIES

Moscow 1967



A. 1. When defining industrialisation as a development of the manufacturing industry, industrial growth is often equated with industrialisation, regardless of whether this growth ensures the necessary conditions for a progressive course of reproduction.

In our view, industrialisation in the broad sense of the word is a versatile, and yet a single, process of evolution of a country's economic and social structure, which leads to an acceleration of extended reproduction based on a growth of social labour productivity. One of the most important aspects of this process and its consequences will be the social change in these countries and the change in their position in the world economy. The history of economic development of all countries shows that industrialisation is an objective stage in economic development.

2. The essential economic advances which take place during the course of industrialisation must not be regarded as changes only in the proportion of industry, agriculture and the infrastructure within the national economy, but also changes within each of these branches: mechanisation of production, wider use of new techniques and scientific achievements, an increase in the proportion of large enterprises, changes in the organisation of labour, etc.

Industrialisation implies the saturation of all the

branches of the economy (including agriculture—the main economic sphere of the developing countries) with highly-productive equipment from national or foreign sources and the introduction of new industrial methods of production.

3. Thus industrialisation in the developing countries will apparently be carried out in several stages. First to take place will be a quantitative growth in industrial production and the development of the infrastructure. This stage is characterized by an increase in the number of industrial enterprises and employees, volume of manufactured products, and growing construction in the infrastructure. But at this stage agriculture continues to predominate, there is a prevalence of raw-material exports, and the lag in the productivity of labour, as compared with the developed countries, is still to be overcome. In fact, the economic lag of the former group of countries from the latter group could even increase.

At the same time, despite the continued lag, and parallel to it, the economy, primarily industry in the developing countries, is gradually saturated with new techniques and scientific achievements, and the introduction of a progressive organisation of labour. This is done by various ways and means, and at different rates. At first, the growth of labour productivity takes place in some enterprises, and then in whole industries.

At the first stage of industrialisation, prerequisites

for structural changes are gradually created in various branches and in the whole economy, together with prerequisites for social changes, i.e., conditions are created for transition to the next stage of industrialisation, to the stage of qualitative and structural changes in the national economy, in social and international relations.

B. 1. The necessity of state interference in the economy of the developing countries is dictated above all by their common problems, which objectively arise in the course of industrialisation and condition its trend and development. It is primarily the problem of breaking up the economic structure inherited from colonialism while ensuring co-ordination at every stage, maintaining the most important economic proportions, scientifically defining the optimum rates of development, correlating the main branches of the economy, and finding the ways and means of achieving this. There are also social problems relating to employment, urbanisation, the need for training national scientific-technical intelligentsia, raising the education level, improving public health, etc. Finally, it is the problem of changing the existing external economic ties.

2. Any of these problems are difficult to resolve on the basis of private enterprise and the mechanism of spontaneous development. Market relations cannot become

the only regulator of social production in the proportions and rates necessary to accelerate the advance in industrialisation. This is confirmed by the economic development of many countries and is receiving even wider recognition by economists.

In the developing countries, the situation is aggravated by the peculiarity of the domestic market itself: its narrowness and embryonic state; and by the fact that a considerable part of the population is still to be drawn into the sphere of commodity-monetary relations.

3. The domestic market of the developing countries is in need of state regulation, as the difficulties of realising the social product are so great that it becomes one of the main obstacles to industrialisation. State socio-economic transformations, together with such measures of interference in the free play of market elements, as the policy of encouraging the development of the key branches, limiting some, rebuilding and modernising others, carrying out a definite foreign exchange, credit and tariff policy and, what is most important, a purposeful policy of price regulation, can be conducive to resolving the problem of expanding the domestic market and using its machinery by the state to accelerate industrialisation.

4. The most important task of the state at the present stage of development in the countries of Asia,

Africa and Latin America is to work out a "strategy of industrialisation", that is, an economic policy, which, proceeding from the overall aims of industrialisation, sets concrete tasks and defines the methods of accomplishing them. A state can, and in many countries is trying to shoulder the responsibility of solving such strategic problems of industrialisation, as defining the proportions and priorities in developing the production of producer goods and consumer goods, correlating the accumulation and consumption funds in the state and the private sectors, and also defining their branch structure, the proportional growth of import and export, attitude to foreign capital, co-ordinating the development of the modern and the traditional sectors of the national economy, etc.

5. The possibility of state interference in the development of the traditional sector of the economy of the developing countries deserves special attention. The overwhelming majority of the gainfully employed population (60-90 per cent and over) is engaged in the traditional sector, which is made up of many small and average-sized enterprises and peasant farms producing industrial, agricultural and handicraft products for the domestic market and for export. This sector is characterised by the more backward forms of production and the lowest labour productivity. Nevertheless, it is this sector that has a considerable potential of untapped resources

for economic growth, and the task of the state is to mobilise and make productive use of these resources, including primarily what is known as "idle capital" and vast fortunes hoarded or deposited abroad.

6. State "strategy" of industrialisation cannot overlook such problems as the training of specialists for managing the state sector and the planning bodies; raising the skills of the middle and senior technical personnel and of the workers; stimulating the development of science and applying the scientific-technical experience of the developed countries. There is no spontaneous solution to these problems. Only the state can achieve more or less rapid advance in this sphere.

7. The state policy of industrialisation or the industrialisation strategy, apart from the aims common to all countries, such as accelerating the economic growth and overcoming backwardness, must also keep in view the concrete immediate aims which are specific for each developing country. In some cases, it is the liquidation of the balance of payments deficit by means of establishing national production to replace import, or an increase in the export of finished products instead of raw materials on the basis of their industrial processing; in others, it is an increase in employment or the meeting of the country's demands for products in short supply by means of domestic production (such as

building materials, and chemical fertilisers).

The developing countries are usually faced with a complex of such problems. That is why in elaborating and implementing the state economic policy, the country's historical, economic, social and even ethnic characteristics must be taken into account. The responsibility for working out and implementing the "industrialisation strategy" must fall directly on the country's government and its leaders.

C. 1. Planning is the most important instrument in implementing the state policy of industrialisation. State planning in the developing countries can be viewed as: a) the process of compiling a more or less full plan or programme for developing the key branches of the economy for a fixed period (long-term plans in many cases range over five, and sometimes six, seven or ten years, and current plans, over the fiscal year); b) recommendation of definite economic activities for state and private organisations and enterprises in accordance with the principles of the state economic policy; and c) supervision over the implementation of the plan.

The main starting points in planning are the specific strategic problems of industrialisation facing each country at a given moment, and an analysis of the present state of the country's economy. The first stage--the compilation of the plan--is a comparison of the results of economic, statistical and mathematical

expertise on the state of the branches of the economy with the concrete tasks of the given period, and definition of the course of development on that basis. The plan must be a sufficiently accurate programme of state activity in the various spheres of the economy for an effective implementation of a set of measures in industrialisation. The most important aspect of planning is the procurement of resources and finances (foreign and national) and the definition of the direction of their investment.

2. Economic programming or planning economic, notably, industrial development, has now become one of the most important component parts of state economic activities. The success of the policy of industrialisation in every country depends largely on scientifically substantiated long-term planning, definition of more effective proportions and rates of development of the main spheres of the economy in the conditions of the given country, the priorities in major national economic projects in industry or in the infrastructure, and the priority of developing the state or private sector.

Long-term planning, which many Asian, African and Latin-American countries now turn to, most frequently in itself serves the aims of the policy of industrialisation. In most of those countries, the governments themselves draw up the plans and control

their implementation.

The main difficulty in planning under conditions of mixed economy in most developing countries is connected with the activities of the private sector. The planning of private enterprise can only be represented in the form of a more or less approximate forecast of a marketing of products and the possibilities of expanding the production for the planned period, made after a study of the state of the market.

The state tries to direct the activities of the private sector into the planned channel by means of credit, tax, foreign exchange policies and other measures, achieving considerable success in some cases. However, the development of the private sector on the whole is not subordinate to the national economic task of the fullest mobilisation and more rational use of the resources available in that sector, but to the haphazard laws of supply and demand and the profit drive.

3. The peculiarities of the private sector, especially the famous "commercial secrets", also make it difficult for the planning bodies to obtain full and exact statistical information on the state of the branches and enterprises of that sector, which considerably narrows down the state's possibilities in co-ordinating the use of financial resources and labour, and planning the complex use of raw materials,

components, social services, etc.

An especially acute problem in planning the activities of the private sector arises during the fulfilment of the plan or programme drawn up for it. The planning principle and the principle of private enterprise contradict each other. This is evident in the failure of private business to adhere to time periods, rates and scales of establishing and developing various types of production, since it adjusts itself mainly to current demand.

For that reason the state is compelled sometimes to depart from its industrialisation programme and, under pressure from the private sector, submit to the market mechanism, and assure private business of big profits by its prices policy.

4. Besides, in compiling plans and programmes for developing branches and fulfilling various projects, all the countries are faced with such difficulties as lack of experience in drawing up plans and control over their fulfilment, lack of skilled national specialists and scarcity of economic information, and the narrowness of the financial basis.

However, recently, as these obstacles are being overcome, efforts in national economic planning have been producing ever greater results. In drawing up plans, more attention is paid to complex planning, co-ordination of the rates and proportions of development of different

branches, and financial and natural indicators of branch and enterprise activities. The ways and means of ensuring the fulfilment of planned tasks are clearly outlined, and the foreign-exchange, financial, tariff and trade policies, designed to regulate the private sector, become more definite and consistent.

D. 1. State economic activities in the developing countries cannot be confined to various measures in mobilising national resources and attracting loans for development purposes, planning their more rational use, and controlling and regulating the national economy. The state sector, established in the economy of many developing countries, became the most important form of state participation in industrial development. Covering large-scale industry, transport, power industry, finances, trade, etc., it can play, and in a number of countries does play, a decisive part in economic development and in implementing the state policy of industrialisation. The state's main task in developing that sector is to establish highly productive up-to-date enterprises in the new construction, in industry and the infrastructure, which in the end will ensure the diversification of the economic structure of the developing countries. Such construction is undertaken by the state itself, as that calls for large long-term capital investments, mobilisation of material resources and manpower, and attraction of foreign exchange and

technical experience. Concentration of means and resources is an essential condition for establishing modern production. The building of large industrial enterprises and production complexes in the state sector is the most proper and fastest way of achieving this condition.

New branches and enterprises being established in the state sector can become the outposts and strategic strongpoints of industrialisation in overcoming economic backwardness; they are the material basis for state control of accumulation and distribution of resources.

2. The scales, methods and results of development of the state sector differ from country to country. They are determined by the existing socio-economic conditions and the economic policy pursued by the governments of those countries. In countries like India, Pakistan and Turkey, for example, the state sector is established almost entirely through the construction of new enterprises; in the U.A.R. and some other African countries, the nationalisation of existing enterprises was just as important as the building of new ones, while in countries like Burma, Syria and Algeria, for example, the basis of the state sector is the nationalisation of branches and plants and their subsequent modernisation.

3. The most important indicator of the direction of the state policy of industrialisation is the rates

of growth of new state capital investments in industry and the infrastructure, increase in their share of general investment, their sectoral distribution and, finally, the proportions directed into the state or the private sector.

At present, it has become a typical trend in most of the Asian, African and Latin-American countries to increase the volume of the state resources directed into industry, their share of general investment, and the resources directed into the state sector. However, this general trend is implemented in various ways and has different results in different countries.

Thus, in the U.A.R., Burma and Syria, for example, the means for the development of factory-and-works industry and the infrastructure are directed mainly into the state sector. The state in these countries has concentrated all the basic production capacities in its own hands. In 1964-65, the share of the state sector in industrial production comprised more than 90 per cent in the U.A.R., 80-85 per cent in Syria, and approximately 70 per cent in Burma.

4. In many countries with a mixed economy, the state also directly participates in industrial production and in the development of the infrastructure. It gives financial support to private enterprise as well as finances the building of various enterprises in the state sector.

The bulk of state capital investments in these countries is directed into branches providing goods and services for production (metal, some types of equipment, electric power, fuel, transport and communications, etc.). These branches are characterised by high capital-intensiveness and low capital turnover. At the first stage of development, they cannot rapidly yield large profits. That is why private capital does not usually participate in their initial formation, preferring to establish and expand enterprises working on the basis of products from the state sector. However, when the state enterprises in these branches begin to pay, private businessmen demand that they be transferred into the private sector or be converted into mixed enterprises.

5. With the expansion and the strengthening of the state sector, such "privatisation" of new state enterprises is on the increase in the countries with a mixed economy. In a number of countries (Pakistan, Turkey, the Philippines, etc.) it is reflected in official government statements on state economic policy, and is supported and encouraged by the Export-Import Bank, the International Financial Corporation, and other financial agencies of foreign monopolies. At present, "privatising" profitable state enterprises or "privatising" earlier nationalised enterprises, which

became profitable after the state's additional capital investments, is practised in many Latin-American countries, Pakistan, Turkey, the Philippines, Iran, and Thailand. This is leading to a relative contraction of the state sector, to a reduction in the possibilities of new state construction in the general national interest, and to the fact that the state is being deprived of such levers of economic regulation, as direct ownership and control of a certain part of the national product, which is of great importance for influencing the whole process of industrialisation, the process of price formation, etc.

E. 1. As the state sector and its share in the economy increase greater importance is assumed by operations connected with its efficiency and management. The successful development of the state sector depends not only on the increase of material and financial resources which the state channels into this sector. The criteria of macro- and micro-profitability become most important indicators of the activity of the state sector in contemporary conditions. Therefore a concrete analysis of general as well as of specific factors determining the profitability of the state sector as a whole and of separate state enterprises is to become a priority in all countries.

2. There are several sides to the problem of the profitability of the state sector and its separate enterprises. The profitability of the state sector as

a whole must be considered first, in the sense of the way in which it will affect the development of the whole national economy and second, in the sense of the amount of income it produces, what it contributes financially to the increase of the national income, (or on the contrary, in the sense of its unprofitability, when expenditure on its development during a definite period of time is not made good and so becomes a deduction from the national income for that period).

The profitability of the state sector is broadly determined by the results of the economic activity of all state enterprises, the produce of which (e.g. metals, chemical raw materials, fuel, electric power, building materials, transport and communications, etc.) is indispensable to the diversification of social production and the acceleration of economic growth, i.e., it is determined by the natural form of the goods and services produced in the state sector.

In many developing countries the bulk of state capital investments is channelled into those very branches of the economy which are very important and necessary for structural changes and which are noted for their high capital-intensity, protracted pay-off and technical difficulties of construction, absence of an adequate outlet and a number of other factors. It is just these features which determine the unprofitability of many new state enterprises or their

low profitability in the preliminary stage which may be protracted over several years. Because profit-making radically conditions the activity of the capitalists, they do not readily participate in the development of these branches, in any case not in the preliminary stage, the development of these branches is shifted on to the state and proceeds in the state sector.

Concerning the criteria of the profitability of the state sector, it should be borne in mind that it is its branch structure that determines its national-economic profitability or macro-profitability as it is known in economic literature.

3. However, this does not dispose of the problem of the profitability of the state sector, i.e., the problem of the profitability of the state sector in the narrow sense of the word. In our view, this problem can be reduced to a correlation between income-producing (profitable) enterprises in the state sector--those which have already assimilated the technology and organisation of production and have a stable market for their produce with prices ensuring a definite rate of profit--and those which are at a stage of incomplete construction or where production is still insufficiently organised. In many countries the growth of new construction and the increase in the number of state enterprises requiring government financial support will not only swallow up the income of profitable state

enterprises but require the expenditure of state resources from other sources (loans, taxes, etc.). The whole problem here obviously lies in determining and maintaining corresponding rational interrelations, from the point of view of the whole national economy, between the already profitable and still unprofitable state enterprises. The broader the state sector, the easier it is to fix and achieve optimum proportions. The formulation of criteria to determine the proportions of state capital investment with different periods of pay-off is to become an important integral part of planning.

4. The solution to this problem is being sought along various lines in countries which have already socialised the basic means of production and are developing factory-and-works industry primarily in the state sector and in countries where the state sector is only developing new forms of production and services, leaving channels open for private enterprise in other branches of production. In countries where the whole income obtained in industry remains in the state sector the general profitability of the state sector increases with the growth in the number of profitable state enterprises as new forms of production are established. It gradually becomes an important source of broadening the material and financial basis of the state economic activity, the source for the growth of accumulation. Having at its disposal produce of a productive nature

which has been manufactured in the state sector, the state, among other things, is in a position to modify prices on this produce in the interests of the accelerated development of the most important branches of the national economy. Drawing on the increasing incomes of profitable state enterprises, the government can determine the direction, proportions and growth rates of new construction in the state sector and plan the modernisation and expansion of existing enterprises. Together with this, it is necessary to co-ordinate the rates of accumulation and increase in that part of state resources, which is allocated for various forms of social security.

5. In countries where the development of industry proceeds in state and private sectors or primarily in the private sector, the problem of maintaining definite proportions between profitable and unprofitable enterprises appears in a different light. Consequently, the problem of financing state enterprises is solved in a different way.

In these countries there is a growing tendency to withdraw a part of the income, created in the state sector by profitable enterprises, and to use these resources to raise the profitableness of private enterprises. This is carried out in the form of direct state financing of the private sector; in the form of fixing such a level of prices on the output of state enterprises as will make them unprofitable and will

at the same time raise the profitability of private enterprises which use this output; in the form of transfer of profitable state enterprises to the private sector. In this way the possibility for the state sector to accumulate resources and finance its own needs is considerably limited. In such a situation the state sector receives and will receive the necessary resources chiefly from growing taxes and loans. The resources assigned in this way to private entrepreneurs are used for developing industry in the private sector. This leads to a relative narrowing down of the possibilities for the speedy development of the branches which are most important at a given stage of industrialisation, and impedes purposeful planning and the creation of optimum proportions in the national economy (and in industry in particular). These proportions are largely determined by the free play of market elements and the state tries only to modify them according to the aims of industrialisation. The opportunities of the state to control the whole process of industrial development are thus more limited.

6. The profitability of the state sector as a whole is naturally determined by the profitability of separate state enterprises. At the present time a great number of state enterprises in development countries are either operating at a loss, or the profit rate is

considerably lower than the average in the country and lower than in similar enterprises in other countries. This is primarily the result of the backwardness of the economy: a lack of financial resources, materials, skilled specialists and technical experience for rapid building and full utilisation of new production capacities. Under these conditions the inevitable protraction of construction periods and of the full utilisation of production capacities at new enterprises increases expenditure rates and the period of their pay-off. A good illustration of this is provided by the U.S.A., for example, where installation periods for average industrial enterprises comprise not more than 6 months, large ones—1 year, rarely 1½ years, whereas in developing countries they are 3 to 5 times greater. In the course of general industrial development this gap will naturally be closed more and more. The pay-off of expenditure and the profitable operation of state enterprises will be accelerated. However, apart from such objective conditions there are a whole row of factors dependant on the economic policy of a government and which have a specific national colouring.

7. Operation below production capacities, which is characteristic of many state enterprises, is one of the reasons for their unprofitability or low profitability. This is frequently due to difficulties in the supply

of raw materials, components and spare parts etc., and also to the narrowness of the internal market and the impossibility or difficulty in selling produce on the world market. An enterprise operating 20-50 per cent of its planned production capacity cannot be profitable, and in developing countries this is a common occurrence. An important role in effecting a change in such a situation is to be played by state planning carefully determining optimum dimensions for this or that enterprise with due account of available labour and raw-material resources and domestic and foreign market conditions for its produce.

8. In selecting an optimum production capacity of an enterprise it is essential to consider the technical and economic indicators of its work which indisputably reflect the advantages of large-scale serial production. In many developing countries whole sets of conditions are lacking which are necessary for creating enterprises with modern optimum technical and economic indicators. The problem can be solved by regional collaboration with other countries with a view to finding supplementary marketing possibilities for a given enterprise and for expanding its raw-materials supply.

9. An important factor governing the profitability of any state enterprise is the level of prices on its produce or services. If state enterprises in any

branches of the economy predominate, the state has the opportunity of modifying in one way or another the market mechanism of price-fixing on their output. In many developing countries the policy of underselling the output of state enterprises which produces goods and services of a productive nature is becoming fairly widespread. This policy is dictated in some cases by the necessity to stimulate growth and accumulation in other branches of the state sector which use their output and services (for instance, the reduction of prices on fuel, electric power, metals, etc., in order to speed up the development of the engineering and chemical industry, or reduce the cost of building). Here there is an increase in the profitability of some state enterprises at the expense of others. In this way, the national economic profitability of the state sector as a whole increases and so do the rates of accumulation.

10. It is a different state of affairs when, under pressure from the private sector, the state reduces prices on the production and services of its own enterprises and so doing creates possibilities for the further enrichment of private entrepreneurs. That kind of price policy is effected in a number of countries in Asia, Africa and particularly in the countries of Latin America. A typical illustration of this situation is provided by the historical development of

the major branch of the state sector in Mexico--the oil industry. After nationalisation in 1938 the low prices which were fixed on its production were the source of serious financial difficulties experienced by the state company Pemex. Only after some increase in price in 1958 did the company become profitable and did it have the opportunity to accelerate its expansion. A few dozen private plants for synthetic chemicals have now been built on the basis of this state company's production. All of them are highly profitable, which is to a great extent attributable to the low level of prices on state raw materials and semi-finished products which they consume.

From the point of view of raising the profitability of the state sector and increasing accumulation rates, it is advisable to establish the whole complex of enterprises within the state sector-- those which produce as well as those which consume goods of a productive nature (in the above-mentioned example, those producing oil-products and the enterprises manufacturing synthetic chemical), so that the low profitability of some would be offset by the high profitability of others. In this way the conditions for the self-financing of a given complex of enterprises would be established.

11. Governments of developing countries must focus

their attention on questions of regulating prices on the production of state enterprises. Prices are that very mechanism by means of which surplus-value is diverted from the state sector to the private. Along this line big private entrepreneurs are exerting the severest pressure on leaders of the state sector.

12. The organisation of management and control over the state sector as a whole as well as its separate enterprises has primary importance in increasing the profitability of state enterprises. In many countries the situation in this respect is far from favourable. A keen lack of skilled and experienced specialists with technical-economical training makes itself felt. Specialists for administration of the state sector and its enterprises are chiefly former managers of private enterprises, government officials and foreign specialists. Capitalists show interest in participating in the management of the state sector. The situation in the state sector is complicated by the fact that entrepreneurs win over specialists, trained on state funds, to the private sector by offering them better working conditions.

In countries where the private sector has been abolished or considerably weakened, its former representatives are similarly often enlisted for

management of state enterprises. As a result of this such people are as a rule most experienced in business affairs but are unable to manage enterprises in the interests of the state because they preserve the psychology of private-property owners and try to accumulate considerable personal sums in state service. They are often inclined to irresponsibility and liable to corruption. This adverse circumstance hinders the rational organisation of production.

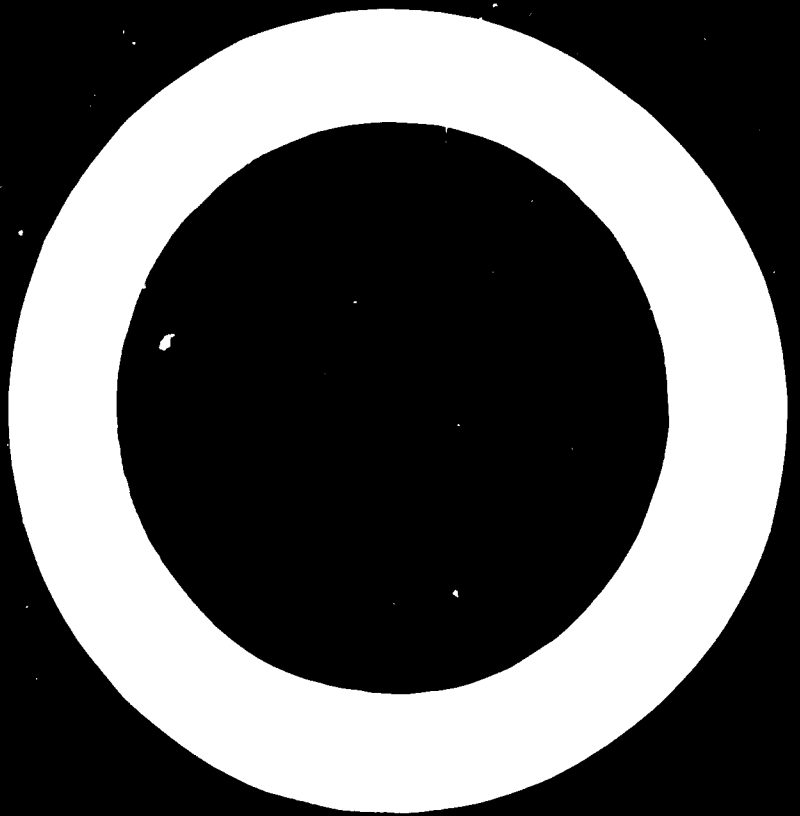
13. The problem of specialists in the state sector calls for an urgent solution. The efficiency of its development and the profitability of state enterprises depends to a great extent on this. It can be solved through accelerating the training of national technical engineering and scientific specialists at home and abroad, rigid state control over their use, democratisation of management, consistent implementation of the principle of workers' participation in the management of enterprises, the establishment of an effective national control over formulation and execution of production plans and programmes, the introduction of various forms of accounts and control over the administrative apparatus by the working masses.

In a number of countries the first more or less successful steps in this direction have been taken. In many enterprises in Burma, Syria, Algeria, the U.A.R.

and a few other countries, workers councils which take part in management have been set up. Some experience has been gained in the creation of self-managing enterprises controlled by 'Committees of Self-management'.

The factors governing the profitability of state enterprises are not limited to those cited above. Every country, every branch, and separate enterprise has its own peculiarities which in one way or another affect the level of profitability both of the separate enterprises and of the state sector as a whole. The acceleration of the process of industrialisation, the success of state policy aimed at its fulfilment are to a great extent determined by the most rational combination of the criteria of macro- and micro-profitability in the development of the state sector in the economy of the developing countries.

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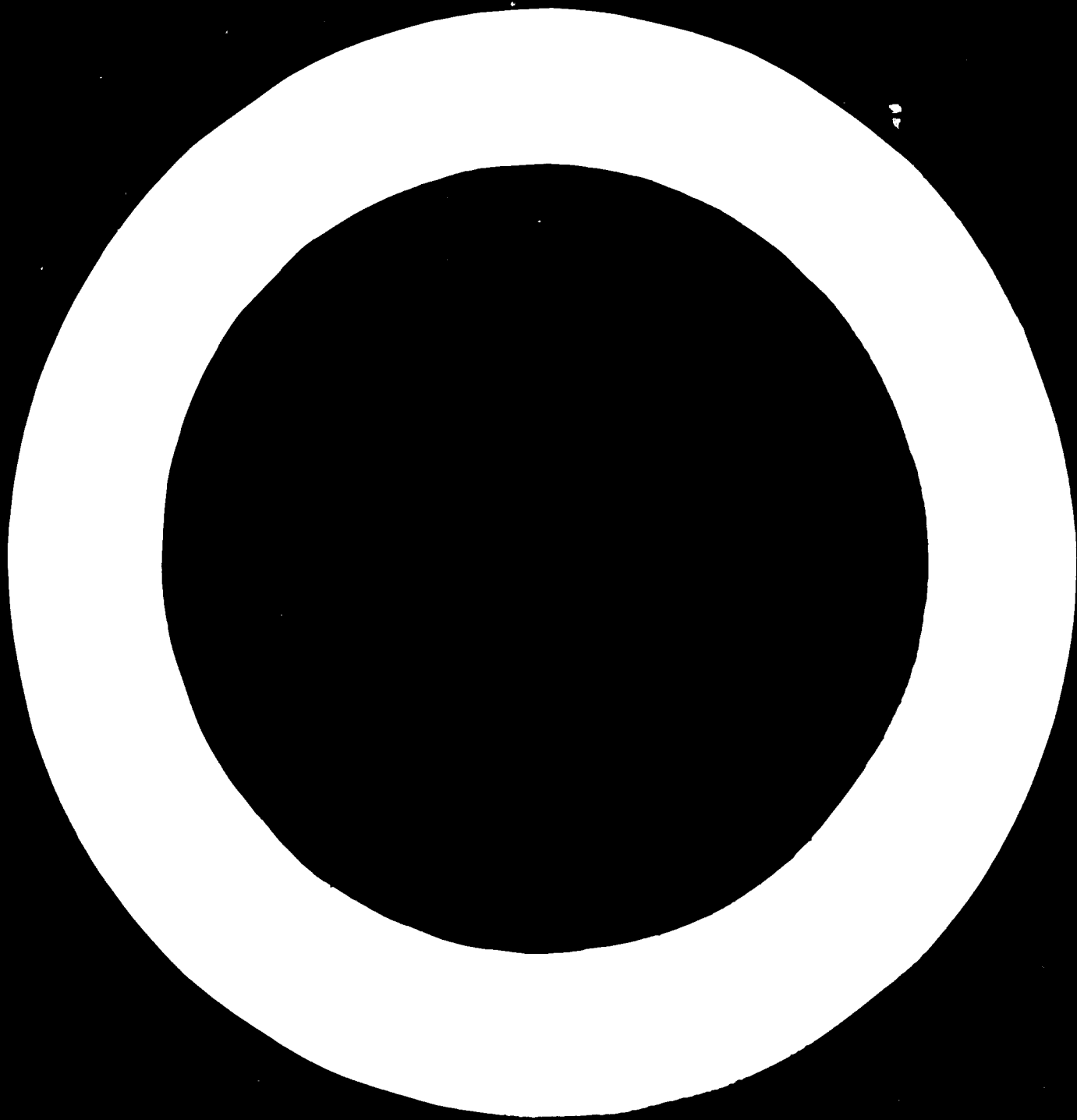
THE ROLE OF THE STATE AND THE STATE SECTOR
IN THE INDUSTRIALIZATION OF THE DEVELOPING COUNTRIES

SUMMARY

Submitted by
The Government of the Union of Soviet Socialist Republics

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1. Industrialization, from the socialist point of view, although many-faceted, is at the same time a single process of evolution of the economic and social structure of a country that results in acceleration of industrial development through increased productivity of labour. History of the economic development of countries shows that industrialization is a necessary stage of economic growth. In the course of industrialization, changes take place in the relative importance of industry, agriculture and infra-structure of the national economy. This results in mechanization of production, greater utilization of technical and scientific achievements, increase in the proportion of large-scale enterprises and other changes. The process of industrialization in developing countries requires several stages from the quantitative increase of industrial output and development of infra-structure through qualitative changes in the national economy and in social and international relations.

2. In the process of industrialization the State must intervene in the economic development of developing countries. This is necessary because the State must break up the economic structure inherited from colonial times, ensure co-ordination at each stage of development and maintain certain ratios and optimal rates of development. The most important function of the State is to draw up "a strategy of industrialization" i.e. an economic policy that indicates specific objectives and the methods to achieve them. The State must mobilize and bring into productive use the unused potential of resources in the traditional sector of the economy of developing countries which consists of a multitude of small and medium-size enterprises and peasant farms that occupy an overwhelming majority of the active population (60-90 per cent or more). Attention should be given to such problems as training of personnel, raising technical proficiency to medium or higher levels and promotion of science. It is only the State that can achieve swift progress in these fields. Elimination of the balance of payments deficit by developing national production of substitutes for imported goods or by increasing exports is part of the objective of the "strategy of industrialization".

3. Planning is one of the most important tools in implementing the State policy of industrialization. Today the State drafts plans for five, six, or seven and sometimes ten years as well as annual plans for the current fiscal year, taking the objectives of industrialization as guidelines. Economic programming and planning has become a

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major part of the economic activities of the State. The existence of both public and private sectors, lack of experience in drawing up plans, improper supervision of implementation, and inadequate financial resources create serious difficulties for developing countries. Nevertheless, in spite of these obstacles, which are being overcome gradually, national economic planning is making progress.

4. The public sector created in the economy of many developing countries has become an important form of participation by the State in industrial development. Within the public sector may be found large-scale industry, transportation, power, finance and commerce. The State endeavours to build modern, highly productive enterprises and invests heavily in the infra-structure to make new industries and enterprises the cornerstones of industrialization. The pattern for setting up the public sector takes different forms in various countries. In one group of countries it is achieved by increasing state investment and nationalization of existing enterprises, in other countries by nationalization of whole branches of industry and individual enterprises and their subsequent modernization. In some countries with mixed economies the State participates directly in financing capital-intensive enterprises and enterprises that are part of the infra-structure. When these enterprises begin to work at a profit, the State enlists the participation of private capital; in this way mixed enterprises are created.

5. As the public sector grows and its relative importance in the economy increases, its profitability and the profitability of its individual enterprises becomes a problem. Profitability of the public sector should be viewed from various angles. Of most importance is the influence of the public sector on the development of the national economy as a whole whether it works at a profit or at a loss. An answer to this question is provided by the results of the economic activities of all state enterprises combined. There may be various ways of estimating profitability and evolving criteria for the optimal periods of capital return. In countries in which all revenue remains in the public sector, profitability gradually becomes a major source for extending the material and financial basis of the State's economic activities. In countries in which industrial development takes place both in the public and private sector or, predominantly, in the private sector, the problem of profitability is solved in a different

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way. When industrial development is predominantly in the private sector, the sources of accumulation and self-financing of the public sector are very limited. The State obtains the finance it needs by increasing taxes and by bond issues, whereas profits turned over to private business are used by them to develop industry in the private sector. The profitability of the public sector as a whole is determined by that of individual state enterprises, many of which are unprofitable in developing countries. There are many reasons for this, such as long construction periods, long periods before new production begins, scarcity of skilled labour, and lack of experienced management personnel. Another contributing factor is that some enterprises do not work at full capacity. State planning must be a major instrument to rectify this situation. The price level is an important factor that determines profitability. Some countries deliberately reduce prices of certain commodities that are produced by state enterprises. This policy is dictated by the need to stimulate production and to accumulate resources in other branches of the public sector that use the products and services of these enterprises. This policy, however, creates opportunities for profit-making by private entrepreneurs who buy products at low prices. The attention of governments should be focused on the problem of prices. Management and administration of state enterprises and personnel problems should be given close attention if profit from state enterprises is to increase. In some countries effective measures have been taken to speed up the training of personnel. Concerning the question of profitability of state enterprises, each country has distinct features which have bearing on the level of profitability of individual enterprises and on the public sector as a whole.

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