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**Role of the Public Sector in Promoting the Economic and Industrial
Development of Developing Countries ***

by

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1. Introduction

The experience of post-war development has shown that the public sector occupies a strategic role in accelerating national development. The growing role and importance of the public sector in developing countries arises from the recognition that the public sector is a very important instrument at the disposal of society for the achievement of its goals. Among the broad aims common to most developing countries, usually the most prominent are the promotion of economic and social development, a more equitable distribution of the results of that development, full sovereignty of each nation over its natural resources, the promotion of employment, and the participation of the population in public affairs.

The relative weights assigned to these and other goals in a particular situation depend on the socio-political environment, economic conditions and strategies pursued in the country. The character and role of the public sector, its policy and organizational forms, can thus differ considerably among countries, as well as among various stages of socio-economic development of a given country. Different goals imply differences in the means of implementation and different criteria for performance evaluation.

The role of the public sector in national development has numerous and diverse dimensions, from the specific role of an individual public enterprise or institution to the role of the state in guiding social and economic development. Whether the public sector plays the role of a direct performer of the tasks included in the development plan or the role of the necessary catalyst in the development of other sectors, the activities of public enterprises and public institutions, together with the indirect instruments of economic policy, represent the most important

means of implementing the planned strategy of development in accordance with public interest. In principle the coordination of provision of goods and services by public enterprises and institutions should not be separated from coordination of indirect instruments of economic policy; they all represent the means of achieving a given set of social goals and their particular combination in a given situation will depend on both ideological and pragmatic considerations.

Although the goals of public enterprises cannot be separated from the role in national development of the public sector as a whole, further discussion in this paper of the role of the public sector will be focused primarily on the role of the public sector in production of traded goods and services. The expansion of this part of the public sector has been even more pronounced than the expansion in the more traditional fields of direct governmental activity. Though our immediate concern is the role of the public sector in the industrialization of the developing countries it is nevertheless useful to look at the issues initially from a broader perspective since many of the underlying causes and effects are not limited to the industrial sector alone. It should be emphasized that the problems of efficiency and accountability of public enterprises cannot be solved within these enterprises themselves but must be approached from within a broader social framework. The evaluation and improvement of their performance and their contribution to development depend both on the situation within the enterprise and on general socio-economic conditions and policies, and can be assessed only in relation to the fundamental social goals.

2. Motives for Establishment of Public Enterprises and Their Role in the National Economy

The motives for the establishment and the existence of public enterprises can be of a general nature, e.g., political

goal of a socialist society: sovereignty over natural resources (partial or complete nationalization of foreign enterprises), more equitable distribution (among regions, or racial, social, and economic groups), defence (defence industry, strategic location), or they can be quite specific, e.g., averting bottlenecks in the economic structure by developing areas in which the private sector is not interested, breaking monopoly situations in certain branches, or taking direct control over individual strategic sectors, developing infrastructure, research activities and technological know-how, promotion of private and cooperative activities. The activity of an individual public enterprise may be the result of more than one of the many possible motives and thus influence the attainment of several goals. Especially in making comparisons between different countries, one should be aware of the fact that the same particular form of public enterprise may result from quite different motives.

At the most general level the role of public enterprises depends basically on the socio-economic system of a country. At the one end of the range of numerous existing and even more numerous potentially feasible situations with regard to the relationships between the public and private sectors in the national economy, there are countries whose strategy relies primarily on the private sector. The role of the public sector is mainly stimulatory, gap-filling, and supplementary. For example, the present strategy in Chile consists of assigning a secondary role to the public sector and of giving general guidelines to the national community to serve as a framework for the free development of private activity.

At the other end of the range there are countries where major means of production are in public ownership and public enterprises dominate the economy. There are several different institutional models and different policy orientations in this group, but on the whole the environment, motives and goals of public enterprises are distinctly

different from those in the first group.

Between the two groups there are countries which proclaim or exhibit a certain combination of public and private enterprises with an active and strategic role of the public sector, which are usually called "mixed-economies". Since every economy is a mixed economy in the statistical sense, these countries can more properly be differentiated among themselves and from the other two groups by their policy orientation and practices followed rather than on purely quantitative criteria. For example, in India the public sector has been advocated for three reasons: to gain control of the commanding positions in the economy, to promote critical development in terms of social gain or strategic value rather than primarily in consideration of profit, and to promote commercial surpluses with which to finance further economic development.

In the report of the Secretary-General of the United Nations to the Economic and Social Council, speaking of the criteria and practices employed by developing countries with regard to the role and place of the public sector, the following were mentioned: a) Providing facilities and services aimed at satisfying basic social and economic needs, b) ensuring national control of natural resources and other key areas of economic activity, c) preventing private domination of the economy, d) filling gaps in the economy, e) stimulating the private sector, and f) ensuring adequate supplies of consumer goods and/or stabilizing the prices of these goods.

The satisfaction of some basic social needs and the provision of basic infrastructure facilities and services is, in most countries, in the domain of the public sector. The most important in the social services are public education, public health and public housing, which are all directly related to the welfare of the population. Transport and communication facilities, energy, and water supply, and other public

utilities are an essential condition for development of other activities and for improvement of the standard of living. They are usually characterized by large capital requirements, economies of scale, monopoly situation and regulation of prices. Rural infrastructure facilities require special attention.

The need for greater national control of the economy as a motive of a general nature has, in given historical circumstances of the struggle for political and economic independence, lead to a considerable expansion of the public sector. A similar but more important and widespread concern in developing countries has been the preventing of the excessive concentration of economic power in private hands in view of possible divergence of private and public interests and its repercussions on the distribution of income, wealth and power in the society. Many developing countries have been dissatisfied with the kind of economic and social development and pattern of distribution which accompany economic growth based on private interests and have opted for different degrees of restriction on private ownership and power.

Some countries have put all the important means of production and distribution under public ownership. Another group of countries have reserved certain specific branches of economic activity for the public sector and have restricted the private sector by licencing and other controls to prevent the expansion of private sector activities where they would run counter to the national goals and direct them into areas which are in line with national priorities. This is not to say that public ownership of the means of production would automatically prevent the possibility that certain political, administrative, or managerial groups may well misuse public enterprises as a means of obtaining economic power and promoting their group interest at the expense of public interest. Such a possibility rather emphasizes the fact that one has to take into account also the distributional

aspects and the nature of the decision-making processes, beside the legal notion of ownership, to ascertain that the public sector activities have been in line with the interests of the society as a whole.

Filling the gaps in the economy is a rather more specific motive for establishing public enterprises as it pertains to specific historical circumstances in a given country. It is essentially of a supplementary nature, and sometimes takes the form of take-over of ailing private enterprises and joint ventures with private and foreign enterprises.

Stimulation of private sector activities through various measures is an important task of the public sector. Among these promotional measures credit facilities, assistance in identifying investment opportunities and formulating investment projects, setting up of industrial estates, special promotion and extension agencies, and a whole set of supporting facilities for rural development have been used. In the field of internal and external trade the public sector operated trading firms in some countries.

There are other classifications of motives for establishing public enterprises. One such classification specifies these as: economic growth, revenue for government, fuller use of human and other resources, social equity and certain public policy objectives. Another classification uses three categories of primary motives: Basic motives (national monopoly, collective intermediates, merit goods), developmental motives (entrepreneurial support, entrepreneurial substitution, managerial substitution, transitional), and other motives (power and control, revenue). There is another categorization into regulatory, promotional and developmental, and commercial enterprises.

3. An Overview of the Relationship with the Socio-Economic Environment
While the role of the public enterprises and their goals will obviously depend very much on the socio-economic

system, level of development and development strategies adopted in a given country, the issue of the multiplicity of goals and the need to reconcile the goals of individual public enterprises with the fundamental goals of the state and the society in question will arise in all cases, though in different degrees of importance and in qualitatively different social environments. The performance of an individual public enterprise should in principle be judged by social criteria, as an enterprise is not an end in itself but plays the role of one of the instruments of national policy to achieve fundamental social goals. Social criteria are needed to assess the priorities allotted to particular benefits and costs involved in a given activity from the point of view of the whole of society.

This is, however, easier said than done. Some of the activities of the public sector render social benefits that can be calculated only by value judgements and thus, evaluation could differ substantially among different socio-economic systems. There are activities which have large indirect effects which can be internalized only at the level of the national economy. Imperfections of markets in developing countries together with the possible divergence between private and social costs also indicate that in commercial operations net commercial profit might not be a proper yardstick of performance. Its magnitude also depends on other measures of economic policy, especially pricing policy, and particular conditions in which a public enterprise operates so that high profits do not necessarily mean a good performance and vice versa.

To reconcile the commercial mode of operation with social obligations is not an easy task but it has to be solved if public enterprises are to serve as an instrument of economic and social development in line with public interests. It is easy to agree that two opposing temptations should be resisted: to treat public enterprises naively as a private enterprise and adopt a single commercial rate-of-return yardstick, or to treat it as a social service absolved

from economic discipline. The practical solutions to this problem vary substantially among different socio-economic systems, as the choice of instruments is not independent of the social goals. For example, in the system of state ownership in centrally planned economies direct controls by administrative means will be used in most cases, while in a self-management system with social ownership, self-management and social agreements will be used and combined with more indirect instruments of control.

Despite the large variety of organizational forms and policy measures used in dealing with this problem as a consequence of the fact that different goals imply differences in the means and different criteria for performance evaluation, these efforts emphasize the need for coordination among public enterprises, their supervising authorities, other sectors of the economy and other instruments of economic policy. The role of public enterprises and institutions and that of indirect measures of economic policy are interdependent and complementary. Public enterprises are subject to overall social goals and guidelines set; they also influence the setting of these and their achievement. At the same time it is the task of the society to create institutions, guidelines and policy measures that they will enable public enterprises to satisfy those goals in the most efficient way.

Thus planning system and other instruments of economic policy represent an important aspect of social efficiency as means of coordinating interests and performance of public enterprises with the interests of the society as a whole. In this context, the questions of centralization and decentralization of decision making and planning, the coordination of the development strategy with the current economic policy, and the influence of macro economic institutions on the development of public enterprises play an important role.

This shows that it is in general difficult to discuss the role of public enterprises without reference to the broader role of the public sector and the socio-economic system of the country. The problems of availability and comparability of data for cross-national comparisons stem from the differences among countries in the character, role and organizational forms of public enterprises, which are in turn related to the differences in the level of development, in economic and social conditions and goals, as well as in political and pragmatic views regarding the possible solutions to the existing problems.

Looking from the dynamic point of view, it is important to realize that the role as well as the organizational forms of public enterprises are in many countries undergoing a rather rapid change as the changes in the above mentioned factors and external factors affect the general strategy of development and of industrialization in particular. The role of public sector in developing countries has not only been increasing but there have been also considerable changes in its field of activities, motives and methods used. This has been at least partly also a result of searching for the most adequate solutions within the general orientation of a particular country.

In such a situation analytical studies of the historical evolution of the public sector in a given developing country can provide very important elements for the understanding of the role of the public sector in the industrialization and in economic and social development in developing countries. The role of the public sector is a dynamic concept and an intertemporal study of its importance for the industrialization of a particular country should be looked upon as a comparative study of its role at different periods in the country's development.

Similarly as there are differences in economic, social and political conditions among various countries, different periods of country's development and industrialization are characterized by different conditions and a study of the evolution of the public sector can show the emphasis and changes in the country's strategy in this respect. An analysis of the transformation in time of the public sector itself and its impact on economic growth and social transformation of the country would be very important for a proper understanding of the role which public enterprises and public sector play in the life of a nation.

A brief illustration of this point can be provided by looking at the evolution of the public sector in the economic development of Yugoslavia. The period immediately after World war II when Yugoslavia emerged as a socialist country was characterized by reconstruction of war damages and formation of a strong public sector which started to play its strategic role in the development of the nation under extremely unfavorable economic circumstances. Such a severe situation required that all country's resources and manpower had to be mobilized for the reconstruction of the devastated economy and to bring about a rapid industrialization and transformation of the economy. Economic independence was achieved through nationalization of foreign capital although repayments represented a heavy burden. Similarly, nationalization of all major private means of production and land reforms opened up possibilities for new development policies. In this period the state owned all major means of production, and the planning was centralized and used as an instrument of direct and centralized management of the economy. There was little scope for initiative and decision-making in the public enterprises, there role was to implement the targets which were set higher up in the hierarchy of state administration. Public enterprises were along with public institutions included in the budget.

The introduction of self-management in public enterprises in 1950 marks a process of decentralization and of introduction of a new type of relations of different production relations. Its main intention is to give to the working people the right to decide for themselves about their work, and the results of their work, and to avoid the danger of bureaucratization of economic, social and political institutions. With the evolution of the self-management system there have been considerable changes in the position, degree of autonomy with respect to various dimensions of decision-making process and role of public enterprises. While the evolution of the autonomy of public enterprises in line with material preconditions and experiences gained in the development of the system cannot be elaborated here, it should be mentioned that the role previously played by the central government has been in a number of fields gradually taken over by the lower level of governments and especially by self-management decision-making bodies at various levels to ensure a broader participation of working people and democratic integration of interests.

The role of the public sector in industrialization of developing countries will thus not only depend on the industrialization strategy but also on the economic and political system of the country. In the Yugoslav example, where the two most important characteristics of the system are social ownership of the means of production and self-management, the role of the public enterprises will be influenced by the system's basic normative characteristics with respect to the role of producer in the decision-making process, production relations, distribution of income, integration in the system of associated labour, social efficiency and planning at various levels. In order to examine the experience in the development and functioning of the public sector industries one has also to understand the economic

and social environment in which they operate and the underlying development strategy.

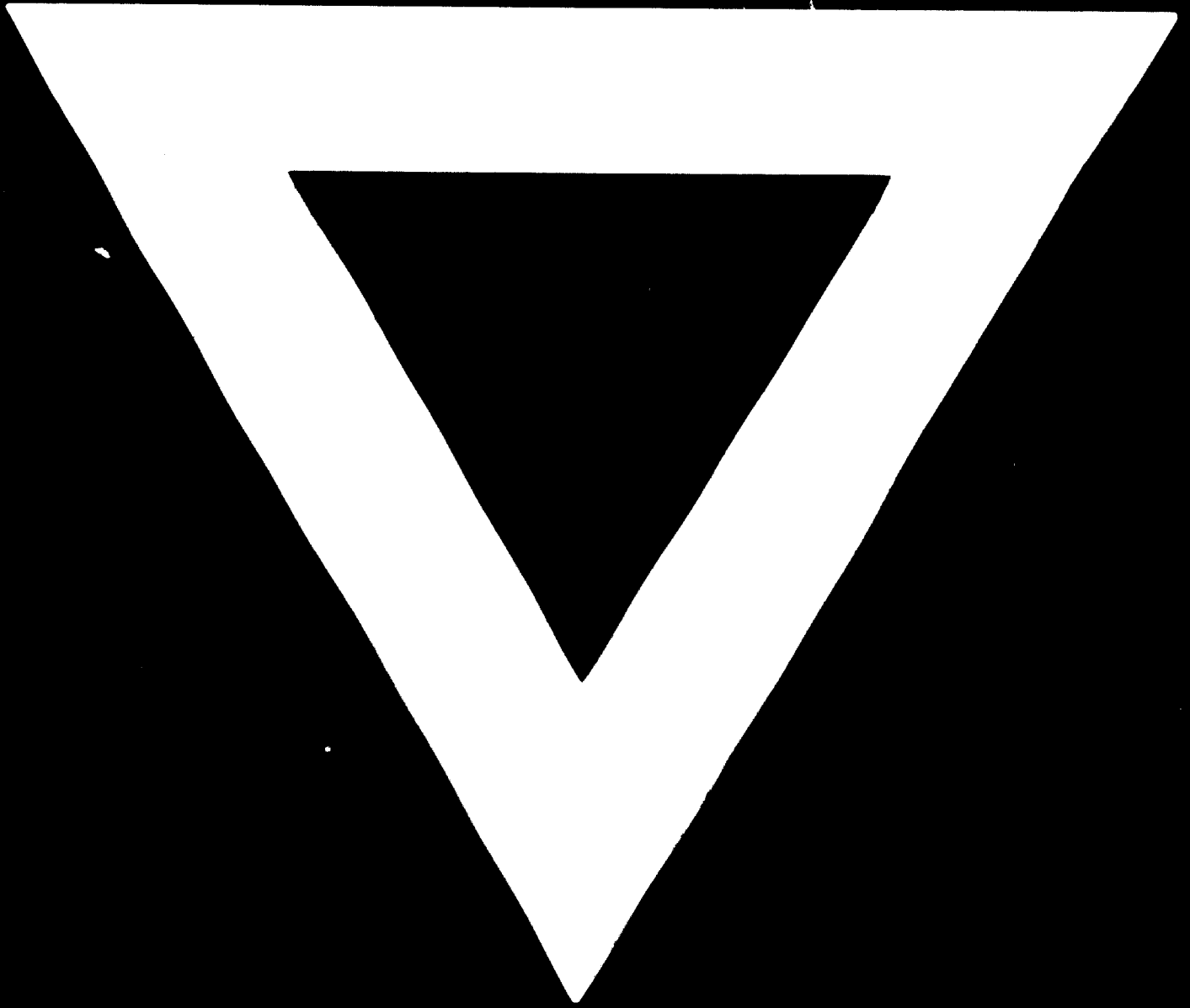
While methods and solutions used in different conditions on different levels of economic and social development cannot be automatically transplanted elsewhere, the knowledge of the situation and methods used in other developing countries and their experience will be useful not only in formulating the public sector policy in a given country but also in understanding the existing situation when cooperation or common actions in various fields are planned by the developing countries. In the research on the role of the public sector in the industrialization of the developing countries it is important to find an appropriate combination of the cross-national comparisons and studies on the evolution of the public sector in (selected) individual countries to arrive at better understanding of the complexities involved in the development of the public industrial sector.

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