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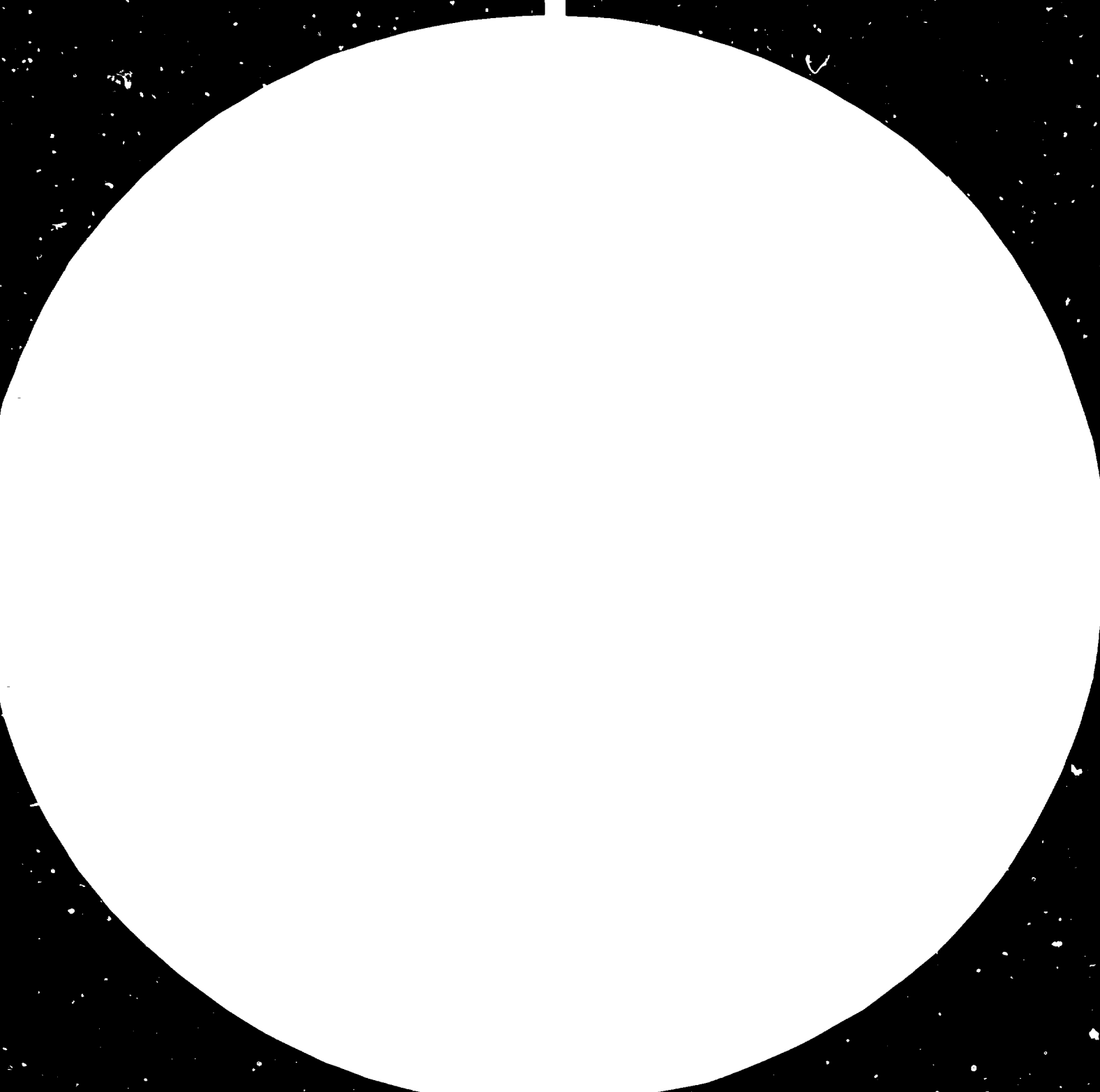
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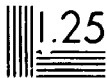
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CONFLICTING PARADIGMS: THE EVALUATION OF
PUBLIC INDUSTRIAL ENTERPRISES AS
AGENTS OF NATIONAL DEVELOPMENT*

by

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This paper attempts to review similarities and differences in the two main approaches to an evaluation of the impact of public industrial enterprises on national development within the Third World. These approaches are here described as "neo-classical" and "neo-Kaleckian".^{1/} Clearly this is a simplistic arbitrary and somewhat unsatisfactory classification. The "neo-classical" approach may incorporate many elements of institutional and organisational analysis. The "neo-Kaleckian" studies may draw upon "pre-Kaleckian" themes emerging from the works of Lenin or Preobrazhenskii. However, there is usually a similarity in assumptions, analytical tools employed and policy recommendations which is sufficient to justify the inclusion of a study in either the "neo-classical" or the "neo-Kaleckian" school. Differences between authors belonging to the same "school" are usually differences of emphasis. This is particularly true of the "neo-classical" school which has recently addressed itself to the task of analysing the nature and the performance of public industrial enterprises. This has largely been in response to a rapid growth of public enterprises in both developed market economies and developing countries. The "neo-Kaleckian" approach on the other hand is the inheritor of an intellectual tradition which has long been concerned with an analysis of the nature of public enterprise and of the role these can play in achieving economic and social transformation. Thus the growth of public enterprises has not caught the "neo-Kaleckian" school unawares. It had been predicted by some authors within the Marxist tradition.^{2/}

^{1/} It is recognized that other approaches to analysis of public manufacturing enterprises exist. To my knowledge, these studies do not address the question of the role public manufacturing enterprises play in the process of economic transformation in developing countries.

^{2/} Lenin, V.I., Imperialism: The Highest Stage of Capitalism, Moscow, Progress Publishers, 1978, p.73-83.

However, the nature of the modern public enterprise, particularly within the industrial sector, and its relationship with private business in both developed market economies and developing countries had not been the subject of analysis in the classical Marxist tradition. The "neo-Kaleckian" school addresses itself to these questions with a view to studying the role of public enterprises in different social formations.

1. The nature and motives of public industrial enterprises

The "neo-classical" and the "neo-Kaleckian" schools are divided in their analysis of the nature of public industrial enterprises and of the motives these enterprises seek to pursue. A "consensus definition" of a public industrial enterprise for the "neo-classical" school may be formulated as follows. "A public industrial enterprise is an entity that meets the following criteria: 1) The Government is the principal stockholder in the enterprise or has the ability or potential to exercise control. 2) The enterprise is engaged in the production of goods and services for sale. 3) As a matter of policy, the revenues of the enterprise are supposed to have some relations to its costs".^{1/} The last criterion implies that public industrial enterprises are profit-seeking entities although the quest for profit maximization may be constrained by what are described as "social objectives" assigned by the state to the enterprise.

The multiplicity of objectives pursued by the public industrial enterprise has generally been recognized by "neo-classical"

^{1/} Gillis, M., Public Enterprises and the Public Interest. Harvard Institute for International Development, Cambridge, May 1978, p. 2-4.

authors.^{1/} It is argued however that success in the achievement of these objectives can be evaluated in terms of the impact of public enterprise performance on the level of "economic welfare" as conceived in conventional neo-classical theory. The establishment of public industrial enterprise is generally seen as an economically rational response by Government to persistent "market failure" in specific industrial branches. Indeed, Leroy Jones argues that "(neo-classical) theory provides not a defence of laissez-faire but a list of economically rational motives for its restraint".^{2/} Since the assumptions underlying this theory are often violated in the modern world it cannot be argued that Government attempts at market regulation will necessarily result in a distribution of goods and services which is socially inferior to the distribution that would have emerged from the "free" interaction of market forces. Pareto optimality^{3/} is attained only through the operation of a perfectly competitive market system. Public regulation is justified within the context of the neo-classical paradigm if there exist material or policy-induced monopoly conditions, substantial externalities, imperfect knowledge and/or incompetent management. Public regulation may also be justified if the concern is with the production of merit goods. When public authority intervenes in a market to offset these factors, "neo-classical" theory interprets it as acting in order to overcome barriers to Pareto optimality. It is also recognized that state intervention may augment "welfare" by changing the existing pattern of wealth distribution or altering

1/ M. Choksi, State Intervention In the Industrialization of Developing Countries. World Bank Staff Working Paper No.34, World Bank, Washington, 1979, p.172-181, lists over 20 such objects.

2/ L. Jones, Public Enterprise and Economic Development: The Korean Cure, Korean Development Institute, Seoul, 1975, p.14.

3/ Pareto optimality implies that for a given distribution of income it is not possible to make one person better off without making someone worse off.

consumer tastes. Moreover, it is appreciated that correcting imperfections within a given market may entail intervention in a wide spectrum of related economic activities.

Public intervention may take a variety of forms. The "neo-classical" approach regards the establishment of public industrial entities to be of relatively minor importance. "Public economics" has traditionally been concerned with the public "provision" of goods and services. Analyses of public sector production have been few and far between. The main concern has been with the consumption impact of the production of what may be described as "quasi-public" goods. Neo-classical literature focuses on problems of efficient pricing and investment and although this literature is ostensibly related to an evaluation of public enterprise performance, it rarely concentrates attention on the nature of the producing entity. Its over-riding message is invariably that production of "quasi" public goods (whether undertaken by private or public firms) should be geared to the objective of maximizing social welfare.^{1/}

In the event of the existence of "market failures" and where market imperfections cannot be eliminated by taxation and subsidization, the objective of maximizing social welfare can be addressed by public production. Thus the establishment of public enterprises could be a "feasible means for incremental industrial asset redistribution in countries where stock markets and other institutional devices are not likely to exist and where if they do they are unlikely to be used by the bulk of the population."^{2/}

^{1/} For an outstanding example of this type of work see R. Turvey, Economic Analysis and Public Enterprise, Allen and Unwin, London, 1971.

^{2/} D. Lall, "Public Enterprises" in J. Cody, H. Hughes and D. Wall, Policies for Industrial Progress In Developing Countries, UNIDO/World Bank, Oxford University Press, New York, 1980.

Similarly, inability to levy taxes or prohibitive administrative costs in the distribution of subsidies to consumers or private producers may render public enterprises as more effective instruments for the achievement of "second best" welfare solutions in developing countries.

Welfare levels can be augmented by public enterprise by a variety of pricing and investment strategies, not all of which imply profit maximization. Thus, if the purpose of establishment of a public enterprise is to enhance price stability in a given market, to promote domestic production or transfer income to a less privileged group, pricing and investment policies based on the objectives of profit maximization would not be appropriate. They would not have an "optimum" impact on the level of social welfare. It has been argued that "distributive prices" should be determined outside the public enterprise system and the enterprises should consider themselves as constrained by the external environment.^{1/} Even if this is accepted, the neo-classical school recognizes that public enterprise may deviate from the "normal" profit maximizing behaviour of private forms^{2/} in order to correct market distortions.^{3/} These distortions may be specific to the market in which the public enterprise is producing

^{1/} Jones, Op. Cit., p.144.

^{2/} Whether private firms exhibit "profit maximizing behaviour" is, of course, itself the subject of a major controversy. See e.g. R. Marris, The Economic theory of Managerial Capitalism, Cambridge University Press, London, 1964.

^{3/} These are described by Jones as "primary intended deviations (which usually) imply investment deviations but not operational deviations" by public enterprise, Jones, Op. Cit., p.145.

or they may be economy-wide distortions. Deviations may also occur as a result of the constraints - the distributive and "political" objectives - imposed upon the public enterprise by the external environment.

Jones has developed a classification scheme for the public enterprises of the Republic of Korea. One of his categories relates to public enterprises established to achieve "developmental motives". Public enterprises in this category have been established in order to offset a "constellation of market failures" including imperfect capital market and an unwillingness to bear risk on the part of the private sector. They have been established to perform one of three purposes: 1) to render entrepreneurial support; 2) to provide entrepreneurial substitution; or 3) to provide managerial substitution. Public enterprises in the last two categories are likely to contain the large majority of public industrial enterprises in developing countries.^{1/} Jones argues that "profit serves as an excellent first approximation to an operational goal for the entrepreneurial and managerial substitution categories. (Their) primary intended deviation (from the private enterprise behavioural norm) is existential; left to purely private initiative they would supposedly not operate at all. Intervention is intended only to achieve existence, therefore, their operational behaviour should not differ from that of private enterprises".^{2/} The large majority of "neo-classical" scholars

^{1/} Entrepreneurial support agencies are identified as development banks, technical assistance agencies, etc. Jones, Op. Cit., p.148.

^{2/} Jones, Op. Cit., p.157.

regard public industrial enterprises as profit-seeking entities whose operation is constrained by external agents which assign distributive and "political" functions to these enterprises. They regard it as logical, therefore, to assess the performance of the public industrial enterprise in terms of its impact on the level of social "welfare".

"Welfare" considerations are, however, not central to the work on public enterprises undertaken by the "neo-Kaleckian" school. Public enterprises, particularly public industrial enterprises, are seen as instruments capable of achieving a transition from a capitalist to a socialist economy. Seizing control of the "commanding heights" of an economy is an objective necessity according to this view if "production for profit" is to be replaced by "production for use". However, Kalecki argues that public enterprises play different roles under different types of regime. Their growth in developing countries is explained in Kalecki's view by the emergence and consolidation of "intermediate regimes" - i.e., political structures "where the lower middle class and the rich peasantry perform the role of the ruling class".^{1/} In order to survive, these "intermediate regimes" need to limit the influence of foreign capital and the "comprador bourgeoisie". Public enterprises are an instrument for achieving "economic emancipation" and providing the entrepreneurial initiative for rapid development which the domestic upper middle class is too weak to undertake. In such a situation state capitalism concentrates investment on the expansion of the productive potential of the country. There is thus no danger

^{1/} Kalecki, M., "Observations on Social and economic aspects of intermediate regimes" in Essays on Developing Economies, Harvester, Brighton, 1976, p.30.

of forcing the small firms out of business . (Further) the rapid development creates executive and technical openings for ambitious young men of the numerous ruling class".^{1/} State enterprises are thus seen as a means for consolidating the "intermediate regime" in the developing countries.

K.N. Raj^{2/} and Sobhan^{3/} have extended Kalecki's work to examine the role public enterprises play within a given economy and the nature of the political regime which dominates it. Sobhan makes a distinction between public enterprises which have emerged as a consequence of the withdrawal of the colonial power and those which have been created as a result of changes in the "domestic balance of class forces". The second group of enterprises is perhaps more likely to emerge as a dominant force within the economy.^{4/} If the transition of power has taken place from the colonial administration to the "national bourgeoisie" or to the "petty bourgeoisie", public enterprises are likely to remain important but subsidiary to private institutions.^{5/} In certain circumstances public enterprises may develop an identity of interests with foreign

1/ Kalecki, M., Op. Cit., p.32-33.

2/ Raj, K.N., "The Politics and Economics of Intermediate Regimes", Economic and Political Weekly, 7 July 1973.

3/ Sobhan, R., "Public Enterprises and the Nature of the State", Development and Change, Vol.10 (1979), p.23-40.

4/ My interpretation of Sobhan, "Public enterprises and the Nature of the State", Development and Change, 1979, p.26.

5/ Sobhan, Op. Cit., p.28.

capital as is illustrated by Evans in the case of Brazil.^{1/} In the "neo-Kaleckian" view public enterprise serves the interests of the dominant political forces. In the event of political instability when rival "class forces" are contending for state dominance, the operational performance of the public sector is likely to be seriously impaired. The "neo-Kaleckian" school contends that the public enterprise sector is likely to operate most effectively and efficiently under a "regime of the masses".^{2/} In such a regime it becomes a primary instrument for surplus mobilization and for enhancing productive capacity. The operational performance of public enterprises may also be improved in a regime clearly dominated by the "national bourgeoisie". Under such a regime the improved performance of the public enterprise lowers cost within the economy and enables the private sector to increase profits. However, "both the established and aspirant bourgeoisie tend to develop a vested interest in the poor performance of public enterprises ... for in a bourgeois-dominated regime an overly successful public sector may encourage the workers of these enterprises and even the managerial cadres to seek a more dominant role for public enterprises at the expense of the private sector."^{3/} It appears that the "neo-Kaleckian" school recognizes that there are forces at work in "bourgeois dominated" regimes which frustrate possibilities for improvement in the operational

^{1/} Evans, P., "Multinationals, State owned corporations and the transformation of imperialism", Economic Development and Cultural Change, 1977, p.43-64.

^{2/} Sobhan, Op. Cit., p.29.

^{3/} Sobhan, Op. Cit., p.30.

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performance of the public enterprise sector. An elimination of these constraints on public enterprise performance would endanger the political consensus which sustains the incumbent regime. One is therefore led to the conclusion that the "neo-Kaleckian" school regards the public enterprise sector as having the potential to serve as an instrument for achieving transition from the "bourgeois dominated" regime to a regime "dominated by the masses". I am not aware however of "neo-Kaleckian" studies which aim to explore this potential^{1/}.

In a "regime of the masses" public enterprises are enabled to "maximize surplus generation and its retention for expanding the productive forces".^{2/} Assuming that prices obtaining within such an economy are true reflectors of social opportunity costs and benefits^{3/}, this would imply that public enterprises should be regarded as profit/growth maximizers in the "regime of the masses". In other words in the "optimal" economic and political formation there is likely to be little significant difference in the "neo-classical" and "neo-Kaleckian" analysis of the nature and role of public enterprise. This apparent convergence of paradigms is, however, of little more than academic significance. Obviously there are important differences in the "neo-classical" and "neo-Kaleckian" conceptions of the "optimum" (utopian) state. In the "neo-classical" vision this optimum is approached when property-owning individuals voluntarily establish economic relationships in non-monopolistic markets. In the "neo-Kaleckian"

^{1/} Some aspects of this question are taken up again in the following section.

^{2/} Sobhan, Op. Cit., p.38.

^{3/} i.e., assuming the efficiency of planning.

world, economic freedom is sought to be guaranteed by the abolition of private property and the socialization of the means of production. Thus movement towards the "neo-classical" optimum requires public enterprise to adopt pricing and investment policies which offset existing market "distortions", while movement towards the "neo-Kaleckian" optimum necessitates that public enterprises gear their activities towards augmenting the role of the state as the main (dominant) decision-taker within the national economy. In the "neo-classical" view the role of public enterprise as an off-setter of market distortions is best served if these enterprises plan production on the basis of social opportunity costs and benefits as reflected primarily in the pattern of international prices with which the national economy is confronted. The "neo-Kaleckians" on the other hand argue that movements towards their optimum - "the regime of the masses" - implies that the public enterprises restructure the domestic economy in such a way that dependence on foreign capital is reduced. This difference in perspectives ensures that the two schools differ in their assessment of the impact of public enterprise in national development.

2. Assessment of impact on national development:

Most work on assessing the impact of public sector enterprises on the national economy within the neo-classical stream has been at the micro level. The main concern has been to analyze the investment and pricing behavior of public corporations with a view to determining the impact of these policies on economic "welfare".

Neo-classical appraisal of public enterprise is firmly rooted in welfare theory and is concerned primarily with the "optimum" provision of public goods and with an analysis of government intervention in the natural monopolies. This theoretical perspective necessitates that public ownership of manufacturing enterprises be regarded as one of a number of instruments that can be employed to attain at most a second-best welfare optimum in which the net gains from the removal of the initial divergence between marginal social value and marginal social cost is offset by the loss caused by the creation of some other divergence.^{1/} Investment in public industrial enterprises is justified if it leads to a maximization of social welfare where "social welfare" is taken to be a function of the consumption level of the citizens of a country over time and where the social value of commodities are measured in terms of "border" prices.^{2/} Non-traded and partially traded goods are also valued with reference to international price structures and accounting prices of factors of production are evaluated in terms of uncommitted public income valued in terms of foreign exchange as well.

Substantial work has been done to develop appropriate criteria for evaluating the "welfare" impact of public enterprises.^{3/} Thus Jenkins suggests a number of adjustments to conventional accounting statements in order to render them appropriate for assessing the commercial performance of public enterprises.^{4/}

1/ D. Lall, Op. Cit., p.219-220.

2/ i.e. prices of similar goods available outside the country.

3/ See, e.g., Roemer, M. and Stern, J., The Appraisal of Development Projects, Praeger, New York 1976, and Jenkins, G., Performance Evaluation and Public Sector Enterprise Development, Discussion Paper No.46, Harvard University, Cambridge, May 1978.

4/ Jenkins, Op. Cit., p.5-10.

These adjustments allow the construction of cash flow statements which can be used to identify sources of revenue, financial capability, liquidity problems, etc., and to separate economic costs and benefits from flows that represent a mere transfer of funds between the enterprise and government. These adjustments thus enable the analyst to move from a narrowly commercial to an economic appraisal of the performance of public enterprises.

Such an appraisal requires further that the impact of public investment be evaluated in terms of social opportunity costs. Social cost-benefit analysis retains the formal framework of present value calculation but re-calculates factor prices (including the price of foreign exchange) in terms of the relative social scarcity of these factors. Public investment can thus be systematically geared to the task of correcting/offsetting market distortions and contribute towards an enhancement of both efficiency and equity.^{1/}

Extensive criticisms of this approach have been presented.^{2/} First the derivation of these "shadow" prices presupposes the simultaneous existence of an "efficient" output configuration. However, change in the output mix due to the operation of projects selected on the basis of "shadow" prices that were "correct" for the original output programme will imply that a different set of "shadow prices" is now required to achieve efficient resource allocation. Moreover, as Bhaduri argues, there is "no guarantee that the national output configuration (on the basis of which "correct" shadow prices are being derived) has the required property of dynamic stability with respect to piecemeal

^{1/} This approach is adopted by both UNIDO, Guidelines for Project Evaluation, UN sales publication E 72.II B II, and Little, I.M.D and Mirless, J., Project Appraisal In Developing Countries, Heinemann, London, 1974.

^{2/} See, e.g., Streeten, P. and Stewart, F. "Little Mirless Method and Project Appraisal", Bulletin of the Oxford University Institute of Economics and Statistics, 1972, p.75-91, and Bhaduri, A., Cost Benefit Analysis for Project Evaluation, UNIDO ID/WG.334/3, 1980.

use of shadow prices in selecting public projects".^{1/} In other words, the use of shadow prices, even when adequately corrected to take into account changing output mixes, does not guarantee that resource allocation patterns will gradually converge towards the (desired) efficient national output configuration. Such a convergence can only be shown to exist if it is assumed that the problem of effective demand is of no consequence as far as developing countries are concerned i.e. that government intervention through the systematic use of a given project selection criteria will not influence the over-all level and composition of public investment and this will not, in turn, have an impact on effective demand through the (Keynesian) multiplier mechanism.

Another important criticism of "social cost benefit analysis" is that its use does not allow the analyst to take into account the qualitative differences in the output stream of different economic projects. Selecting between a factory producing fire arms and a factory producing wearing apparel in terms of the standard categories of "social cost benefit" analysis obscures the profound qualitative difference in these two output streams. It also obscures the place each unit of production have within a comprehensive integrated investment scheme. In order to integrate "social cost benefit" analysis into a framework of national economic planning, it is necessary to make a deliberate choice as to the desired physical composition of national output. "Social cost benefit" analysis relies on world market prices as indicators of the pattern of resource allocation which will permit a developing country to maximize the net flow of consumption from a given unit of investment over a specified time period.^{2/} The prices represent to the country concerned the opportunity cost of obtaining any

1/ Bhaduri, Op.Cit., p.13.

2/ Little and Mirless, Op.Cit.

given product. However, as Lall and Streeten have pointed out, "The relative values of these products represent the demand patterns and preferences of the developed countries and the technological and marketing patterns of the large oligopolists which dominate production there".^{1/} Since price formation in oligopolistic markets is strongly influenced by bargaining processes, there is a strong temptation to use policy mechanisms for exerting pressure to influence these price formation processes. Moreover, preference articulation in developing countries is affected by forces at work in the international economy and governments of developing countries are by sheer force of circumstance compelled to seek to modify the impact of these forces on the pattern of resource allocation within the national economy. Thus it is the desire to modify individual preferences - to make them conform to the government's own perception of the country's social needs - which lies at the root of most attempts at economic intervention by Third World governments.

The problem of preference re-ordering is not adequately addressed within the context of the "neo-classical" approach. This approach is based upon an ideological perspective which assumes that the individual's attempt at maximizing his own welfare provides the economist with a knowledge of correct social preferences. It is these preferences that "ought" to be fulfilled. The optimization of social welfare can be achieved through the fulfilment of these preferences. The process of formation or articulation of these preferences is not regarded as an appropriate area for economic analysis, nor does economic analysis concern itself with assessing the extent to which the fulfilment of different preferences will increase social welfare.^{2/} This liberal philosophy - and its

1/ Lall, S. and Streeten, P., Foreign Investment, Transnationals and Developing Countries, Macmillan, London, 1977, p.186.

2/ For qualifications to this statement, see Stiglitz, J., Normative Economics, Oxford Pergamon, 1975.

implied theory of the state and of the role of the government in society - which underlies welfare economics is thus an inadequate point of departure if one is concerned with explicating an economic strategy which is concerned with attaching priority to the satisfaction of basic needs, to achieving economic self-reliance or even to creating a better pattern of income distribution. In the "neo-classical" approach all these may be regarded as "economically irrational" objectives since their pursuit may lead to a pattern of investment allocation which is "sub-optimal" in welfare terms in the sense that it does not maximize the flow of consumption over a given time period.

Some "neo-classical" authors have recognized that "microeconomic efficiency evaluation (of the public industrial sector) can be meaningfully considered in the context set by national goals, alternative public policy tools and the constraints imposed by the governmental control structure".^{1/} Evaluations at a sector level^{2/} have concentrated on analyzing the impact of the public industrial sector on the level of economic growth, the rate of surplus mobilization, employment generation and export expansion. Attempts have also been made to assess the role of the public industrial sector in increasing domestic economic integration through fostering inter-industrial linkages and in modifying output and factor market structures. It will be readily seen that although "efficiency" related questions cannot directly be addressed within such an analytical framework,^{3/} its use does not imply an abandonment of the basic conceptual tools of "welfare" analysis. Private enterprise can at a sectoral level be analyzed in a likewise fashion, and a comparison of the impact of public and private

1/ Jones, L.P., Op.Cit., p.2.

2/ The most outstanding example is Jones' study of the Republic of Korea, Jones, Op. Cit.

3/ Jones, e.g., does not present any efficiency analysis but claims that his work is specifically structured to provide the necessary preconditions for such evaluation. Jones, Op.Cit. p.2.

sector performance on the rate of growth of gross domestic product will yield the relative contribution these sectors make towards an expansion of economic "welfare". GDP per capita is a measure of the flow of consumption over time.

The "neo-Kaleckian" school formally dissociates itself from "welfare" analysis. It rejects the assumption that the individual consumer is a free and rational being who seeks utility maximization in perfectly competitive situations. It views society as an amalgam of conflicting forces. Public enterprises are not an instrument for correcting "market failure" but a vehicle for the reconciliation of differences in social opportunities, goals and strategies of the various interest groups of which a society is composed. In this perspective "public enterprises are tools of public policy which serves the purpose of the attainment of collective goals, as defined primarily by the dominant social forces".^{1/} This would suggest that "neo-Kaleckian" analysis of the impact of public industrial enterprises should concentrate on assessing the role of this sector in strengthening the political and economic dominance of a given interest group set within a social formation. It is possible to distinguish between the economic strategies of different interest groups in terms of the desired changes in the composition of national output. Thus, emphasis on the restructuring of production in accordance with a country's international comparative advantage has traditionally been regarded as a development strategy which consolidates the position of the domestic business and industrial sector within the national economy. As against this, emphasis on the achievement of economic self-reliance has traditionally strengthened the hand of the public sector bureaucracy as an

1/ Ahmad M., Public Enterprise as an Instrument of Industrial Policy in Bangladesh, ESCAP, Bangkok, 1980, p.67.

economic decision taker. It may, thus, be feasible to take the sectoral targets of a development plan as rough indicators of the group preferences of the dominant social forces within a given country and to ask which investment strategy is likely to lead to the achievement of these targets in the different production sectors at the minimum cost. Socialist economic analysis has popularized the use of the "recoupment period criterion" as a means of evaluating different investment variants for producing a given output.^{1/} The "recoupment period" may be defined as

$$\frac{K_1 - K_2}{M_2 - M_1} \leq Tr$$

where Tr is a specified recoupment period

K_i is the capital cost of technology i .

M_g is the operating annual cost of technology g .

Assume two methods (technologies) of producing the same amount of steel. Method 1 involves the construction of a huge blast furnace. Method 2 requires the establishment of a number of "backyard" operations of the type popular in China during the 1960s. Assume that the total capital cost of Method 1 is \$10 million and that of Method 2 is \$1 million. Furthermore, assume that the annual operating cost of Method 1 is less by \$0.2 million than that of Method 2, then it would take no less than 45 years to recoup the additional cost of \$9 million in setting up the more investment intensive project. If, however, the difference in the annual operating cost of methods 1 and 2 was \$2 million the required recoupment period would have been only 4.5 years. It is to be emphasized that the "recoupment criterion" assess the choice of an "efficient" (i.e. cost minimizing) technology for producing a given output. "Social cost

^{1/} A. Nove and Zauberman (ed), Studies in the Theory of Reproduction and Prices, Warsaw Polish Scientific Publishers, 1964. See specially M. Kalecke and M. Rakovski, "Generalized Formula of the Effect of Investment", p.73-89.

benefit" analysis, on the other hand uses international prices as a reference point for determining what bundle of output a country can most efficiently produce in order to maximize "welfare".

The use of the "recoupment" criterion is widespread in the analysis of public sector enterprises in centrally planned economies. "Neo-Kaleckian" studies concerned with developing countries do not usually undertake detailed micro-level investigations and therefore the "recoupment period" criterion is less frequently employed. "Neo-Kaleckian" work is usually concerned with an evaluation of the macro impact of the growth of the public industrial sector. Interest is focussed on the role of this sector as a stimulant for increasing domestic economic integration (particularly linkages with the agricultural sector); as a supplier of "basic needs" products; as a contributor to foreign exchange earning and as a promoter of national self reliance.^{1/} The performance evaluation criteria employed by "neo-Kaleckian" studies are not very different from those used by "neo-classical" authors; however the conclusions drawn are of course quite dis-similar. It will be evident that this disagreement originates from a difference in the opinion of authors belonging to the two schools about the role the public sector can and should play in sustaining national development.

This difference can be seen most graphically if we contrast Leroy Jones' study of the Republic of Korea^{2/} with Sobhan and Ahmad's study of Bangladesh.^{3/} It has been seen that Jones is primarily concerned with evaluating the extent to which the public sector has been an effective instrument for the correction of

^{1/} See, e.g., Ahmad, Op.Cit., p.29-45.

^{2/} Discussed at length on p.6-7.

^{3/} Sobhan, R. and Ahmad, M., Public Enterprise in an Intermediate Regime. A Study in the Political Economy of Bangladesh. Dacca, Bangladesh Institute of Development Studies, 1980.

"market failures". These "market imperfections" limit the achievement of national political and economic goals. The growth of the public sector in the Republic of Korea is explained primarily by its ability to "correct" these market failures and contribute towards the achievement of the "national goals" derived from the "philosophy" of Park Chung Hee. This "philosophy" is discussed at some length by Jones^{1/} and it is argued that this "philosophy" explains both the growth of the public sector and the restraints placed upon it. This "philosophy" necessitates that "market frustrations (be) overcome by selective and pragmatic applications of the public enterprise tool".^{2/}

Contrast this with Sobhan and Ahmad's analysis of Bangladesh public industrial enterprise. "Ideals" and "social philosophy" play a relatively minor part as factors explaining public sector growth and performance. "Mujibism"^{3/} is not mentioned and emphasis is clearly centered on the interplay of material class interests as determinants of the role of the public sector in the national economy. The class background of Mujibur Rahman is described^{4/} and the policy of the Government and the leading party -- the Awami League -- is perceived as being strongly influenced by their changing "class" composition.^{5/} "Class contradictions" within the Awami League regime are seen as the main constraints on public

1/ Jones, L.P., Op.Cit., p.133-139.

2/ Jones, L.P., Op.Cit., p.139.

3/ The "social philosophy" of Sheikh Mujibur Rahaman, the first President of Bangladesh.

4/ Sobhan and Ahmad, Op.Cit., p.577.

5/ Sobhan and Ahmad, Op.Cit., p.568.

sector performance, and an extensive review of management, pricing, financial and labour policies of public enterprises is undertaken to show how these policies serve as instruments for "surplus extraction and appropriation" by the dominant social "classes". In Sobhan and Ahmad's view, "public enterprise in Bangladesh can only realise its full potential as a source of surplus generation to be used as an engine of growth when the contradictions which have constrained its performance are effectively resolved. Such a state of affairs can only come about when the anti-bourgeoisie premise of policy towards public enterprise can be aligned to the changed character of a state based on the masses".^{1/}

In sum it may be concluded that evaluation of the impact of public sector performance on national development involves an assessment of its contribution towards the overcoming of "market distortions" in the pursuit of the economic objectives embodied in the "social philosophy" of "second generation third world leaders",^{2/} in the view of the "neo-classical" school. As far as the "neo-Kaleckian" school is concerned, evaluation of public sector enterprise involves an assessment of its role in achieving a transition from the "bourgeois state" to a "state of the masses".^{3/} There are many ambiguities in these two positions, some of which are addressed in the final section of this paper.

^{1/} However, the class background of the intellectuals who proposed widespread nationalization to the Awami League in 1970/71 is not discussed. Since none of the four intellectuals identified in the text (p.577, p.581) can be said to have a "non bourgeois" class background, it may be argued that the "social philosophy" of the "planning commission intellectuals" did play a role in determining the role of the public sector within the Bangladeshi economy.

^{2/} Jones, L.P., Op.Cit., p.138.

^{3/} Sobhan and Ahmad, Op.Cit., p.18-19 and p.568.

3. The unasked questions

It is of course relatively easy to construct indices measuring the public industrial sector's contribution to gross capital formation (primitive socialist accumulation), employment and the achievement of distributional objectives. Both "neo-classical" and "neo-Kaleckian" studies present such evidence.^{1/} But an overall evaluation of this evidence can be attempted only within the context of the respective theoretical paradigms. As far as the "neo-classical" school is concerned, this involves assessing the contribution that public industrial enterprises make to improved economic efficiency where international prices are taken to be the relevant yardstick for measuring the degree of economic efficiency. However, as has been pointed out above,^{2/} existing international prices are themselves "distorted" to the extent that international markets are oligopolistically structured. Moreover, existing international prices are based on a pattern of international income distribution which is not acceptable to most members of the developing world and the explicit intention of the supporters of the demands for the creation of a New International Economic Order is to change the status quo which is reflected in the existing structure of international prices. The achievement of "Pareto-optimality" on the basis of the existing pattern of international income distribution is not an economic objective of the majority of developing country governments. Few developing countries have evidenced a desire to accept the discipline of existing international prices and postpone investment in industrial branches they regarded as important but in which they do not have an

^{1/} See, e.g., Gillis, M., "The Role of State Enterprises in Economic Development", Social Research, Summer 1980, p.266-289, Ahmad, M., Op.Cit. and Szentes, T., The Political Economy of Underdevelopment, Accadamie Kiado, Budapest, 1971.

^{2/} See above, p.14-15.

international comparative advantage. Often public enterprises have been an instrument for creating a competitive position in international and regional markets. During the period 1830-1870, Germany followed a policy of using state economic initiative to foster German industrial competitiveness in a wide range of international markets.^{1/} The development of the petrochemical industry in Brazil during the 1960s and 1970s may be cited as another example of an attempt to use public enterprise for penetrating foreign markets.^{2/} Moreover even within a "closed economy" model it would be unrealistic to assume that public enterprises are instruments for achieving a "Pareto-optimal" distribution of resources for the reason that the existing pattern of income distribution within the national economy is not regarded as desirable or acceptable. As pointed out earlier, "neo-classical" scholars recognize that "Pareto efficiency" may not be a motive for the operation of public enterprise as long as the pattern of wealth distribution is considered sub-optimal. Writing of the experience of the centrally planned economies, Jones notes "In the Soviet Union and in most East European countries it is not unreasonable to view the system within the ("neo-classical") economic framework specified above: i.e. there is an initial redistribution of wealth from the individual to the state but thereafter control is exercised by the appointees of the owner of capital in a familiar fashion".^{3/} In other words whereas the conventional "efficiency" criteria are relevant for evaluating the performance of public industrial enterprise in the modern Soviet Union they would not be relevant for assessing their impact on national development during the period of

^{1/} Milward and Saul, European Economic Development, Vol. II, Allen and Unwin, London, 1974, Chapter 6.

^{2/} Evans, P., Op.Cit., p.43-64.

^{3/} Jones, L.P., Op.Cit., p.15.

the New Economic Policy, the great Industrialization Debate or the years of the First and Second Five-Year Plan when the "redistribution of wealth from the individual to the state" was being achieved. If this interpretation is accepted it would mean that the "neo-classical" school implicitly admits the irrelevance of the "efficiency" criteria in evaluating the impact of public sector enterprise on national development as far as most developing countries are concerned. There are very few developing countries that would admit that the desired "redistribution of wealth from the individual to the state" has already been achieved.^{1/} In most of these countries the redistribution of wealth and power is an important concern and public enterprises are an essential instrument for achieving this redistribution. An assessment of the performance of public enterprises is complicated by the fact that their economic operations are inextricably inter-twined with political initiatives that are taken in order to mediate between different social forces which seek control of a given socio-political structure. It might therefore be suggested that an evaluation of the developmental impact of (say) the Republic of Korean public enterprise is incomplete if it does not include an evaluation of the performance of these entities on the stability of the economic system created by Park Chung Hee and on the extent to which their operation facilitates the consolidation of economic and political power in the hands of the regime which created them in the first place.

These questions can more appropriately be addressed within the context of the "neo-Kaleckian" perspective which explicitly seeks to relate public sector performance to the nature of the national

^{1/} Even the USSR describes itself as a "state of developed socialism" (see Khachaturov, T., The Economy of the Soviet Union Today, Progress Publishers, Moscow 1977 p.13-27). It does not claim to have achieved "full communism" and therefore does not claim to have achieved the desired pattern of wealth distribution.

^{2/} Sobhan, R. and Ahmad, S., Op.Cit.

polity. The major work in this school, however, contents itself with an analysis of the impact of the nature of the (Bangladesh) regime on public sector performance. The question of the role the public sector played in sustaining the regime -- in creating conditions of economic and political stability -- is not explicitly addressed. One gets the strong impression that the public sector is regarded as a passive agent responding to changes in the balance of forces within the "intermediate" regime. In this view "contradictions within the intermediate regime are likely to be more manifest in countries with a very low level of development".^{1/} In such countries the public sector becomes "a hapless victim" of the "numerous petty bourgeois class" which has an "insatiable appetite" for surplus appropriation. In such circumstances the public sector "is fair game for everybody. It survives but it can hardly prosper"^{2/} ... "public enterprise in Bangladesh must await the basic process of social transformation demanded by the objective conditions of Bangladesh before it comes to full flower".^{3/} Sobhan and Ahmad promise to "define the social parameters of Bangladesh following such a transformation and the nature of institutions and policies for public enterprise necessary to make it fully productive"^{4/} but admit that such an exercise would be merely "academic because it cannot take into account the dynamics of the entire process of social transformation".^{5/}

The crucial question is: What role can public enterprise play in facilitating this "process of social transformation", one aspect of which may be an enhancement of the productive potential of the national economy? Marx and Engels - precursors of the

^{1/} Sobhan, R. and Ahmad, M., Op. Cit., p.13.

^{2/} Sobhan, R. and Ahmad, M., Op. Cit., p.18.

^{3/} Sobhan, R. and Ahmad, M., Op. Cit., p.571.

^{4/} Sobhan, R. and Ahmad, M., Op. Cit., P.571.

^{5/} Sobhan, R. and Ahmad, M., Op. Cit., p.561.

"neo-Kaleckian" school - have seen public enterprises as emerging from contradictions within capitalist social formations but they have also prophesied that public enterprises would be an instrument for achieving a transition to what they describe as a "higher stage of production". Thus in *Anti Dhuring* Engels writes, "The modern State ... is essentially a capitalist machine ... The more it proceeds to the taking over of productive forces the more does it actually become the national capitalist ... The capitalist relation is not done away with. It is rather brought to a head. But brought to a head it topples over. State ownership of the productive forces is not the solution of the conflict but concealed within it are the technical conditions that form the elements of that solution. This solution can only consist in the harmonization of the modes of production, appropriation and exchange with the socialized character of the means of production."^{1/} An analysis of this statement would suggest that in Engels' opinion: a) state ownership emerges naturally in mature capitalist societies, and b) state ownership is a means of achieving systemic transformation.^{2/} The "neo-Kaleckian" school elaborates the first proposition and argues that state ownership can emerge not only in mature capitalist society but also in social formations dominated by intermediate regimes. The second proposition has not been taken up so far for analysis or evaluation.

It is, however, essential to focus upon this second question if the "neo-Kaleckian" perspective is to provide a framework for assessing the impact of public enterprise in national development. There is a need to clearly delineate "public" property from

^{1/} Engels, F., "Anti Dhuring" in Marx K. and Engels F., pre-Capitalist Socio-Economic Formations, Progress Publishers, Moscow, 1979, p. 259.

^{2/} Thus Engels writes "whilst the capitalist mode of production more and more completely transforms the majority of the population into proletarians ... whilst it forces on more and more the transformation of the vast means of production already socialized into state property it shows itself the way to accomplishing revolution". Engels, F., Op. Cit., p.261.

"non-public" property. It is necessary to ask: In what sense does the creation and functioning of public enterprises affect property rights within a society? In what sense does it alter "the sanctioned behavioural relations among men that arise from the existence of things and pertain to their use".^{1/} It is particularly pertinent to deal with this question in the context of the "managerial revolution" which has effectively separated ownership from control and created a "private sector bureaucracy" capable of integrating a wide spectrum of production and financing activities and thus of imposing its will on many commodity and factor markets. Without a clear differentiation between the nature of public and private enterprise in the context of the socio-economic realities of the late twentieth century, the role and functions of the public sector cannot be identified.

Such a differentiation cannot, however, be made without directly addressing the question: What is the "regime of the masses"? The Republic of Korea? Democratic India? People's China?, the Libyan Jamhariya? Islamic Iran? What in other words are the desired "behavioural relations among men that arise from the existence of things and pertains to their use?" The elaboration of a "neo-Kaleckian" consensus on the desired form of property relations will permit an assessment of the deviation from this "optimal" in specific societies. This can serve as a basis for assessing the contribution public enterprise can make in facilitating a transition from the existing to the "optimal". The impact of public enterprise performance on the national economy can then be studied within a social context, and its ability to economically sustain "intermediate" regimes and create a momentum for accelerated social transformation can be assessed.

^{1/} This is the generally accepted definition of property rights. See Furbotn, E. and Pejovitch, S., "Property Rights and Economic Theory", Journal of Economic Literature, Dec. 1972, p. 1139

All in all there are a number of questions which are not adequately taken into account by both "neo-classical" and "neo-Kaleckian" scholars. There is a need to develop a theoretical perspective which allows us to appreciate the complex interplay of political and economic forces which determine the performance of public sector enterprise on the one hand and which permits an evaluation of its contribution to preference re-ordering, to the enhancement of national and international bargaining power and to the sustaining of specific political formations on the other.

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