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19906



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

Seminar on Industrial Restructuring within the context of
macroeconomic stabilization and property rights reform in
Eastern European countries and the Russian Federation

Vienna, Austria, 28 to 30 October 1992

COUNTRY PAPER OF THE RUSSIAN FEDERATION

October 1992

1/85

INTERNATIONAL CENTRE FOR RESEARCH INTO ECONOMIC
TRANSFORMATION

Discussion

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STATE AND NON-STATE ENTERPRISES UNDER NEW ECONOMIC
ENVIRONMENT *

1. INTRODUCTION AND REVIEW OF LITERATURE

Decisive steps in the field of macroeconomic policies, undertaken by the present Government of Russia from the beginning of 1992, were accompanied by a considerable decline in output and deepening of investment crisis. Such a response from the supply side could seem quite unexpected, if we assume that conventional macroeconomic measures are to produce conventional effects - effects that could take place in a market economy.

However, motivations and behaviour of economic agents do not depend much upon economic policy itself and even less upon the goals declared by the politicians who implement it. They rather depend upon real changes in the conditions of functioning for enterprises, and the latter are still very far away from conventional market patterns. One of the main reasons for this lies in the well-known fact that property rights reform is lagging considerably behind macroeconomic stabilization measures. It is also important to realize that non-state enterprises which are not yet numerous function quite often in one technological chain with state enterprises.

Unfortunately, the existing privatization mechanism (see 1) is not oriented towards structural adjustment, moreover it often undermines potential incentives to it on a micro-level. The short-term programme of the Government of the Russian Federation (2) touches in detail both privatization and

* The authors express their special gratitude to A. Batiyeva, I. Bashirova, T. Sergeantova for treatment of survey data.

structural adjustment problems, but it does not connect them with each other. As the experts of the World Bank note, "the previous industrial structures had only remained unchanged, but... moreover, enterprises were not yet able to adjust themselves to the changes in prices and the decline in demand." (3, p.129).

As for the Russian economic literature, in the direct form the problem of the influence of the property rights reform on the industrial restructuring is reflected only marginally, mainly in the context of political debates and alternative economic programmes. As a rule, the general statements on the worsening situation in Russian industry and finance prevail (5-8). From this point of view many authors urge to accelerate commercialization of industrial enterprises on the basis that share ownership is the most efficient mechanism for facilitating the movements of capital for attraction of financial resources and carrying out of restructuring.

Certain researchers blame the Government for not bringing the principles of economic reform "to each working place" during privatization and domination of macroeconomic approach to industrial restructuring (9).

Finally, the fate of large, vertically integrated associations of industrial enterprises is widely discussed. It certain authors assess such associations on the whole negatively (10), determining them as "nomenclature privatization", others (and they represent the majority of authors) insist that the process of commercialization should lead to the formation of such structures, having the necessary potential for "structural break-throughs" (11). A number of authors express their fears that the existing privatization mechanism, allowing the break-up of industrial associations may lead to disintegration of existing technological chains with the following deindustrialization of the Russian economy.

THE AIM of the present paper is to carry out the comparative analysis of economic performance and economic strategy of state and non-state enterprises, which gives the key to understanding of the regularity of relationships

between macro and micro levels of the economy and makes it possible to formulate policy recommendations.

THE Data BASE for this analysis is provided by regular panel surveys of opinions of Russian enterprises managers from different branches of manufacturing industry, conducted on a monthly basis Economic Tendency Surveys Group of the "Russian Economic Barometer" information bulletin (December 1991 - August 1992).

Enterprises selected for the sample are situated rather evenly on the territory of Russia, including the former autonomous republics.

The overwhelming majority of survey participants are small- and medium-scale enterprises (by Russian standards), with the number of employed from 250 to 2000. The average number of employed varied during the surveys in the range of 950-1100.

The size of the sample varied in the range of 140-190 enterprises. The share of non-state enterprises vacillated from 15% to 35%.

It should be stressed that under present conditions in Russia the use of the conventional division of economy into state and private sectors is not constructive. It is also practically impossible: a full-fledged private sector in manufacturing industry does not yet exist. That is why the division of enterprises into state and "non-state" ones was applied in this analysis.

This division was carried out on the basis of answers given by the enterprises managers. Taking into consideration the legislative and organizational chaos typical for the present Russian economy, this approach seems to be the most appropriate for achieving the aims of the analysis. As the check-up questions enabled us to establish, while identifying the status of their enterprises respondents put them into one of the three suggested groups - "state", "non-state" and "something intermediate", judging by the presence or lack of qualitative changes in their position in the direction of more operational and financial independence. Two latter categories were united into a single one, as objectively opposing the

most and the most conventional one.

II. STATE VS. NON-STATE ENTERPRISES: ECONOMIC PERFORMANCE
IN 1992

As the researches demonstrate, the behaviour of state (S) and non-state (NS) enterprises differed considerably during the first half of 1992.

PRICES

Quite recently when the output prices of the state enterprises were fixed non-state enterprises were the leaders in the inflation race. However, after the liberalization of prices the situation changed entirely. On average, the output prices in the state sector increased by 8 times during 6 months (from December 1991 till June 1992). At the same time the enterprises which consider themselves to be non-state ones increased their prices by only 6 times. The difference, as we see, is quite substantial. But how can it be explained.

On the one hand, the process of price-setting in the state sector became rather flexible. For instance, the question: "CAN YOU SAY THAT NOW YOUR ENTERPRISE IS REALLY FREE TO SET ITS OUTPUT PRICES?" was positively answered by 3/4 of managers of both state and non-state enterprises. The difference was only in the extent to which the managers were sure in their answers: unconditional "yes" was prevailing among the representatives of the non-state sector, whereas in the other group the main part of the answers were "yes, in general".

On the other hand, price-setting factors in both sectors were mainly similar, at least in the first half of 1992. The most important among them was, apparently, the movement of input prices. For the enterprises of the state sector these prices increased during the period under examination almost by

15 times and for the non-state enterprises - by 10 times only. As a result, the ratio of output and input prices in both sectors of the economy was changing almost in the same manner: during the first half of 1992 it declined by 37% for S and by 38% for NS.

Against the background of practically stable price ratios the movement of wages was entirely different. Moreover, here we are confronted with the situation which is contradictory to the usual stereotypes of Russian citizens, who speak of "the tremendous growth of incomes" in "the private sector": in the group of state enterprises the wages grew by 5.5 times on average and in the group of non-state enterprises - by only 5.7 times. It should be noted, however, that despite the more rapid increase in wages in the state enterprises, the decline of its share in the costs was much sharper there, than in the group of non-state enterprises. Thus, if we assume that the ratio between wages and output prices represents 100, then by June 1992 it declined to 90 for the group of NS and to 72 for S.

Changes in prices and wages in state (S) and non-state (NS) enterprises of the Russian manufacturing industry

	ex post		ex ante	
	June 1992 (December 1991 = = 100%)		December 1992 (June 1992 = = 100%)	
	S	NS	S	NS
1. output prices.....	910	627	158	139
2. input prices.....	1450	1005	189	165
3. ratio between output and input prices(1):(2).....	0.63	0.62	0.88	0.84

Group	State	Non-state	1991	1992
Ratio between wages and output (in real terms)	1.107	0.90	0.84	1.17

above mentioned trends can be extrapolated without serious changes for the second half of 1992. Leaving aside the question of the accuracy of these forecasts in absolute terms, let us note, that they in essence repeat the situation of the previous six months. Thus, managers of the enterprises in the Shanghai forecast the increase in output prices (by December 1992 in comparison to June 1992) by 58%, in input prices - by 87% and in wages - by 42%. The corresponding forecasts of the representatives of the NS-group were 39, 65 and 63%.

If we calculate on the basis of these data the expected changes on above mentioned proportions, we shall see that the ratio between output and input prices will decline by 12% for state enterprises and by 16% - for non-state enterprises. The ratio between wages and output prices will decrease by the former by 10% and increase by the latter by 17%. Thus, although the changes in relative prices promise to be somewhat more unfavourable for the non-state sector, the wages rates there will grow more rapidly.

CONCLUSION

If in absolute figures in the first half of 1992 the non-state enterprises increased their price level less rapidly than the state ones, in the decline of production the former were, on the contrary, the leaders. From December 1991 till June 1992 their output (in real terms) decreased on average by 12%. State enterprises were "entering" the depression almost two times slower: the fall during the same period amounted to 2%.

This gap of 5 percentage points distinctively correlates with the difference in the indicators of capacity utilization. By the middle of 1992 its rate was estimated by the managers

from NS-group at the level of 70% and from the S-group - at 62%. If we take into consideration that practically all the respondents only half a year ago belonged to the state sector, and, hence, their original rates of capacity utilization were roughly the same, then the above-mentioned divergence in capacity utilization rates (in p.p.) can be explained by the difference in the magnitude of production decline.

"WHICH FACTORS IN THE FIRST PLACE CONSTRAINED THE VOLUME OF PRODUCTION DURING THE LAST HALF-YEAR?" Strange as it is, there was no serious discrepancy between the state and non-state enterprises in answering this question. Among the most frequently mentioned constraining factors were the following:

- high prices of raw materials and semi-finished products;
- the lack of demand for the produced goods;
- the shortages of raw materials and semi-finished goods;
- the lack of financial resources.

Each of these factors was named by 45-65% of respondents from both groups. However, the seemingly similar structure of answers conceals, as we can assume, substantially different motivations and behavioral mechanisms.

Let us consider the factor of demand. More than a half of respondents complained of the lack of demand for their goods. But the influence of this factor on the economic strategy of enterprises is radically different. Enterprises of NS-group are actively searching for new markets and new customers, whereas their "competitors" from the state sector limit themselves mainly to a passive wait-and-see policy.

In the indirect way this is revealed by the data on the changes in the number of consumers (other enterprises and organizations) of goods produced by the enterprises-participants of the survey. During the first half of 1992 their number grew for almost a half of respondents from the NS-group and only for one-tenth from the S-group. Similar tendencies can be observed also at the other end of the range. The number of consumers decreased for each third enterprise from the NS-group and for more than a half of S. Thus, on the

whichever of the first six months the circle of consumers widened for a typical non-state enterprise and for a typical state enterprise if on the contrary narrowed. At the same time both of them complained of the lack of demand for their output.

Here are several additional characteristic differences in the reaction of enterprises of the two groups to the "Demand factor". During the first two summer months practically not a single one enterprise which considered itself to be a state one did not report the increase in the portfolio of orders for the produced goods. Whereas among non-state enterprises the portfolio of orders grew for each tenth enterprise. Stocks of produced goods decreased for 1/2 and increased for 1/2 of the representatives of the S-group. The corresponding indicators for NS are much better - 1/4 and 2/5, although here the overall unfavourable tendencies are also prevailing.

Let us now consider "Lack of raw materials and semi-finished goods" factor. Only half a year ago this reason played the leading role among production constraining factors and this leadership was very distinctively pronounced. Now it is put on the third or fourth place, but continues to play an important role, at least in the attitudes of Russian managers. The difference between state and non-state sectors is also manifested here not in the frequency of referring to this factor, but mainly in the character of economic reaction to it.

In this case it is interesting to compare the changes in the number of suppliers for the two groups. Although the changes here are not as vividly pronounced as in the case of changes in the number of consumers, they are nevertheless very important. The tendency towards severing economic ties prevailed in both groups. But its intensity is not similar. 60% of NS enterprises preserved the number of suppliers and it decreased for only 25%. The corresponding indicators for S enterprises were 45 and 46%. In other words, under the physical lack of raw materials NS managed somehow to preserve more old suppliers and acquire more new ones than the state enterprises.

However, the most vivid difference between the two sectors concerns the sphere of finance. The lack of financial resources as one of the main production constraining factors was reported by a similar percentage of respondents in both

groups. But as to the S-group indebtedness by June 1992 in comparison December 1991 grew by approximately 80%. In the NS-group it increased during the same period by 170%. This growth is considerably lower than the growth in prices. Thus, it can be stated that in the final analysis the indebtedness in real terms fell in both groups. But the difference is still very substantial and enables us to make an assumption that "the lack of financial resources" in the NS-group was not a mere consequence of inflation (and distortion of usual proportions of centralized financing), but rather was a result of the increased hardness of budget constraints (in the process of interaction between banks and enterprises on a completely new credit market).

EMPLOYMENT

The fall of production in both sectors was accompanied by the reduction of employment: in the NS enterprises the number of employed decreased (from December 1991 to June 1992) by 10% and in S enterprises - by 7%. These figures - when compared with other indicators - enable us to identify characteristic differences in the short-term behaviour of enterprises of the two groups.

First and foremost, it should be noted that labour productivity in the S-group was practically unchanged during the last six months: employment and production were decreasing at the same speed. In the NS-group the situation was quite different: employment fell by 10% and production - by 12%. Taking into account all the reservations concerning the accuracy of obtained results, in any case they do not confirm the common belief according to which the productivity of labour in the NS sector "must" grow more rapidly.

At the same time, one can hardly get rid of the impression that the character of employment reduction in the enterprises of the two sectors was entirely different. The parallelism in employment and output reduction which was demonstrated by the enterprises of the state sector in the first half of 1992 only confirms the mechanistic nature of this

process, the lack of profit maximization goals or even partial goals at all. Such a parallelism can be easily explained when the output is reduced in a forced manner, under the influence of events irreversible in the short term (such as a war, for instance, because of the stopping of supplies). The reduction of the number of employed, which follows such a decline in production is often limited to a purely administrative decision, which is taken in accordance with the general normalities.

As for the enterprises of the non-state sector, their actions appear to be more or less in line with the standard "crisis behaviour" which can be observed in market economies: the attempts to preserve the workforce even under conditions of temporary unemployment and underemployment. Hence, the deeper fall of production in comparison to the decline of employment.

III. ATTITUDE OF INDUSTRIAL MANAGERS TOWARDS ECONOMIC POLICY

Economic policy pursued by the Russian government from the beginning of 1992 has radically changed the conditions of functioning of Russian enterprises. How is it assessed by the managers of enterprises still functioning within the framework of the state sector and of the enterprises which already made steps in the direction of changes in their previous status?

In assessing the liberalization of prices representatives of both groups demonstrated a great deal of unanimity. In the opinion of a half of representatives of both groups, it proved to be unfavourable for their enterprises. The opposite opinion is shared by less than 1/5 of S and NS (the rest either find it difficult to give the answer, or suppose that price reform produced a neutral effect). These results closely correspond with the answers to the question on the short run: the ratio between input and output prices during the last half-year (January-June 1992): and here approximately a half of respondents (in each group) suppose that the result was not in favour of their enterprises.

In many cases, however, a negative assessment of the results of price liberalization for their own enterprises is accompanied by a positive assessment of this step for the economy of Russia on the whole. In this sense, we can say that the liberalization found more support among Russian managers than it could seem from the first glance, moreover, this support does not depend upon the actual status of their enterprises.

The situation with the measures of the government concerning the tightening of the monetary policy is more complicated. After the first shock of price liberalization was endured (April - June 1992), those were monetary issues which came to the foreground of public debate. First of all, a rather weak understanding of the sense of undertaken measures should be noted. To the question: "DO YOU UNDERSTAND THE ECONOMIC POLICY OF THE GOVERNMENT DURING LAST 3-4 MONTHS?", an unconditional "yes" was obtained only from 7-11% of respondents in both groups. As for the approval of the Governmental policy, the results are still worse here: in the NS-group different degrees of disapproval were expressed by a half of respondents and in the S-group - by almost a half of the polled.

DO YOU UNDERSTAND THE ECONOMIC POLICY OF THE GOVERNMENT? (in %)

variants of answers	S	NS
yes.....	11	7
on the whole yes.....	39	39
difficult to answer.....	9	14
on the whole no.....	21	21
no.....	20	18

DO YOU APPROVE OF THIS POLICY? (in %)

variants of answers	S	NS
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yes.....	7	4
on the whole yes.....	38	25
difficult to answer.....	53	71
on the whole no.....	19	32
no.....	27	18

In general, the belief that their own enterprise suffered more from reforms than the others is widely spread among industrial managers: while answering the question on whether your own enterprise has gained from the economic policy of the Government more than the others those who gained (17%) proved to be almost three times fewer than those who lost (45%) (the rest remained unaffected). But the paradox of the situation lies in the fact that managers of non-state enterprises who, from the first glance, should be more interested in market reforms did not demonstrate either the better understanding or the more approval of the Governmental economic measures in comparison to their colleagues from the state enterprises. Moreover, as the results of the survey suggest, those were nonstate enterprises who considered that they suffered most and foremost from the results of this policy.

12. POLICY RECOMMENDATIONS

If we look at privatization from the point of view of industrial restructuring, the key moment in the whole of the process will be represented by the elaboration of an appropriate mechanism facilitating the strengthening of enterprises own investment capacity and ensuring the inflow of external investments (foreign and domestic).

In respect of foreign investments UNIDO could assist Russia in the following areas:

- providing information to potential foreign investors on the plans of privatization adopted by Russian enterprises

- carrying out of several demonstration projects of privatization with the participation of foreign investors. UNIDO could render assistance by providing its experts and international consultants;

- as trust operations (management of shares) are allowed now by the Presidential Decree on privatization No721, UNIDO can also assist in the implementation of such projects in respect of foreign trusts;

- it is also important to assist any potential foreign investor in particular privatization projects, to take part in the work of the privatization commission and in the elaboration of necessary documents (statute of a public joint stock company, privatization plan, act of assets evaluation).

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STATE VS. NON-STATE ENTERPRISES: ADJUSTMENT STRATEGY

What is necessary for acceleration of your enterprise's adjustment to the current situation (not more than 3 factors to be marked) (% of respondents)

	SE	NSE
Trade debt collection	62	64
Entering new markets	44	64
Changing the structure of output	41	25
Privatisation	24	0
Repayment of trade debt	23	32
Finding new suppliers of materials	18	11
Management improvement	15	7
Capacity extension	12	21
Reduction in number of employees	9	7
Repayment of bank debt	8	36
Something else	2	0
Everything is O.K.	0	0

STATE VS. NON-STATE ENTERPRISES: THE ATTITUDE TOWARDS BANKRUPTCY
 LAW ENFORCEMENT AND PROBABILITY OF BANKRUPTCY (% of answers)

Is enforcement of the Bankruptcy Law necessary under current situation?

	Yes	Rather "yes" than "no"	?*	Rather "no" than "yes"	No
SE	16	17	11	27	29
NSE	32	21	21	11	14

 * Hardly foreseen

Is your enterprise likely to become bankrupt in 1-2 years in the case of the Bankruptcy Law enforcement?

	Yes	?*	No
SE	27	44	29
NSE	21	38	41

 * Hardly foreseen

STATE VS. NON-STATE ENTERPRISES: Industrial Structure of the Selection (%)

INDUSTRIES	SE	NSE
Mechanical and electrical engineering; Motor vehicles; Production of metals; Manufacture of metal articles.....	43.....	16
Manufacture of paper & paper products, printing and publishing.....	16.....	9
Timber & wooden furniture industries.....	13.....	12
Textile; Footwear & clothing; Leather & leather goods.....	10.....	21
Food, drink & tobacco.....	9.....	16
Manufacture of non-metallic mineral products.....	6.....	26
Chemical industry.....	3.....	0