

UNITED NATIONS  
ECONOMIC  
AND  
SOCIAL COUNCIL



LIMITED

ST/ECLA/Conf.35/L.3  
10 November 1969

ORIGINAL: SPANISH

MEETING OF EXPERTS ON ADMINISTRATION OF PUBLIC  
ENTERPRISES IN LATIN AMERICA AND THE CARIBBEAN  
Santiago, Chile, 17-22 November 1969

SUMMARY

THE PUBLIC ENTERPRISE: PRICES, PROFITABILITY AND EFFICIENCY

Paper presented by the  
ECLA Public Administration Unit

Discussions on how to establish prices for goods and services produced by public enterprises have focused on ways of ensuring a better distribution of the resources of the community among the various consumption and investment options. This has probably meant that insufficient attention has been paid to the influence of such prices on the internal efficiency of State enterprises, a matter which is of special importance since profits, which are dependent on selling prices, constitute both an index of and a stimulus to the operational efficiency of the public enterprise, just as in private enterprise. Moreover, the profits earned by public enterprises help to increase State capital formation and ensure that revenue from taxation is not reduced.

After a brief theoretical discussion of these statements, the paper endeavours to show the weakness or inaccuracy of the reasons adduced to justify the operation of State enterprises at a loss or at the break-even point. In this connexion, it points out that:

(a) Whenever public enterprises have de jure or de facto monopoly control, their position is often undermined by planning - which determines their prices and production targets - and by the many practical opportunities open to the consumer to choose alternative goods or services;

(b) The operation of enterprises in the basic sectors at a loss as a means of stimulating the processing industries would have the following disadvantages:

(i) It would lead to distortions in the allocation of resources within the economy;

(ii) In the major Latin American countries it would be equivalent to subsidizing the external sector, given the fact that the most important of such industries, at present are international in nature. This would increase balance-of-payments problems, which are one of the most serious obstacles to the development of these countries.

(c) The operation of public enterprises at a loss can sometimes be ascribed to a desire to use the enterprise as an instrument for redistributing income. This has taken the form of lowering consumer prices or raising costs, either by deliberately employing too many staff or by adopting labour-intensive techniques. The document points out that every supernumerary employee, in addition to involving the enterprise in gradually increasing costs above and beyond wages, usually obliges the consumer to bear additional costs similar to what are known as the extra-fiscal costs of taxation. It would therefore be preferable for the State to choose other more economical forms of creating employment or of providing social security for the unemployed.

(d) The fact that the profits of a monopoly public enterprise constitute a form of taxation is no justification for doing away with profits because:

(i) The major private enterprises usually operate exclusively for their own benefit on the basis of administered prices, and it would not occur to anyone to put an end to their profit-making;

/(ii) Profits

- (ii) Profits may be the only way of financing the expansion of the enterprise, if it is not politically possible to increase taxation or to reduce government expenditure, or if it is not feasible to borrow on capital markets, as is frequently the case in developing countries.

The paper reviews the latest reforms in the administration of public enterprises in the socialist countries of Europe and the USSR with a view to justifying the importance currently attached to operating at a profit. It is noted that efforts towards this end have led planning agencies to subject each project to a much more searching scrutiny with the result that resources have been allocated more efficiently within the economy. Furthermore, profit-sharing by employees has promoted greater internal efficiency within enterprises.

The paper argues that profits are an essential component of the enterprise. Consequently, whenever it is deemed advisable to use the enterprise management system for objectives that cannot yield a profit, it is preferable for activities to that end to be regulated by means of a contract between the State and the public enterprise. This would make it possible to:

- (a) Establish a form of remuneration that would enable the enterprise to operate at a profit, provided it maintained its internal efficiency;
- (b) Link the level of this remuneration to the external efficiency of the enterprise, i.e., to fulfilling its objectives at the maximum benefit and minimum cost.

