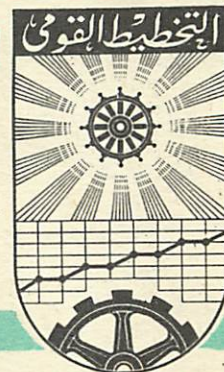


UNITED ARAB REPUBLIC

THE INSTITUTE OF NATIONAL PLANNING



Memo. No. 1181

The Position of Enterprises In The
Czechoslovak Economy

BY

Prof. Dr. ALOIS REMES, D^rSc.,

PRAGUE SCHOOL OF ECONOMICS

Nov. 1976

The position of enterprises in the Czechoslovak economy

I do not intend to give an exact description of the Czechoslovak enterprises. The reason of my lecture is to show their general character and their position in the structure of the national economy. The content of the lecture relates therefore to the following three problems:

1. the determination of the character of enterprises,
2. the position of enterprises in the organizational structure of the economy,
3. the typology and morphology of czechoslovak enterprises.

The enterprises create a form of common social and economic relations and their character would therefore substantially differ in each country according to the special conditions. This fact reflects also in terminological differences and can evoke difficulties in our mutual understanding each other. For that reason I notice / emphasize " in the first line methodological approach that could be applied in researches of the given problems.

1. The Determination of the character of Enterprises

The nationalization of production means brings about such a state where socialist economy in the whole country constitutes one big economic unit. This unit develops its activities on the basis of social ownership of production means and in the interest of the owner of production means, which is the socialist society represented by a socialist state.

The State, as the p-organ of the State, immediately manages all processes of enlarged socialist reproduction. The richness of relations and variety of technical and economic structure of the national economy objectively requires the creation of a number of institutions links through which the State realizes its intentions and objectives, that is through which it manages this social reproduction process and subordinates its proceedings to all-society interests.

One of this links is a socialist enterprise. That means, that from the organizational aspect the character of socialist enterprises can be judged as of organs of central State-control connected by way of organization with the structure of State organs along the levels of subordination and superiority.

However on the other hand there are such special features in the character of enterprises, which distinguish the enterprise in contrast to other social organizations and to other links of central control, i.e. create its distinguished quality. This determining features are:

- the relative economic independence and
- legal independence / legal person/.

If we speak of the economic independence of the enterprise, we must always take into consideration that such independence is a relative one, whose relativity is given primarily by an organic inclusion of enterprises into a social reproduction process and by the subordination of their activities to

the interests and goals of the society as a whole.

By the term of economic independence in general is indicated a quality of an enterprise as an independent economizing unit. That requires that the costs and working results of enterprises were settled in money, that expenditures were covered by enterprises own income, and that the production were profitable, in other words, that the enterprises produce gain.

Enterprises as relatively independent economic units are consequently characterized by principle of exchange and principle of gain. The suppliers of production / both of products and services/ can satisfy their own needs only if they simultaneously satisfy also the needs of consumers through an equivalent exchange of values. There in rest, respectively, the unity of the interests of suppliers and consumers, as well as their contradictions. The enterprise conducts in the market as an independent subject and means for the renewal and development of its activities gains by selling its production.

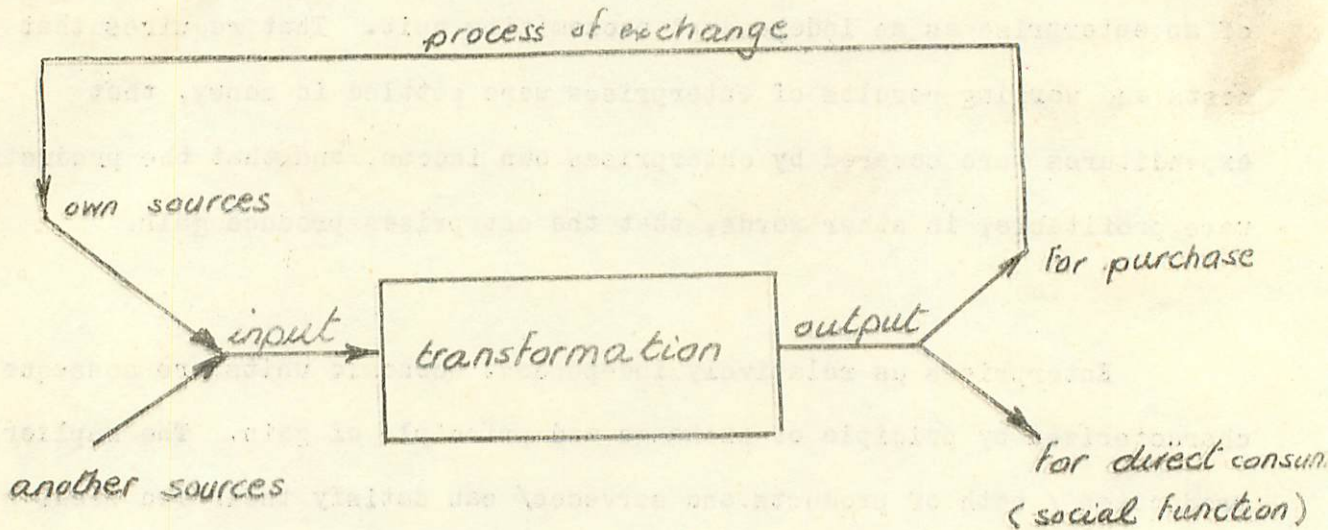
We can therefore study an enterprise as an economic system in which the raw materials and the human labour are the input, the production process the transformation of energy, and the finished product the output.

The distinguishable feature of enterprises is then the fact, that outputs are converted/exchanged/into money and new energy is furnished through this mechanism.¹⁾

1) System thinking, edited by F.E. Emery, Penguin Books 1969.

From enterprises as economic systems differ other social systems. existence of which is not dependent on cycles of purchasing and selling.

This principle of exchange, indicating the character of enterprises is demonstrated on the following model:



As it was already said, the economic independence of socialist enterprises can not be comprehended absolutely but only relatively. The relativity of economic independence of socialist enterprises is a consequence of their social ownership and their position as links/organs/ of State-control of economy as a whole.

Inter alia, the relative economic independence lies in the fact that a certain subject acts as supplier or consumer of certain production and decides to a certain degree independently on his entry into consumer-supplier relations and accepts also due consequences of this activity. The enterprise acts then as a certain unit representing a range of social economic interests realized in the process of supplier-consumer relations.

The socialist enterprises create so a form of social/State/ ownership and an economic instrument and method of State-control. Their economic and legal independence is given them by State. This is an expression of delagation of determinated economic and legal functions for the reason of regulation of economic processes. In this relativity is the substantial difference between socialist and capitalist enterprises and their absolute independence as forms of privat ownership.

An expression of relative economic independence of socialist enterprises is a special, economic method of management, the khozrazchot. This method is a reflection of the influence of the law of value working objectively in the conditions of socialist economy. This methods aim is to make use of the economic interestedness for the satisfaction of the needs of the society and for the materialization of the objectives of the economic policy of the State.

The economic position of a socialist enterprise contains in itself- in the framework of planned management -- an ability of the enterprise to dispose with means entrusted and gained through economic activities. As a rule, a part of the profits remains in the enterprise and serves financing various aspects of its activity. In that way the enterprise creates resources for enlarged reproduction of funds which the society entrusted to it into operative administration in the moment when the enterprise started its activities/ a starting enterprise must be equipped with machines, buildings, material, financial resources, etc/. However, it follows from the position of an enter-

prise in the socialist economy that the self-reproduction of enterprise funds cannot be absolutized; the State and its organs intervene into this process particularly in the form of redistribution of profits and deductions / e.g. it is sometimes useful, from the point of view of the development of society as a whole, to concentrate free resources from certain branches and use them for an accelerated development in other branches, etc./.

The scope of the relative economic independence of an enterprise is considerably different and is determined, in the substance, by various purposes: under certain circumstances and in certain fields of enterprise activities it is useful to provide an enterprise with a considerable degree of independence, in some other cases an enterprise has to be subordinated to a relatively firm management by a superior unit. For example, souvenir-producing cooperatives will be far less restricted in the creation of their production programmes as well in developing consumer-supplier relations than railway repair plants which must safeguard good technical conditions of railway wagons irrespective of whether various kinds of repair work are attractive for them or not.

However, a relative economic independence of an enterprise is not its only substantial feature. Also some intra-plant units, like plants and workshops, may be often provided with a relatively wide economic independence. For a plant to become an enterprise also in this case, it must simultaneously become an independent legal person.

Legal independence is thus another characteristic feature of an enterprise. It means that the enterprise is a legal person and can act in outer relations as an independent subject of rights and duties. It is exactly the fact of being a legal subject that makes it possible for an enterprise to become a bearer of its own economic function. Without legal subjectivity there cannot be any enterprise. A certain unit becomes an enterprise on the basis of a legal act, that is on the basis of an entry into a company register. Only when a certain economic organization becomes simultaneously a legal subject, too, it can act on its own behalf under its name, follow its own economic interests and defend them as its right, conclude agreements, i.e. assume legal obligations and be responsible for their implementation, which means, in other words, act on the basis of legal relevance.

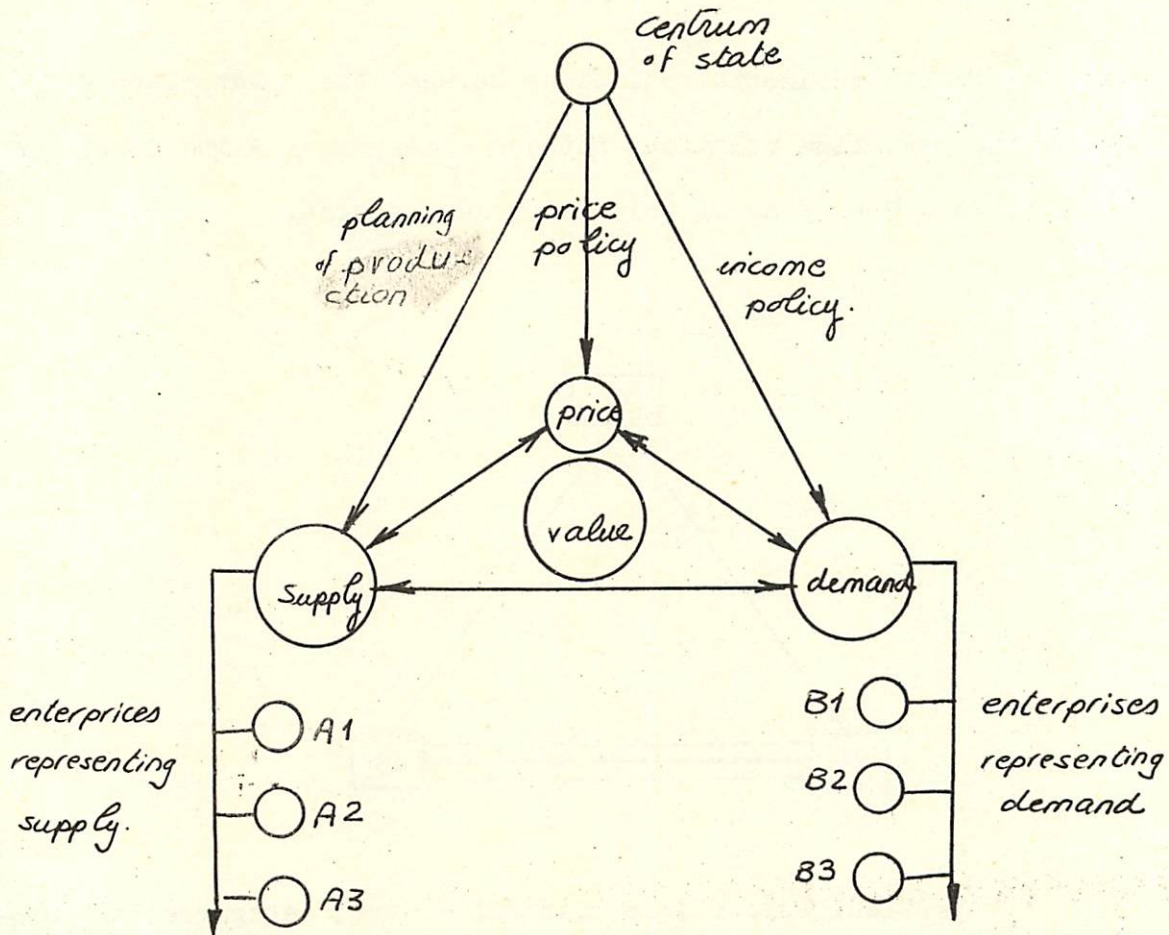
Unlike that, e.g. a plant cannot act under its own name, and it is an enterprise which bears responsibility for this plant's economic activities. In contrast to an enterprise, the plant's position could be described as "non-independent", since its activities are not based on legal relevance.

However, the legal subjectivity itself cannot serve as the only and exclusive feature of an enterprise. On the one hand, every enterprise is a legal person, whereas, on the other, not every legal person is an enterprise. Also other organizational units, like e.g. cooperative organizations, associations, corporations, foundations, etc., can be equipped with legal subjectivity.

The relation between economic and legal independence can be described as a relation between the contents and the form. The relative economic independence concerns rather the aspect of the contents of the term "enterprise" and indicates the resources of its independence. Legal independence constitutes a form of economic independence and makes the latter's realization possible. The relationship between economic and legal independence is an objective necessity. Both aspects make up unity and the one is a condition for the other. As contents cannot exist without form, economic independence likewise can be expressed only through an independent legal position of what is called an enterprise. On the other hand, a form without contents loses its sense and becomes self-purposeful. However, the scope of economic independence/ as mentioned above/ can differ. In the course of integration processes, which will be discussed in more detail in other chapters, the economic independence of enterprises can be considerably limited.

That means that legal independence concerns mainly the formal aspect in the general position of the enterprise. It alone is not a source of the independence of the enterprise, but is only the latter's external expression. The contents of legal independence is the enterprise's production - economic independence.

The application of the law of value as an instrument of control of economy through the relative economic and legal independence of socialist enterprises is illustrated by following scheme:

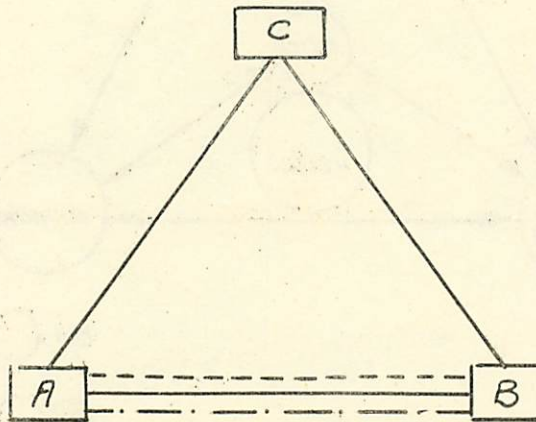


The relations between supply and demand/or both supply and demand on one side and price on the other side/pass through either uncontrolled - elementarily/in the conditions of capitalistic "free" market/or controlled as an applied instrument of control / in conditions of socialist economy/.

Thus, relations of the socialist enterprises create a vertical and horizontal structure of socialist economy. The vertical relations mark the roads of central control. In the horizontal relations between enterprises

the nature of enterprises both as links/subsystems/of the system of central control and as economic and legal subjects is expressed.

For example the horizontal relations between the enterprises A and B /A - B/ are at the same time relations between enterprises A and B and the centrum of State /A - C - B/ as it follows of next scheme:



_____ Vertical relations of central control determinating contents of horizontal relations between enterprises, the object of which is the circulation of goods between enterprises.

----- The economic Form of relations between enterprises as a reflection of the economic independence of enterprises.

_____ Legal form of relations between enterprises as contracts.

Consequently, the socialist enterprise here is comprehended in a functional manner, that is as a set of economic and legal functions transferred from the State on a particular organizational unit.

The socialist State can endow with these functions/according to the special conditions as well as to the designs of central control/ units standing on different levels in the hierarchy of the system of the central control. That can be the units on the lower level/small scale enterprises/which are taking advantage of their specializations as well as their dislocation in the vicinity of resources and consumers. But that can be above all units of higher level /big enterprises/which are taking advantage of their concentration and modern technology.

The socialist State can, however, also spread its economic functions in vertical line and endow with them at the same time two units standing to each other in relation of organizational subordination. The concrete forms of this spreading of functions in the vertical line in our country are trusts and concerns. But these questions are explained in the following part of my lecture, relating to the problems of organization of the central control of enterprises.

And now some words to the question how the economic functions are reflected/expressed/in activities of an enterprise. The economic independence appears in effort of enterprises for maximalization of profit. The profit is one of the fundamental indexes of economic efficiency of enterprises and a basis for covering their economic interests.

On the other hand the interest of enterprises in profit is one of the means for orientation their activity to fulfilment of tasks of the State - plan and goals of the economic policy as well as one of the main resources of income in the State budget. And in that lies the relativity of their economic independence.

The socialist enterprise (in the state ownership) uses the produced profit in principle in following manner:

- a/ for the deliveries /taxes/ in the state budget: this is a question of delivery from amount of profit / the general rate amounts 75% delivery from assets / the rate is 5%/, delivery from the volume of wages and eventual an additional delivery.
- b/ for delivery to General Direction of a trust both for the covering of expenditure of the General Direction and for creation of common funds on the stage of the General Direction,
- c/ for fulfilment of others duties and for allocation in the funds of enterprises.

On the stage of enterprises are created following kinds of funds to their own disposition:

- fund of cultural and social needs assigned for financing of such

actions as improvements of working conditions, social services recreations for employees.

- current fund for financing of circulation means.
- fund of rewards for financing of premiums, bonuses, shares on income of enterprises.
- construction fund for financing of investments; this fund is created from amortizations and profit as well as from subsidies of higher organizations, eventually from state budget.

2. The position of enterprises in the organizational structure of economy in C.S.S.R.

An enterprise, as we said before, is only a relative independent unit. This relativity is given by organic inclusion into a social reproduction processes and by the subordination of its activity to the interests and goals of the society as a whole.

From the purely organizational aspect it means that one of the decisive features of an enterprise is the fact, that it is a link in the organizational structure of the whole national economy. The organization of the national economy on the highest level is the socialist State. This state organization is an instrument /tool/ of realization of political goals and interest of the society as whole in the economic area.

The organs of state in C.S.S.R. create an vertical and horizontal
on
differrentiated system of control /its top stayed the highest constitutional organs as a centre of the whole organization and management of the national economy as well as source of functions in management of all subordinated organizational links including the enterprises. If we want to find out the position and functions of an enterprise in the organizational structure of economy we must therefore start from the analysis of the highest organs of the state as a system.

In G.S.S.R. the management of the socialist state is represented by the structure of state organs. These state organs have been divided into:

State organs of power and state organs of control.

The State organs of power are the original bearers of all the authority in our State. They create a form in which is all the society organized for the enforcement of the highest power. They are based on the principles both of representativeness and eligibility and they are composed from deputies elected for ^a period of 5 years.

The mission of this representative and elected bodies is to organize and secure a direct participation of working people in the formation and implementation of the state power and in the control of economy in the form of economic political tasks.

The organs of State power constitute a united but internally differentiated system. On the top of this system stands the Federal Assembly. Consisting of the Peoples parliament /200 deputies/ and Nations Parliament /150 deputies/.

The Federal Assembly as the top organ of state power is at the same time the top organ of economic management too. Its competency is general and includes legislative regulations of economic relationship. The Federal Assembly decides in form of laws upon long-term plans of development of national economy, upon state budgets, upon all fundamental

organizational and controlling measures.

On the level of both our republics there are functioning following organs of power:

- Czech National Council
- Slovak National Council

These organs of state power pass in form of laws long-term plans of both republics, their budgets and give their opinions to proposals of federal laws.

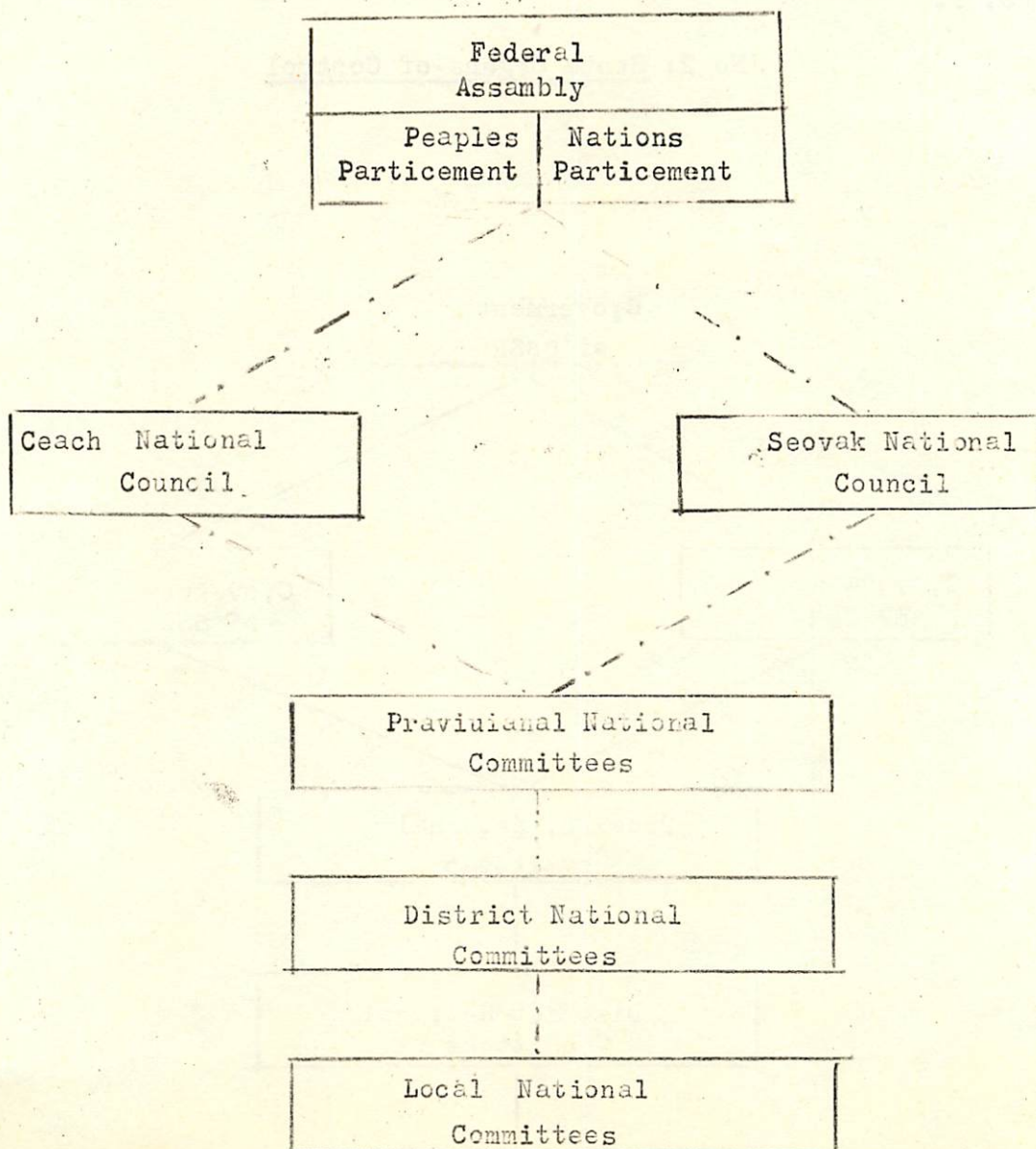
In our country to the state organs of power belong also National Committees. They by themselves constitute three stages system:

- Provincial National Committees
- District National Committees
- Local National Committees.

The mutual relationships between two organs of power standing on different levels are not relations of administrative subordination and superiority. The organs on the lower level are not subordinated to organs on higher level, but they are limited in their decisions by decisions of organs on higher level.

The following table Nr. 1 shows the structure of the state organs of power in C.S.S.R.

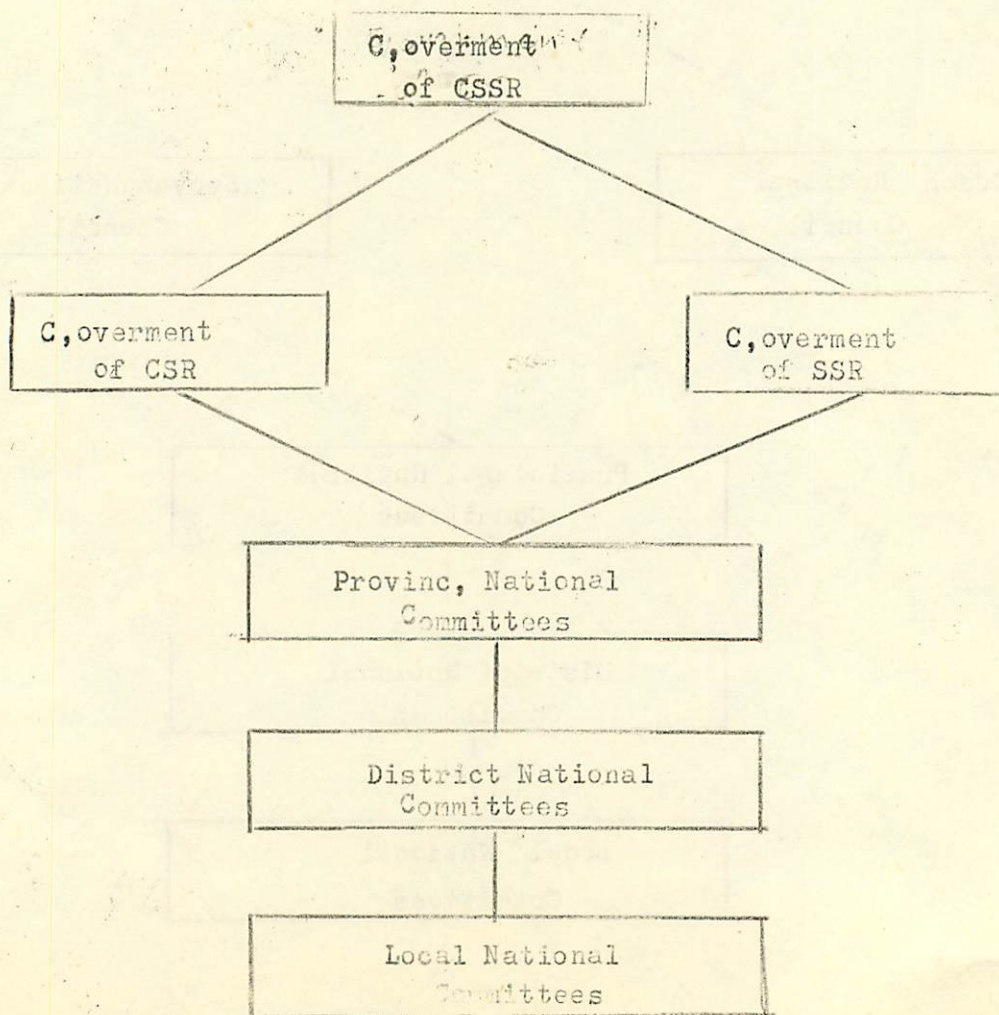
No. 1: State Organs of Power.



The state organs of control/ as executive organs/ create a professional staff composed of specialists, through which the socialist state power realises /executes/ its economic political, cultural political and other goals, in capacity of this organs is the duty of control of national economy and enterprises.

These organs of control constitute a united and internally horizontal and vertical divided system, which correspond to the organizational stages of state organs of power. This system is shown in the following table No. 2.

No 2: State Organs of Control



On the highest stage of this system of state organs of control is the system of governments:

- the Government of CSSR/Federal Government/,
- the Government of CSR/Government of Czech Republic/,
- the Government of SSR/Government of Slovak Republic/,

The Government/CSSR, CSR, SSR/ is concentrated on the control of basic economic activities. For example the foundation of enterprises, the establishment of conceptions of the development of key branches, tasks of investment policy, methodology of planning, price policy, wages policy e.c. in all complex proportions and relationships.

In respect/regard/ of National committees, these organs are bearers of functions both of state power and state control in the same time. That means, that the function of state power is relatively separated from the function of state control only on highest stages/Federal Assembly-Federal Government, Czech National Council-Czech Government/. However on the level of National Committees both functions/power and control/organizationally combined in one organ.

For operational management of economy and of subordinated units each Government established system of central special organs as help-organs. This system is shown in the following table/No 3/.

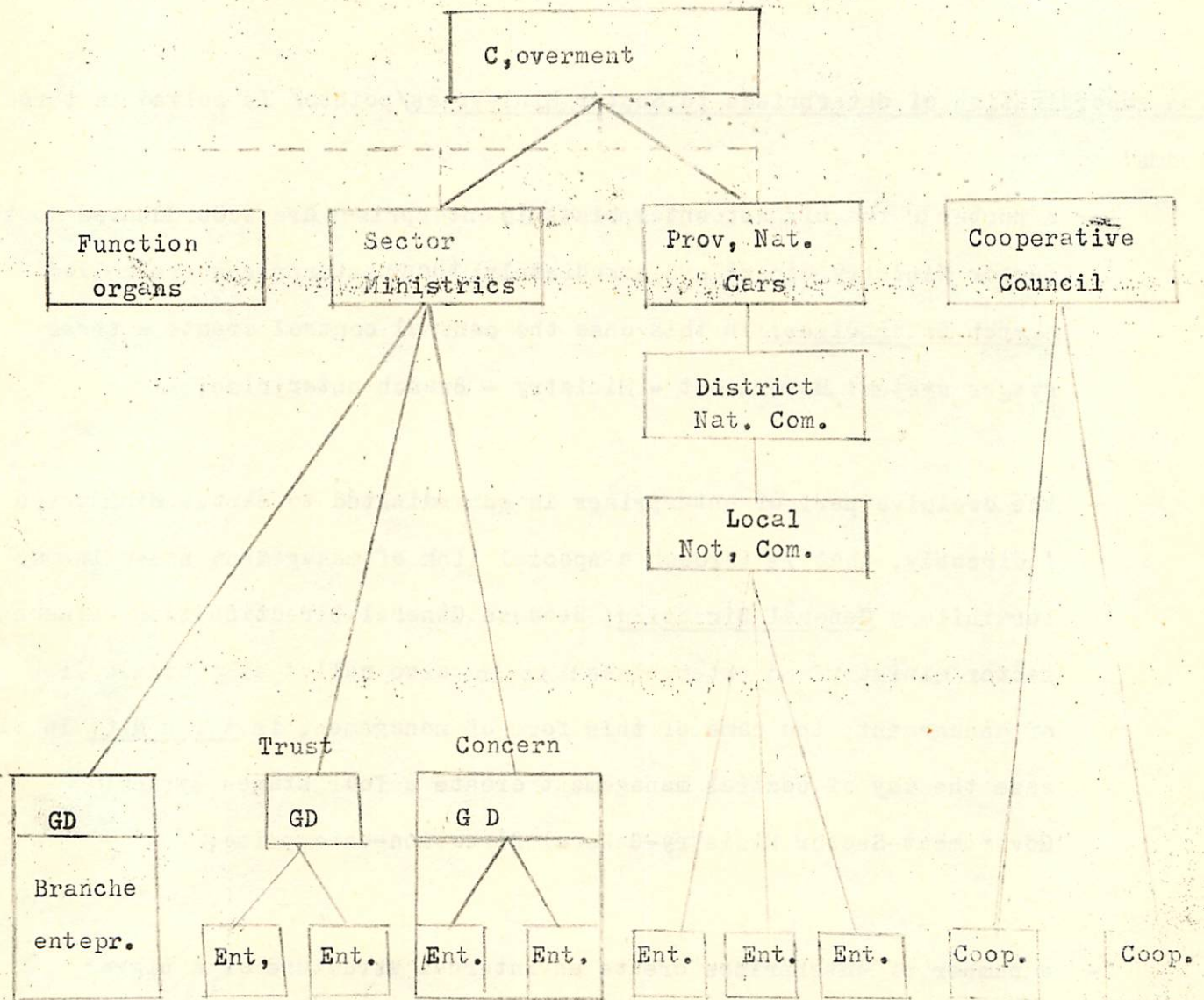
Central special organs of Government can be divided in three groups from three points of view:

1. Professional point of view: these organs called Function organs provide individual functions of management of national economy, for example State Commission of Planning, State Office of Statistics, Ministry of Finance, State Commission of Wages, State Commission of technical development, State Commission of People's Inspection.
2. Sector point of view: these organs called Sector Ministries, secure the complex development of individual sectors, for example Ministry of Heavy Industry, Ministry of Energy, Ministry of Engineering. Ministry of Metallurgy, Ministry of Transport, Ministry of Agriculture and Food industry etc.
3. Territorial point of view: In the competence of territorial organs of management is the duty to secure the complex economic development of individual regions. This function belongs to the provincial committees.

Meanwhile we have spoken about the structure of central state organs. Now we shall illustrate the roads, by which are proceeding the vertical lines of management of enterprises by central state organs/see the following table 3/

The organizational connection between enterprises and central state organs

No.3: Structure of State control of enterprises



has been in our country solved in following three ways:

- a/ by subordination of a part of enterprises to the sector Ministries.
- b/ by subordination of some part of enterprises to National Committees,
- c/ by coordination of activity of cooperative enterprises with the economic policy of the State through the Unions of Cooperatives.

The subordination of enterprises to Sector Ministries/points/ Is solved in three forms:

- a number of the biggest enterprises (5 enterprises) are subordinated to the sector Ministry direct and immediately; these enterprises are called Branch Enterprises; in this case the central control create a three stages system: Government - Ministry - Branch enterprise;
- the decisive part of enterprises is subordinated to Sector Ministries indirectly, that is through a special link of management named in our terminology General Direction; Because General Direction lies between sector ministry and enterprises; it is also called as a middle link of management; the name of this form of management is t r u s t; in this case the way of central management create a four stages system: Government-Sector Ministry-General Direction-enterprise;
- a number of enterprises create an internal structure of a bigger economic and legal unit called in our terminology as concern; in this case the management of enterprises create four stages system: Government

Ministry - concern - Enterprise.

Consequently, there are three forms of management of enterprises by ministries in Czechoslovakia:

- Branch enterprise,
- trust,
- Koncern.

Now we shall give more detailed characteristics of all these form of management.

Branch-Enterprise is a big enterprise as a legal person with relative economic independence. In the head of the branch-enterprise is the General direction as the representation of its unity. The internal structure of a branch enterprise is divided into subordinated units called plants. These plants have not got the economic and legal independency.

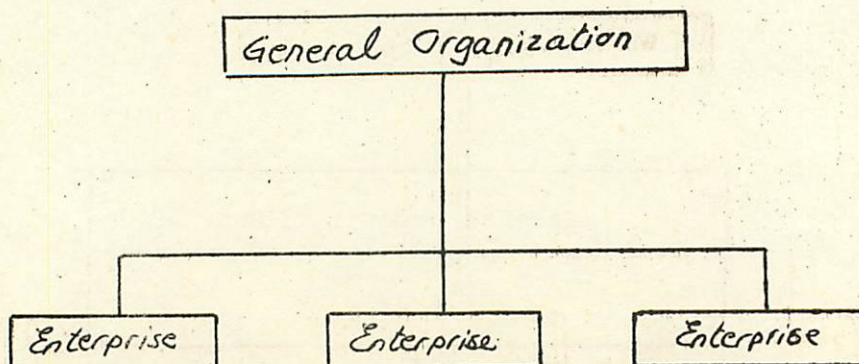
Branch-enterprises are setting up in the fields of activity which produce overware and the parts for the next production. This is in the fields, where close co-operation is necessary. Relationship among units affiliated to the branch-enterprise are given by an organization order. The simple diagram is No 4

General Organization	
Enterprise/Plant/	Enterprise/Plant/
Enterprise/Plant/	Enterprise/Plant/

Trust is constituted both by General Direction and by subordinated enterprises. In contrast to a branch enterprise, the General Direction in the trust is also both an relative independent economic unit and a legal person. The income of General Direction create the deliveries/taxes/ of subordinated enterprises. The enterprises in a trust give their taxes partly in the budget of State and partly in the budget of General Direction. The position of a General Direction is consequently double: as middle link of central management and as a independent legal person.

The biggest part of Czechoslovak industry is organized under trust. In CSSR there are working at this time 65 trusts. This type of connection of enterprises has the greatest freedom in its relationships. Subordinated enterprises have the legal and economic independence and they carry out most of the economic functions. Trusts are setting up mostly in the branches, manufacturing final-production for direct-consumption/e.g. electronic industry, textile industry/. The relationships among enterprises and between an enterprise and General Organization are given by Status, which is created by establishing an enterprise.

A simple diagram is shown in the following table/No.5.

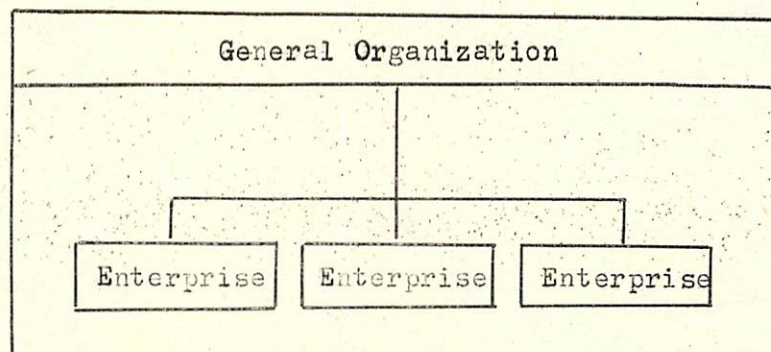


Concern

The third type of organization is called concern. Presently, there is only one in the C.S.S.R. and it is in an experimental form. In the concern-type the subordinate units have the position of an enterprise/including legal and economic independence/but several functions are taken over by the general organization. Concern lies between trust and branch-enterprise. The simple diagram of the concern is shown on No.6.

The Concern as a whole is a legal person. In the head of Concern is a general direction/without legal personality/. The enterprises are legal persons, but their legal independency is strongly limited and deduced only from the status of concern. The taxes are paid only by the concern as a whole and not by the particular enterprises.

No.6.



The subordination of enterprises to the National Committee/poit b/:

In this case either four stages system of management is applied if the

enterprises are subordinated to District National Committees/Government-Provincial National Committee - District National Committee - enterprise/, or Five stages system/Government - P.N.C. - D.N.C. - Local N.C. - enterprise/.

The enterprises controlled by the system of the National Committees create in the area of industry only about 5% of all employees in Czechoslovak industry. These enterprises are called enterprises of local industry and belong in principle to the category of small and middle scale enterprises.