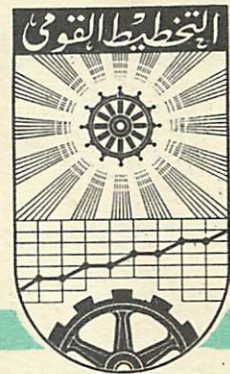


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The Position of Enterprises In The  
Czechoslovak Economy

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## 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, through its organs 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.

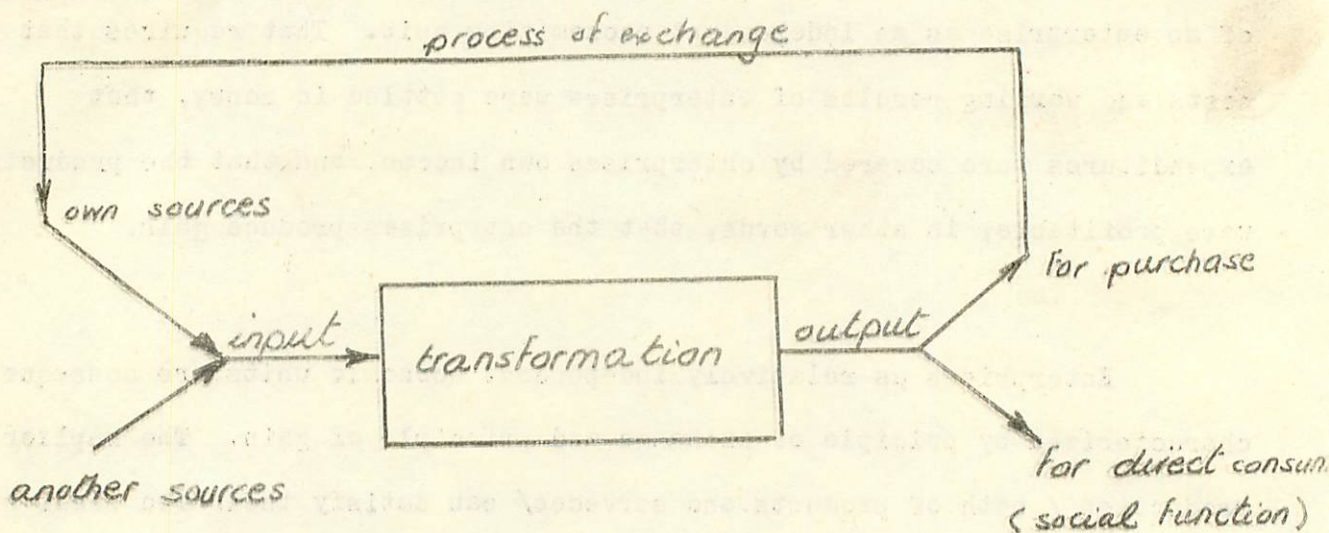
The distinguishable feature of enterprises is then the fact, that outputs are converted/exchanged/into money and new energy is furnished through this mechanism.<sup>1)</sup>

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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.

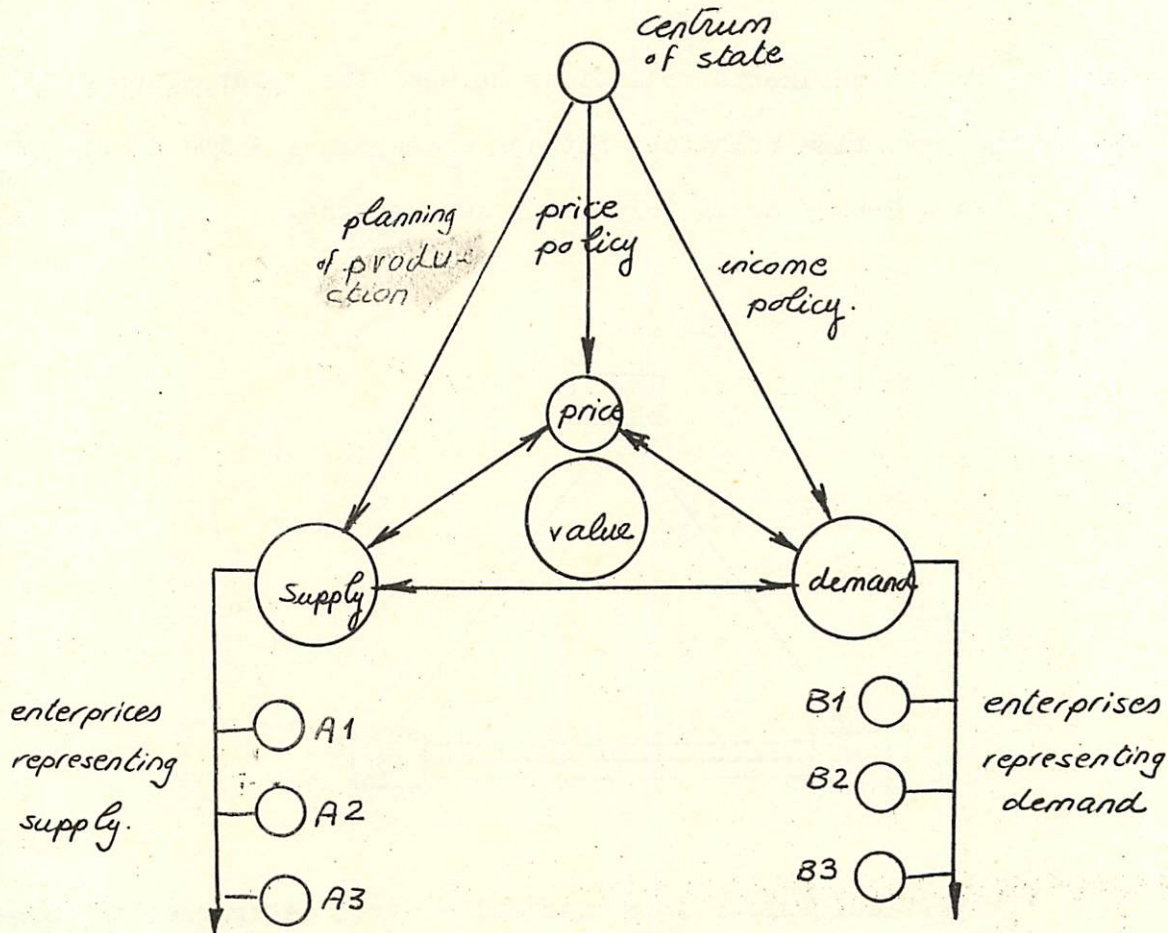
Unlike that, e.g. a plant cannot act under its own name, and it is an enterprise which bears responsibility for this plant's economic activities. In contrast to an enterprise, the plant's position could be described as "non-independent", since its activities are not based on legal relevance.

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:

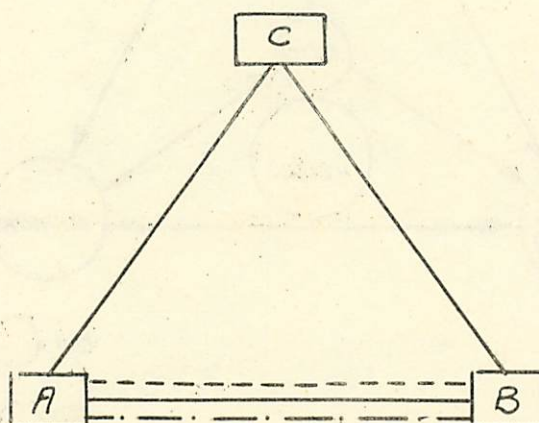


The relations between supply and demand/or both supply and demand on one side and price on the other side/pass through either uncontrolled - elementarily/in the conditions of capitalistic "free" market/or controlled as an applied instrument of control / in conditions of socialist economy/.

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 exemple 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 this 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 this 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.