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REGARDS SUR L'ECONOMIE ISRAËLIENNE

Dr ISMAIL SABRY ABDALLA

Les « performances » économiques d'Israël font, en Occident, l'objet d'une admiration presque unanime. Des économistes sérieux citent des chiffres impressionnants, notamment ce fameux taux de croissance extraordinaire de 11% qui n'a pas fléchi 15 ans durant. Les profanes s'éxtasent devant le Néguev désertique transformé en jardin où « les coquelicots poussent sur les rochers ». Les auteurs israéliens n'hésitant pas à écrire « Les Arabes comme d'autres peuples d'Afrique et d'Amérique Latine auraient beaucoup à apprendre d'Israël » (1). Les plus sceptiques font la part de la propagande, mais ne contestent pas les faits quant au fond.

Les économistes arabes qui devraient être les premiers intéressés à examiner le bien-fondé de ce qui émane des sources israéliennes, furent trop longtemps privés, dans leurs pays respectifs, de la documentation nécessaire à cause d'une interprétation trop étroite — et particulièrement malencontreuse — du boycott arabe. Aussi, l'intérêt qu'ils devaient porter à l'économie de l'ennemi s'est-il peu à peu perdu. Seules les auteurs palestiniens du « Centre des Recherches Palestiniennes » de Beyrouth font exception.

Cependant, il suffit de souligner quelques faits essentiels pour étaler en plein jour les faiblesses congénitales de l'économie israélienne, sa lourde dépendance à l'égard de l'Occident impérialiste et la grave crise qui la minait à la veille de la guerre de juin.

1) *Un territoire exigu aux ressources particulièrement limitées.*

Rendons d'abord cette justice aux efforts israéliens. Le cadre géophysique dans lequel ils se déploient est fort ingrat et se prête mal à une colonisation massive.

La superficie d'Israël est d'environ 21.000 km² pour une population actuelle de près de 2,5 millions d'habitants ; ce qui

(1) Hissar Beeri, in « Les Temps Modernes », No. 253 bis, p. 876.

signifie déjà une densité démographique assez importante. Mais les 2/3 de cette superficie sont pratiquement désertiques, et plus de 60% des Israéliens s'entassent en fait dans le triangle Ramla - Tel-Aviv - Haïfa. Près de 30% de la population totale habitent l'agglomération de Tel-Aviv (contre 12% de la population égyptienne dans l'agglomération Caïrote, la plus forte de toute l'Afrique).

De plus, le sol dans le tiers cultivable du territoire israélien est de qualité assez médiocre : aucun delta fertile, une étroite plaine côtière au sol sablonneux et quelques vallons au fond rocheux. Les ressources hydrauliques sont singulièrement limitées : faibles pluies, surtout sur les côtes méditerranéennes, d'octobre à avril. Les travaux d'irrigation extrêmement coûteux ne permettent pas de récupérer des vastes terres faute de cours d'eau. Malgré des investissements massifs (de 18,5% du total des investissements en 1949 à plus de 25% aux années 1960), la part de l'agriculture dans le revenu national n'a augmenté qu'en des faibles proportions (9,5% en 1949, 11,5% en 1960). En dépit de l'exaltation biblique (1) du travail de la terre, les statistiques israéliennes font apparaître une augmentation de la « population rurale » de 15% à 20% seulement de la population totale ; ceux engagés effectivement dans l'agriculture sont naturellement moins nombreux. Quant à la fameuse mise en valeur du Néguev, il y a un fait assez frappant. Jamais on n'a rendu public les prix de revient, et pour cause. L'Égypte qui a une expérience millénaire dans la récupération des terres désertiques et qui a eu recours ces dernières années aux techniques les plus modernes, peut fournir des chiffres assez précis dans ce

(1) On sait que ce qu'on appelle en Israël l'idéologie des pionniers qui anima les colons jusqu'à la création de l'État, fut emprunté par l'idée du « retour à la terre ». Il ne s'agissait pas là uniquement de l'un des nombreux courants en faveur chez la petite bourgeoisie européenne au siècle dernier et qui reflétait le désir de fuir, non seulement le capitalisme, mais aussi le monde moderne. Chez les Sionistes, ce retour à la terre a une signification religieuse : la récupération physique de la terre de Canaan que Yahveh promet à son peuple. Ainsi travailler la terre devient un acte de dévotion. Ayant affaire à des immigrants qui n'avaient jamais été en Europe, des paysans, les responsables sionistes avaient besoin de cet élan religieux pour transformer en laboureurs des artisans, des commerçants, voire des intellectuels. L'organisation des Kibboutzins devait ainsi être la matérialisation de ces aspirations religieuses et « socialistes ». Après la naissance d'Israël, ce fut l'armée qui prit en mains les Kibboutzins créés sur les territoires fraîchement occupés pour en faire des postes militaires y ajoutant ainsi le goût de l'aventure agressive.

domaine. Comparativement, le prix de revient au Néguev doit être de loin supérieur étant donné la configuration accidentée, la rareté de l'eau, l'inexpérience de la main-d'œuvre... etc. En réalité les Kiboutz du Néguev répondent moins à un objectif économique qu'à des soucis militaires (ce sont des postes avancés où tout le monde est dressé à l'emploi des armes ; ils relèvent du reste du ministère de la Défense) et de propagande. D'ailleurs leurs poids dans l'économie israélienne est négligeable.

Voyons maintenant les ressources minières. Il n'y a guère que des minerais de faible valeur : potasse et phosphates notamment. Très peu de pétrole et de gaz naturel (20% du besoin du pays). Faute de ressources hydrauliques, l'énergie électrique est entièrement produite par des centrales thermiques alimentées par des produits pétroliers importés.

Dans ces conditions, on voit mal un *développement industriel*. L'énergie fait défaut, ainsi que les matières premières ; le sous-sol est pauvre et la terre ne connaît guère des cultures industrielles (comme le coton, la canne-à-sucre ou le tabac). Aussi rien de surprenant, si la principale industrie d'Israël est la taille du diamant. Mais c'est là le type même de l'industrie créée artificiellement et maintenue grâce aux combinaisons politico-financières. Le diamant brut vient de l'Afrique du Sud ; le diamant taillé est commercialisé par les trusts d'Amsterdam. Notons au passage combien de ce fait la politique israélienne doit faire preuve de sollicitude à l'égard des racistes de Pretoria.

Il est vrai qu'Israël a tenté de promouvoir quelques industries légères : (appareils électriques et électroniques, textiles, produits pharmaceutiques... etc). Mais le développement de ces industries se heurte à l'extrême étroitesse du marché. L'industrie lourde n'existe pratiquement pas.

II) La dépendance à l'égard du capital occidental.

Les statistiques du commerce extérieur israélien sont singulièrement révélatrices :

Année	Importations	Exportations	Déficit	Import. % Export.
1949	829,4	39,9	289,5	12%
1950	298,4	36,9	261,5	13%
1954	286,5	88,1	188,4	30,7%
1955	837,2	91,4	245,8	27%
1956	378,4	107,1	271,3	28%
1964	826	369,7	456,3	44,5%
1965	822,2	429,1	393,1	52,1%
1966	832,6	503,3	329,3	60%

(en millions de dollars, I.M.F., Financial statistics)

Deux constatations s'imposent. *Primo*, la balance commerciale d'Israël est toujours déficitaire, et la valeur relative du déficit s'est réduite, sa valeur absolue est en augmentation constante. *Secundo*, en dépit de tous les efforts du développement, les exportations d'Israël n'atteignent pas 60% de ses importations, ce qui signifie que si le flux des capitaux étrangers qui couvre le déficit vient à tarir (au moins s'il est réduit d'une manière appréciable) le pays sera asphyxié.

La composition des exportations est à cet égard plus significative encore.

Année	Agrumes	Diamants	Agrumes + Diamants
1954	35%	19,5%	54,5%
1955	34,5%	21,8%	56,3%
.....
1960	34,5%	27,5%	62%
.....
1963	23,9%	33%	56,9%
1964	17,9%	36,5%	54,4%
1965	20,9%	35,8%	56,7%
1966	17,6%	37,6%	55,2%

On voit tout de suite que les agrumes et les diamants taillés représentent constamment plus que la moitié des exportations israéliennes. Les diamants à eux seuls comptent pour plus de 35%. Or, on a vu combien cette industrie manque de base matérielle dans le pays et qu'il est concevable qu'elle puisse disparaître (si par exemple l'Afrique du Sud créait sa propre industrie). Le seul produit d'exportation de quelque importance demeure les agrumes, ce qui prouve qu'Israël compte dans ce domaine sur l'agriculture (et même la monoculture) comme un vulgaire pays sous-développé (1) lorsqu'on tient compte des services, les choses ne s'arrangent point. Bien au contraire. La balance « biens et services » donne les chiffres suivants :

(1) Notons d'autre part que les agrumes furent de tout temps produits en quantité par la Palestine arabe (les célèbres oranges de Jaffa). La majeure sur les terres arabes après 1948 constitue la principale cause de l'augmentation considérable de la récolte israélienne.

Année	Importations de biens et services	Exportations de biens et services	Déficit
1950	333	46	288
.....
1958	534,5	177,9	356,6
.....
1962	967,8	503,2	464,6
1964	1.177	649	528

(en millions de dollars : Sources : Banque d'Israël)

Dès lors on est en droit de se demander : comment Israël a-t-il pu vivre et réaliser cet « extraordinaire taux de croissance » ? Un pareil déficit persistant paraît dû normalement réduire le niveau de vie et provoquer le dépeuplement. Or, la population israélienne a continué d'augmenter, après la croissance ultra-rapide qui a suivi la naissance de l'Etat à un taux d'environ 4% par an. La réponse se trouve dans *l'afflux des capitaux de l'étranger, afflux d'une ampleur et d'une durée inconnues jusqu'ici*. Un seul chiffre résume d'une manière saisissante toute l'affaire : en 1964, la balance commerciale israélienne (marchandises et services) enregistrait 528 millions de dollars de déficit, la balance des paiements se soldait, par contre, par un actif de plus de 600 millions ; soit un apport de capital étranger de l'ordre de 1.200 millions de dollars en une seule année et 480 dollars par tête d'habitant...

D'après divers calculs basés sur les statistiques officielles israéliennes (notamment : Statistical Abstract of Israel, et les rapports annuels de la Banque d'Israël), il ressort que ce pays a reçu dans la période allant de 1950 à 1964 près de sept milliards de dollars. Mais il convient de remarquer que dès sa naissance l'Etat sioniste a procédé à une vaste « accumulation primitive » dont l'ampleur est difficile à chiffrer étant donné que les statistiques régulières commencent en 1950 seulement. La guerre de 1948 fut une occasion magnifique que saisirent les sionistes pour lever des sommes considérables des communautés juives dans le monde entier. Mais le gros de l'accumulation s'est faite au détriment des Arabes. Tout d'abord, la Grande-Bretagne s'empressa de débloquer au profit d'Israël les comptes sterling de la Palestine, alors que ses autres créanciers devaient se contenter d'un paiement échelonné sur près de dix ans. Israël a fait par ailleurs main basse sur les biens des Arabes ayant quitté les territoires qu'il avait occupés. La valeur de ces biens (maisons, usines, fonds de commerce, plantations d'agrumes, terres, bétail, moyens de transport... etc.) a été estimée par un économiste palestinien à plusieurs cen-

taines de millions de livres sterling (1). En 1964, près de 250.000 Israéliens (soit le tiers de la population) vivaient dans les biens « abandonnés » par les Arabes. Sur 370 Kiboutz créés entre 1948 et 1953, 350 se trouvent dans les terres des réfugiés (2).

Examinons maintenant de plus près les formes et les capitaux reçus par Israël entre 1950 et 1964. Tout d'abord il y a sur la somme totale de sept milliards (colossale par rapport à la population) près de 50% sous forme de paiement définitif ne comportant ni remboursement ni intérêt.

En voici l'analyse :

(1) Yousef Sayegh : « L'économie israélienne », en arabe, Beyrouth, 1963.

(2) Israël observe le militarisme le plus absolu en ce qui concerne les biens abandonnés par les Arabes contraints à fuir en 1948 devant l'armée et les bandes terroristes israéliennes. La résolution votée par l'Assemblée Générale de l'O.N.U. en décembre 1948, et confirmée depuis presque à chaque session, exige pour les réfugiés l'autorisation de retour pour ceux qui le désirent et pour les autres l'indemnisation des biens et propriétés perdus ou endommagés. La « Commission de conciliation » existe maintes fois a finalement évalué en 1961 les biens abandonnés à 100 millions de livres. Cependant elle n'avait tenu compte que des fonds immobiliers dont elle a calculé le prix d'après l'impôt. L'économiste palestinien Yousef Sayegh (op. cit.) a procédé de son côté à un calcul englobant les logements, les usines, les fonds de commerce, le bétail, les moyens de locomotion, les terres, les comptes en banques, les meubles et les effets personnels... etc., aux prix du marché en 1948. Ceci a donné 757 millions de livres.

Fonds non-remboursables reçus par Israël
(1950 - 1964)

Aide américaine		264,2 millions \$	
Réparations allemandes :			
à l'Etat d'Israël	764,3		
aux particuliers (1)	847		
	<hr/>		
	1.611,3	1.611,3	>
Organisations juives		1.034,9	>
Transferts privés		500,4	>
		<hr/>	
Total		3.440,8	>

Si l'on exclut les Arabes d'Israël, ceci signifie qu'au cours de quatorze ans chaque Israélien a reçu un don de près de 1.750 dollars. Transposés en Egypte ceci ferait une aide gratuite de l'ordre de 50 milliards de dollars, soit quarante-une fois le coût du haut-barrage d'Assouan... Et il se trouve encore des gens qui parlent du miracle économique Israélien.

L'essentiel des autres 50% des sept milliards se partage entre deux parties : les prêts et les investissements. Dans la période étudiée, Israël a emprunté à long et moyen termes 1.220,4 millions de dollars, soit environ 600 dollars per capita. A titre de comparaison, l'endettement extérieur de l'Egypte ne dépasse pas 50 dollars par habitant. Les investissements étrangers effectués en Israël totalisaient en 1964 plus de 779 millions de dollars. Cependant les investissements à court terme représentent 483 millions de ce total. Malgré l'évidente sollicitude du capitalisme mondial, les investissements à long terme demeurent modestes : 316 millions seulement. Ceci est dû aux médiocres possibilités de développement économique qu'offre

(1) L'accord intervenu entre Bonn et Tel-Aviv prévoyait deux sortes de réparations à verser par l'Allemagne Occidentale à l'Etat d'Israël. D'une part tous les citoyens Israéliens ayant subi en Europe des dommages à la suite des mesures anti-sémites du régime hitlérien seront indemnisés des dits dommages. Ces réparations seront versées également aux Israéliens dont les parents, victimes du nazisme, seraient morts ou disparus. D'autre part, l'Allemagne Occidentale reconnaît Israël comme « légataire universel » de tous les Juifs disparus sous Hitler sans laisser d'héritiers ; de plus, elle l'indemnisait du tort fait aux Juifs en général. Notons que la République Démocratique Allemande a catégoriquement refusé toute négociation avec Israël sur ce sujet. Il faut ainsi signaler que la Suisse a jusqu'ici refusé les revendications de Tel-Aviv sur les fonds déposés dans les banques helvétiques par des Juifs disparus sans laisser d'héritiers légitimes.

Israël (1). Aussi ses amis préfèrent-ils donner ou à la rigueur prêter ; mais les affaires n'ont rien à voir dans ce domaine

Mais qui donc sont les bailleurs de fonds si généreux ? On pense parfois que les sionistes jouant sur des sentiments tout à fait compréhensibles, mettent à contribution les Juifs riches ou aisés de par le monde. Ce n'est là qu'une vérité très partielle. En effet, la principale forme de contribution des Juifs non-Israéliens est la souscription aux obligations de l'Etat d'Israël. Or, la valeur totale de celles-ci au cours de la période sous examen n'a pas dépassée 449,9 millions de dollars — à supposer que tous les souscripteurs soient juifs, ce qui n'est pas le cas en réalité. Quant aux investissements directs, ils sont généralement l'œuvre de grosses entreprises occidentales où il n'est pas toujours facile de définir la part des Juifs. S'il y a derrière ces investissements un facteur extra-économique, il faut y voir plutôt l'intérêt du capitalisme mondial à soutenir Israël. Le reste des prêts accordés à Israël provient des Etats-Unis : le gouvernement américain pour 251,7 millions, l'Import-Export Bank (qui appartient à l'Etat comme chacun sait) 127,9 millions. Si l'on tient compte du fait que la souscription aux obligations d'Israël se fait aux Etats-Unis et que ce sont surtout des entreprises américaines qui investissent en Israël (Kaiser-Fraser, Ford, Coca-Cola... etc.), et si l'on ajoute à ceci les donations du gouvernement de Washington (294,2 millions) on voit l'ampleur du soutien financier américain.

Israël a donc coûté à l'Occident en quatorze ans sept milliards de dollars dont la majeure partie a été fournie par les Etats-Unis et l'Allemagne Fédérale. Ceci fait à peu près 3.500 dollars par tête d'habitant, soit plus de trois fois le revenu national per capita de l'Israélien en 1964... Cette dépendance à l'égard des bailleurs de fonds occidentaux est d'autant plus lourde que l'économie israélienne est loin de pouvoir voler de ses propres ailes. Une étude des services économiques de l'O.N.U. fait ressortir que, entre 1961-1964 l'épargne nationale nette en Israël était en moyenne de l'ordre de 1% du produit national brut, chiffre ahurissant dépassé seulement par le Sud-Vietnam (2).

(1) Ce chiffre devrait donner à réfléchir à ceux qui se font des illusions sur les possibilités d'investissements étrangers en Egypte. En ce qui concerne le capital privé n'a fourni à Israël, dont les attaches avec le capitalisme mondial sont connues, que 5% des fonds reçus par ce pays au cours de la période sous examen, peut-on légitimement espérer des investissements plus substantiels chez nous ?

(2) U.N.O. World Economic Survey. Part 1; The Financing of Economic Development. New York 1966.

Les implications politiques de cette dépendance à l'égard des Etats-Unis, de la République de Bonn et de l'Afrique du Sud sont évidentes. Sur le plan international, il est impensable qu'Israël puisse heurter par exemple les positions américaines sur le Viet-Nam ou rompre ses relations diplomatiques avec Pretoria comme l'ont fait presque tous les pays afro-asiatiques auxquels le gouvernement de Tel-Aviv prétend vouloir s'intégrer. On voit tout de suite, d'autre part, comment les peuples arabes engagés dans une lutte sans merci contre l'impérialisme américain ne peuvent compter de la part d'Israël que sur une franche hostilité, non seulement à cause du conflit arabo-israélien, mais également du fait que l'on se trouve dans des camps opposés fondamentalement : la révolution et la contre-révolution. On voit aussi comment il était presque inévitable que les relations franco-israéliennes se détériorent à partir du moment où de Gaulle a opté pour une politique d'indépendance à l'égard des U.S.A. Mieux encore, de tous les « bénéficiaires » de l'aide américaine, seul Israël semble reconnaître et profondément attaché aux bienfaiteurs. La mentalité raciste des colons implantés de force dans un milieu hostile explique tout naturellement cet attachement. Sur le plan interne c'est encore plus grave. Les ouvriers de l'industrie de diamants savent que la sécurité de leurs emplois dépend du bon vouloir des tenants de l'apartheid. D'une façon plus générale tout le monde se rend compte en Israël du rôle déterminant du capital étranger. Ce dernier ne profite pas à une poignée de bureaucrates, de politiciens corrompus et d'affairistes, comme c'est souvent le cas dans le Tiers-Monde, mais à la majorité de la population. C'est pourquoi, combattu un peu partout, le capital occidental est chaleureusement acquis en Israël. Il ne peut pas en être autrement, car ce capital est irremplaçable. Il n'existe pas de relations économiques internationales saines et normales qui puissent fournir à Israël tous les fonds nécessaires au maintien de sa population actuelle sans baisse de niveau de vie ni émigration. L'exiguïté du territoire et sa pauvreté constituent un énorme défi au rêve insensé du sionisme : l'immigration des millions de juifs. De cette contradiction flagrante entre l'objectif et les moyens, est forgé le destin d'Israël : stabilisation et expansionnisme.

III. — La crise économique et l'agression.

Au cours des deux dernières années qui ont précédé la guerre de juin 1967, les choses se sont sensiblement aggravées. Le déficit de la balance du commerce extérieur a persisté. L'effort héroïque déployé pour y remédier n'a réussi qu'à le réduire de 393,1 millions de dollars en 1965 à 329,3 millions en 1966. Mais si l'on ajoute les services on trouve que le déficit demeure presque inchangé : 528 millions en 1964 et 527,8 en

1965 (le chiffre de 1968 n'est pas disponible). Néanmoins, on aurait pu parler d'un progrès et non pas d'une crise, si les sources extérieures qui ont jusqu'ici largement comblé le déficit israélien ne venaient pas de donner les signes de tarissement.

En effet, les réparations allemandes versées à l'Etat d'Israël sont épuisées. Celles payées à des particuliers israéliens touchent à leur fin. Les remboursements des premières échéances des dettes extérieures se font sentir. Même les emprunts américains perdent d'ampleur. En 1962, les importations des capitaux ont atteint 34,3% du revenu intérieur brut en Israël, elles sont tombées à 21,3% en 1964 (1). En chiffres absolus, l'apport du capital étranger est passé de 629 millions de dollars en 1964 à 505 millions seulement en 1966 et l'on prévoyait pour 1968 encore moins : 300 millions seulement.

Dès 1965 l'économie israélienne est entrée « dans une période de ralentissement grave qui a frisé la dépression », pour reprendre les termes d'un auteur israélien (2). Quelques faits : Le taux de croissance si élevé jusqu'en 1964 est tombé à 7% en 1965 et à 1,6% seulement en 1966. Durant ces deux dernières années la population a augmenté de 2,5%, ce qui relève une baisse de revenu national per capita pour la première fois depuis la naissance de l'Etat sioniste. Aux prises avec ces difficultés, le gouvernement de Tel-Aviv s'est employé à lutter contre l'inflation galopante, stabiliser les importations et accroître les exportations. Loin d'améliorer la situation, ces mesures n'ont fait que l'aggraver. Le chômage a pris une allure fort inquiétante de 3,3% en 1964, il atteint 6,6% en 1966. Parlant devant le Knesset le 27 février 1967, le ministre du Travail a révélé que le chômage touchait déjà 10,3% et que la situation devait s'empirer avec la fin de la récolte des agrumes.

Ainsi l'euphorie se dissipait. Le caractère insensé du rêve sioniste devenait tangible. L'immigration s'est très considérablement ralentie, alors que l'émigration n'est décuplée d'une façon telle que ceux qui ont quitté Israël en 1966 ont dépassé en nombre les nouveaux immigrants. Cette émigration touchait les intellectuels, les techniciens et les éléments les plus dynamiques de la société, menaçant de priver Israël de son principal atout. Cependant sa signification la plus grave est le démenti qu'elle apporte aux mythes si longtemps entretenus par le sionisme : *des Juifs quittent de leur plein gré la terre promise.*

(1) Shaul Kachi : L'avenir économique d'Israël dans le Moyen-Orient in « Eshret » No. 9, Septembre 1966, p. 283.

(2) Même auteur Temps Modernes, No. 253 bis, p. 913.

De plus en plus, les dirigeants israéliens ne trouvent d'autres issues à leurs difficultés que l'expansion au détriment de leurs voisins arabes. Une guerre où Israël réussirait à faire figure d'agressé leur permettrait de soulever de nouveaux des sympathies agissantes et de collecter de nouveaux fonds pour « aider » le petit Etat juif menacé. L'annexion des territoires arabes ajouterait des ressources à ce territoire désespérément exigu et pauvre. Dès juillet 1965, le « modéré » Aba Eban écrivait dans la revue américaine « Foreign Affairs » : « Il n'est pas absurde de nous imaginer les dirigeants arabes réclamant à l'avenir, avec tristesse, le retour aux frontières de 1966 ou 1967, exactement comme ils réclament aujourd'hui le retour aux frontières de 1948 ». On ne saurait être plus explicite sur les intentions de Tel-Aviv.

Des hommes de bonne volonté croient à l'argument avancé par certains auteurs israéliens et selon lequel les difficultés de l'économie israélienne proviennent du boycott arabe et des dépenses militaires imposées par la tension qui règne dans la région ; la paix entraînerait leur disparition ainsi que l'aplatissement de pas mal de problèmes économiques dans les pays arabes. Il suffit pour montrer le caractère fallacieux de cet argument de voir quel type de rapports économiques peut concevoir Israël avec les pays arabes. Donnons la parole à un économiste israélien. Shaul Zarhi écrit : « Les pays arabes... qui constituent le marché naturel pour l'écoulement des produits industriels d'Israël ». Plus loin, il ajoute : « Israël manque de nombreux produits exportés par les pays arabes : coton, sucre, céréales, huile, viande et autres matières premières ». Ainsi c'est un nouveau pacte colonial qu'Israël offre à ses voisins. Fait colonial par son implantation sur une terre usurpée en chassant les habitants, animé par un esprit de colons européens, Israël ne pense ces rapports avec les pays arabes qu'en termes coloniaux : domination et exploitation. Il y a là un des principaux facteurs qui rendent ce conflit inextricable.

PLANNING AND THE ENTERPRISE (1)

By

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I would like first to express my own pleasure at the opportunity to spend such a long period in Egypt. Although six weeks is not really a very long time, I have learned a great deal as well as enjoyed enormously meeting many old friends and students. I also am honoured to be invited to talk at this seminar, and I hope to learn a great deal from you. It is perhaps presumptuous to speak about enterprises with special reference to Egypt on such a short acquaintance, but I am confining myself to explaining only a few ideas which are based partly on what I have learned in Egypt and partly upon general work that I do on problems of firms (or enterprises), problems of planning, and problems of Middle East economics. I, myself, would like to learn more, and that is really the chief reason that I have agreed to come here and discuss this problem among so many experts.

I have called my subject «Planning and the Enterprise», but I do not know what is the most appropriate term to use to describe what I consider to be the fundamental productive unit in an economy. «Firm» is the term I usually use; «company» has a special meaning as does «factory». «Enterprise» can include most of these, but here I shall use the terms «firm» and

(1) This paper is the revised text of a seminar discussion given at the Société d'Economie Politique in Cairo on January 27, 1962.

«enterprises» interchangeably, and will discuss later the special significance I attach to these terms.

As I understand it, Egypt is aiming to be a «planned economy» in some sense or other. At least it tries to be one in the sense that there is a plan and there is a hierarchy of authorities between the enterprise or «firm», and the plan. There are Organizations, Departments, and Ministries, including the Ministry of Planning and other ministries dealing with finance and the budget that are important in the process of planning and control.

Also I have been told many times that Egypt is experimenting, taking a «pragmatic» approach to economic problems, and the people who say this, say it with a kind of pride. And indeed there have been a number of fundamental changes in economic policy in the past 10-15 years. Although an experimental approach is admirable, it can be extremely dangerous for Egypt if it involves excessive experimentation with centralized planning, where very great errors can be made bring serious waste in the use of resources. Because of her pressing population problem, Egypt, unfortunately, has little room for wasteful experimentation and little scope for manoeuvre.

Egypt is also in some sense a socialist economy, which I shall take, at least for the purpose of the present discussion, to mean state ownership of a large part of the means of production. The state ownership of the means of production has been held by many people to be necessary in order to ensure that social needs and not private profit guide productive activities. By extension of the notion that social «needs» and not «profits» should be guiding motive of producers, it became assumed by some socialist writers that an enterprise maximising profit would almost automatically be operating in a manner inconsistent with social welfare. Because the notion of using profit as a guide in a socialist economy was suspect, even with the necessary modifications required to offset the anti-social aspects of certain types of profit — maximising behaviour, profit as a guide to the allocation of resources was cast aside in favour of

a central plan. This is not necessarily a stage which Egypt has gone through, but as you know some other countries have gone through it.

Thus, a «centrally planned» economy, as the United Nations call it, or a «command economy» as some call it, was held by many to be a necessary characteristic of socialism. But the identification of rigid central planning with socialism has not really proved to be fruitful or necessary. As you all know, most of the socialist economies, and particularly the smaller ones in Europe, are searching for new ways of managing their economies because this particular identification has proved to have very serious draw-backs. These drawbacks are especially important for countries that need to have extensive relations with the outside world, particularly through exports, but also through imports.

The chief reason for the changes in policy in some of the socialist countries, notably, for example, in Czechoslovakia, but in others as well in different degrees, has been the inability of planners to deal successfully with the enterprise on a micro-economic level with the behaviour and activities of the firm itself. The firm is the fundamental dynamic unit in any economy. It is the organization that not only collects together the factors needed for production and organises them in the productive process, but also operates as a coherent organism in the functioning of the economy. The operation of a firm involves the lives of men and women who need to be able to gain satisfaction from what they can create and to have scope for using their own ingenuity. This is especially true of those whose task is to provide management, and especially enterprising management, to the firm. Such an institution becomes an entity in its own right, with a life of its own. It acts as a kind of organism as it attempts to satisfy the aspirations of the people working in it as well of the demands of the planners which may be coming down from above, so to speak, and the demands of the market. And it will always attempt to protect itself when faced

with conflicts of objectives (1).

The real dilemma involved in the problem of the relation of the firm to «the plan» arises from the fact that if the firm acts creatively, it is likely to come into conflict with the pre-conceived provisions of the planners, and if it does not act creatively, and above all if it simply accepts passively what it is told to do, there is no dynamic source of creative innovation left in the economy. Unless firms are enterprising, there is no mechanism for what I would call organic, self-perpetuating growth in the economic system.

In a lecture here in Cairo in 1965, a Hungarian professor of economics made the following statement: «It is evident that economics has, so far, underestimated the importance of problems connected with the execution of a series of macro-economic decisions (and the plan can be considered as a series of micro-economic decisions)» (2). The problem has been described by a Czech writer in a discussion of the changes in the Czechoslovak program for managing the economy which were introduced last year, during which he said: «Another important goal of the changes in the system of management is to make the national economy more dynamic. The previous concept understood economic development only as a collection of quantitative relationships, so that it was essentially static.... We have «a new concept» he wrote «of relations between enterprises and society. Formerly this relation was founded on the principle that society decides for the enterprise how much it should save and the enterprise was then obliged to pay into the State Budget the planned profit». This led, of course, he added, to a number of antisocial tendencies: «If a complex and integrated management of the enterprise is to be possible, it is essential

(1) The nature of the firm and of its growth has been analyzed in my theory of the Growth of the Firm (Oxford, 1939). Much of the argument presented here rests on that analysis.

(2) Jozsef Bognor, lecture at Cairo University published in Hungarian Survey, Vol. I, 1965, p. 24.

for the enterprise to have considerable freedom in managing its own finances, for it to decide itself how it can use its money...»⁽¹⁾.

As most of you probably know, one reason for the changes in Czechoslovak economic policy was that they began to find in the early nineteen sixties that the capital output ratio was virtually becoming negative, that investment was not improving the national income, presumably because of a malallocation of investment expenditures. This can happen even when the national income for a while appears to be rising, simply because investment expenditures themselves are part of income in the statistics. But if the investments are not productive, then the economy may face a crisis of excess capacity, unemployed resources and falling output.

Now, where and exactly why do the «planners preferences», as we might call them, go wrong? Why are the input-output tables, the great macro-economic models, the calculations of the «grand ratios» not adequate? Why do they not seem to be doing what people thought they would do ten years ago? And you remember in the nineteen-fifties the great confidence that large numbers of economists had in their projections: capital output ratios were calculated and investment requirements for the desired targets for output determined; the capital was invested, but the output did not come as expected, and the planners began to worry and to revise their techniques again and again. Great advances have been made, and the grand ratios, the macro-economic models, the carefully-estimated relationships between important economic variables do have important functions now. I am not suggesting that they are useless, nor that one should ignore the kind of knowledge they give about what has been going on, about the structure of the economy, about many of the dynamic interrelationships, for this knowledge points in many directions to the kinds of action

(1) Miroslav Sokol, « Changes in Economic Management in Czechoslovakia », Czechoslovak Economic Papers, No. 8, 1967, pp. 12, 13, 15.

that might be helpful in development. But this knowledge is not enough, for it cannot take account of the one really important source of self-sustaining growth in an economy the innovating, imaginative enterprise that characterizes the firms of dynamically growing economies. Economies can, of course, grow for considerable periods as a result of effectively planned and executed investment programmes, but such growth will not be cumulative and self-sustaining unless the restless enterprise of the primary productive units is actively cooperating in the process.

I want now to make two propositions upon which a good deal of what I have to say depends: The first is that economists as yet know very little about the process of economic development. We are in fact very ignorant. We have many theories and many different notions about how things should be done. But for any central plan, and especially for a development plan, theory is of overwhelming importance. All such plans are necessarily based on somebody's theories of development, and if these theories are wrong in any important respect, the plan is going to be wrong. This is my first proposition: economists know very little about the process of economic development in underdeveloped countries.

My second proposition is that some countries, and in particular Egypt, will find their future in the development of a diversified export of a wide variety of manufactured goods. The big basic exports are, of course, important, but the development of a large variety of small things will be essential to carry the economy of Egypt rapidly along in the near future. I am making this statement rather categorically, but its validity can be discussed later. I suggest that the only hope for a successful solution to Egypt's very difficult economic problems, which are made especially acute by the problem of the population increase, lies in this direction, even in the medium term. I refer to the «medium term» because we cannot envisage a long-term solution until something is done about the problem of the population. The point is that in the near future it will be of

great importance that diversified exports be developed in ways yet to be discovered. It is not clear where they will come from, and this is why the enterprise of firms must be invoked.

Now, from these two propositions, one general and one specific, I conclude:

- a) That any plan is very likely to be seriously wrong in some respects, and especially from the micro-economic point of view of firms as well as from a macro-economic point of view;
- b) that in any case central planning is unsuitable as a means of calling forth innovations from enterprises, especially for export markets.

Innovations in markets, in techniques, in products, in ways of doing things, in ways of marketing, in ways of finding out and molding consumers tastes, particularly in exports are difficult to plan for and may be stifled if the plan gives inadequate scope for enterprises. I think there is evidence that some stifling of this sort is occurring in this economy, especially of small things, and my argument is that it is an accumulation of small things that will be the future of a healthy and prosperous economy in Egypt.

Now why do the «small things» get lost? Partly because they do not show up very big in theories, in the models of the planners, in statistics, and an enterprising firm with a little thing to do may very well find that it is blocked in doing it. Plans cannot easily take account of the unpredictable capacities of human beings and of the opportunities offered by the unexpected.

The managers of enterprising firms often see ways of using some excess capacity that the firm may have, the chance to take advantage of unique opportunities for using its resources or responding to its particular market situation. Every firm has a unique combination of abilities and resources and finds itself in a unique position vis-à-vis its market, but the oppor-

tunities thus arising for expansion may have little in common with the role of the firm as foreseen by the planners. The firm may then be prevented from taking action because the action is not part of the plan. Alternatively it may be unable to act because the available investment funds are already absorbed by the projects of the plan. Enterprise is stifled, and in the process the primary source of economic dynamism in the economy is neutralized by the imperatives of the plans, which in the nature of the case must be essentially static in the sense that they have no inherent mechanism for genuine self-sustaining growth. Revisions of plans cannot be considered «dynamic» in this sense. The entrepreneurial function passes to the planners, who are not in a good position to act with real dynamism.

One important source of conflict between the dynamic expansion of enterprises and the planning process lies in the structure of control which is usually set up according to industrial classification. These are essentially statistical categories created by statisticians largely for purposes of simplifying the collection and presentation of statistics. Each firm is placed in some industrial category — rubber, oil, textiles, chemicals, etc. — and the structure of administrative control is established accordingly. In reality, dynamic firms do not normally confine themselves to such statistical industrial categories. Indeed, if you look at the great firms that have grown up in the capitalist world, you will find that they have spread into many fields as they pursue their search for profitable investment. Had they been confined to an industry, there would have been much less opportunity for growth. The growth of a firm is a process that takes place as the firm moves from one position to another, the second position often being economically possible only because expansion could be built on the existing resources of the firm, to which were added new resources. This natural organic growth is difficult to reconcile with the imposed targets of centrally planned economy.

This is one important type of problem. Another, more specifically related to the operations of Egyptian planning perhaps, relates to the question of incentives. In a «pure» command

economy, positive incentives for firms and individuals may be neglected, the authorities substituting penalties for not fulfilling targets and for not carrying out instructions. This procedure has been shown in practice to have grave drawbacks, but sometimes an economically efficient solution is difficult to obtain because an economically appropriate incentive system is sometimes seen to raise ideological questions related to income distribution and the class structures. Nevertheless, in discussions of the functioning of a country's economy, the problem cannot be ignored since it is intimately bound up with the general process of growth and development on which in the end, the social welfare of all the people is itself dependent.

We need to consider two aspects of the problem: incentives for individual workers and managers, and incentives for the firm itself as an organization. Incentives for individual human-beings relate fundamentally to their prospects for advancement in income, status, and responsibility if work is satisfactory and results good. Incentives for the firm are equally important, for men tend to identify themselves with institutions, and their own prestige is tied up with the prestige of the institutions in which they work. If the institutions are to operate effectively, the men in charge must find satisfaction in working for them. If they do not find this satisfaction, the institutions will be unenterprising dead things.

For a firm, success means prestige, profits and particularly scope to grow in response to the enthusiasm energy and ideas of the man running it. If it does not have this scope, there is little incentive for its management to put forth special efforts.

A firm responds as a unit to what might be called «impersonal» indicators of success, and one difficulty in the relation of a firm to a central plan arises when there are multiple and contradictory criteria according to which its success is judged. These confuse management and often induce the development of great ingenuity on the part of the firm to protect itself. In this respect, firms will behave like lawyers who are ingenious

in finding ways of getting around this or that law. This is especially what tends to happen in enterprises when administrative orders coming from the top are not consistent with what the people running the firm see as sensible thing to do from the firm's point of view. Such orders will not be accepted with enthusiasm, and the firm itself will tend to find ways of evading them.

From the point of view both of firms and individuals I have the impression that the Egyptian economy has not yet worked out successful solutions to the incentive problem. For the individual, the top financial limits to what a man can earn may be reached by about the age of forty or forty-five. Thus the very able man may have reached the top of his earning capacity just as he reaches the point where his potential managerial and entrepreneurial ability begins to flower. But thereafter he is supposed to work with no hope of further financial reward; he does not like it and is very frustrated. There are apparently a large number of such able young people in this country who look for ways to go elsewhere, precisely because of their extremely limited future prospects, and they are a type that Egypt can ill-afford to lose. Even the pay differentials for workers are not sufficient to effect an appropriate allocation of labour and industrial efficiency seems to be seriously hampered in a number of cases. Efforts have been made to offset some of the adverse economic effects of this by restraining the free movement of workers between firms and introducing limited arrangements for special remuneration under particular circumstances.

The present employment policies, which force many enterprises to take on an excessive number of workers, are also not only inimical to the efficiency of the firm, which is probably serious for firms with some export potential, but also have a bad effect on worker's incentives. The existence of workers in a plant who are not fully employed, but who get full pay (combined with the difficulties of disciplining workers that are now put in the way of management and which even inhibits the

ability of management effectively to train new workers) seems to have a dampening effect on industrial morale generally, and reduces the willingness of the more able workers to put forth special effort. If it is correct that Egypt's future is heavily dependent on her ability to develop an efficient industry with a potential power to compete in export markets, then this kind of policy, which not only raises costs directly but also — and even more important — reduces productivity, is self-defeating in almost every conceivable way.

So far I have been attempting to explain why it is important in the interest of the dynamic economic development of the economy that enterprises — be they publicly or privately owned — be given both incentive and scope to use what entrepreneurship and managerial initiative they possess. I have also presented a critique of some aspects of Egyptian policy in the process. I have necessarily had to be somewhat dogmatic in the short time available to me, and in particular, I have not been able to develop fully the argument behind the assertion that the firm, as the elementary productive unit in the economy, is also the only source of truly dynamic growth. Planning is in itself not an adequate substitute and the dynamic function of the firm cannot be performed by planners.

But this function does not, in theory at least, require that firms be privately owned, only that they be given a high degree of autonomy and freedom especially with respect to the direction of investment. In practice, of course, ownership may make a difference, but if you look at the very large firms in a capitalist economy that are privately owned, you will find that they tend to be managerially controlled. The role of shareholders in control is not important; perhaps the most important difference between the private and the public firms is that the former pays out a certain proportion of its profits in dividends because the firm must maintain its financial standing in capital markets. A capitalist firm uses private savings rather than government funds when it needs new capital and the stock market provides an « impersonal indicator of success » for private firms. The whole economy would change if the

private markets for capital disappeared, as they would do if there were not a private demand. Socialist firms do not have to attract private savings from the public, but they can nevertheless develop into enterprises with a reasonably independent life of their own.

Such firms, however, would have to have independent and direct contacts with the market and a good deal of freedom in pricing, although government intervention would undoubtedly be required for special purposes. It may be important in some circumstances, for example, to prevent monopoly pricing; or it may be desired to make certain types of products particularly cheap, such as fuel or other types of industrial inputs or even some consumer goods, such as bread. On the other hand, direct control of prices as a means of preventing inflation is likely to be inefficient except in very special circumstances. Also it is possible that if the exchange rate makes imported capital equipment too cheap, as I have the impression it does in Egypt, it may be necessary to prevent firms from adopting unnecessarily capital-intensive techniques in their investment planning. This is a difficult question which I cannot go into here, but the « shadow prices » planners may use are not the kind of prices that firms operating in real markets will react to. Government intervention in the location of industry may also be desirable, etc.

It is in the field of investment where the most difficult conflicts between the « preferences » of planners and the opportunities perceived by firms will arise, and here the question is whether or not it can be assumed that the planners necessarily know best bearing in mind the point I made at the beginning that as yet economists know little about the process of economic development. A broad and flexible plan which outlines the possibilities for economic progress has important uses, and particularly for the development of large and costly projects. But care should be taken to ensure that such projects do not absorb so much of the funds available for investment, and especially foreign exchange, that existing enterprises are denied the opportunity of expanding in new and apparently relatively

insignificant ways, for it is in the latter direction that the prospects of developing a wide and diversified range of exports are likely to be greatest. Expansion that grows naturally out of an existing situation is the type of expansion to be encouraged, yet in many underdeveloped countries this is precisely the type of expansion that tends to be neglected in favour of « projects » popular in government ministries and planning agencies. The waste of resources arising when individual enterprises make mistakes, on which so much stress is laid by those who urge wholesale and detailed planning and extensive « coordination », are in the nature of the case likely to be very much less than the waste of resources that can occur when large capital-intensive projects promoted in accordance with a misconceived theory of development are imposed from above on the economy.

If enterprises are given more freedom with respect to investment, however, the problem of allocating investible funds not only between existing enterprises and new government projects but also among existing enterprises will have to be approached differently from the way it is approached under central planning as at present operated. In this respect, more use might be made of the banks as institutions which could bring an independent judgement to bear in appraising demands for credits and the potentialities of the firms seeking funds. There seems to be no reason in principle why banks in a socialist system cannot be used to fulfill more positive functions than they are now allowed to in Egypt.

Let me conclude by re-stating the nature of the problem. The already high density of population on the usable land in Egypt, together with the high rate of population growth gives Egypt little scope for expensive experimentation but makes industrialization a necessity especially industrialization with a view to developing a diversified range of exports. New opportunities must be found but the present methods of managing industry seem inimicable to the development of initiative and dynamism in industry, and especially in export industries. This is not a task that central planning has shown itself capable of performing in any country, and those countries that have

tried it are already fundamentally modifying their systems of economic management. This is especially true of smaller countries with very limited scope for manoeuvre. In planning for development, the economic theories espoused by the planners are of dominant importance, and, in view of our limited knowledge of the process of development, are likely to be inappropriate in many respects. I have, of course, also been putting forth a theory, one which stresses the importance of the enterprise as a source of dynamic growth and the need for flexibility on the part of plans and for initiative on the part of enterprises. But an examination of the course of economic history, of the experiences of those countries which have introduced central planning, together with an analysis of the sources of « self-sustaining » growth in any economic system, seem to me to provide strong evidence for the argument that the appropriate relationship between planning and the enterprise has not yet been developed. The problem of economic development is too serious to be left entirely in the hands of economic planners equipped with divergent, inconsistent and untested theories of development, just as it cannot be left to the « free play of market forces ».

THE MAIN FEATURES OF THE PARTNERSHIP
PETROLEUM AGREEMENTS IN THE U.A.R. AND
OTHER DEVELOPING COUNTRIES

By Dr Mahmud S. Amin

There is no doubt that the natural approach for any country is to develop its own resources by its own means, to make the best use of its resources, but the success of such an approach depends on:

- The magnitude of the exploration risk in the areas involved which should be minimum so as to protect the national capital against heavy losses. This risk, as discussed before, depends on the results of previous exploration efforts and on the geology and extension of the area.
- The availability of savings devoted to the development of petroleum resources which is determined by the financial and economic condition of the country.
- The magnitude of the country's needs for quick development of the petroleum resources and whether it can stand a long term development plan or not.

The magnitude of these factors determine to what extent the country can self-finance the development of its resources. Some can depend entirely on that, others can depend partly on this self-financing. The latter usually face the difficulty that on the one hand they are in bad need of developing their resources, and on the other hand they have not got the necessary investments for that purpose. This is the type of difficulty repeatedly faced by developing countries in their industrialization projects and which is usually overcome by using foreign loans that can be re-imbursed out of the production of the industrial project after completion. Such a procedure, however, cannot be applied in petroleum development projects since invested loans may or may not lead to discoveries and production. It is, therefore, not safe to depend on loans for petroleum development projects and some alternative procedures must be used to enable those countries to develop their resources. It is obvious that such countries cannot depend on the normal concession agreements of the private financing pattern described before.

These agreements do help these countries to develop their resources but do not enable them to develop their know-how and get involved positively in the industry.

The other alternative is the joint pattern agreements whether exploration development contracts or partnership agreements.

The cooperation of the country with the foreign partner on such a basis enables it to develop its resources with minimum risk and investments against a certain percentage of the profits given to the foreign partner. In fact the country does not practically lose this percentage as shown in the following example.

If to explore a certain area, some 20 million dollars are required to explore such area for three years. Then in case of discovery, some 40 million dollars are to be spent over a period of 2 years to develop a certain oilfield.

If the country can provide such investments over the period of 5 years, it is in position to get the profits of its investment of say 200 million dollars over the field life of say 20 years. But, if the country cannot provide these funds over the 5 years period but over a 7 or 8 years period, then the 200 million dollars profits are delayed for 2 or 3 years and thus the country's advantage and benefits of reinvesting these 200 million dollars in other projects are delayed for 2 or 3 years. Assuming that this benefit is of the order of 10%, then the developing country is bound to lose 20 to 30% of its profits as a result of the 2 or 3 years delay.

If such country can provide the required investments during the specified period, it is then not in need for a foreign partner except for avoiding risk. But, if it cannot, and need to cooperate with a foreign partner able to provide the investments in time, the country is then saved the 20% — 30% losses of the delay from which the foreign partner is compensated for bearing risk and providing investments.

The cooperation of the national and foreign partners is thus a matter of exchange of benefits.

Consequently, the developing countries have to depend as much as possible on their own means of financing to develop their petroleum resources. The limit of this self-financing is determined by the operations costs, risk element, availability of risk capital and the magnitude of the country's demand for petroleum. Beyond that limit, these countries need to cooperate

with foreign capital to speed up the development of its resources.

This cooperation is, therefore, a necessity and thus has to be well designed to serve the interest of the developing country and to be a real technical and economic cooperation based on the exchange of benefits. For this purpose, the cooperation should be based on the following:-

- Avoiding exploration risk as much as possible.
- Minimising the country's burden in financing exploration operations and the development of oil discoveries.
- Speeding up the operations to the maximum economic limit.
- Enable the country to participate positively in the different phases of the operations to develop the local know-how and experience.
- Maintain as much control as possible on the developed resources.
- Ensure the flexibility of the agreement for sole operations in case of unavoided disputes.
- Ensure the maximum disposition of oil production.
- Get the highest possible income.
- Make the best use of the local man power and locally manufactured materials.
- Avoid disputes.
- Diversification of partnership capital.

Most of these considerations has already been provided for in recent partnership agreements concluded by U.A.R., Iran, Algeria and Saudi Arabia, which are therefore considered the most suitable bases for cooperation between the developing countries and foreign capital as discussed in detail in the following:

1 — *Avoiding Exploration Risks:*

This is one of the main objectives of these agreements, whereby the foreign partner bears the risk of exploration

up till the discovery of oil in commercial quantities, and then-after, the foreign and national partners bear the risk of exploration.

Nevertheless, in the UAR, and Iranian agreements the participation of the national partner in bearing exploration expenses is delayed until the foreign partner has already expended a certain amount of funds in exploration. These funds are established in each agreement in accordance with the geological nature of the area.

The risk burden on the national party can be minimized by reducing the size of the area involved in the joint venture, but there is a limit to such reduction and it is again determined by the geological nature of the areas involved. The same effect is also achieved by speeding up the relinquishment of exploration areas.

These factors were covered to some extent in the Iranian, UAR, and Saudi Arabian agreements, but in the Algerian agreements, both partners bear the risk of exploration jointly from the start.

2 — *Exploration Expenditures and their recovery :*

In these agreements, the foreign partner has to provide the necessary funds for exploration expenditures, which have to be provided in sufficient amounts and in proper time to speed up the operation.

This is usually dealt with in most participation agreements except in the Algerian-French agreement where partner has to provide his share of exploration expenditures from the start, but the French partner has to lend the Algerian partner 60% of his share.

The recovery of these pre-discovery exploration expenditures is made after the discovery of oil but this should not impose a heavy or sudden burden on the national party.

- In the UAR, and Iranian agreements, the foreign partner recovers his pre-discovery exploration expenditures from the income of his oil share before computing the tax due to the government. Recovery in the Iranian agreement is over a 15 years period or at a rate of 10 cents a barrel, whichever is greater. In the UAR. agreements, the recovery is over a 5 to 20 years period.

- In the Algerian and Saudi Arabian agreements, the foreign partner recovers his pre-discovery exploration expenditures from his share and from the share of the national partner. In Algeria they are recovered from 25% of the oil share of the national partner, while in Saudi Arabia, the national partner pays in cash his share of the exploration expenditures at three months notice.

The recovery of these expenditures from the oil share of the foreign partner alone, as in case of Iran and UAR., is of advantage to the country. In such cases, the foreign partner practically recovers only 75% of these expenditures as indicated from the following example illustrating the two cases of recovery:

CASE A: Recovery of the expenditure equally from the shares of the national (N) and foreign (F) partners.

CASE B: Recovery of the expenditures from the share of the foreign partner alone.

	CASE A		CASE B	
	N.	F.	N.	F.
1. Income	70	70	70	70
2. Operating costs	— 20	— 20	— 20	— 20
3. Expl. expenditures	— 10	— 10	—	— 20
4. Profits	40	40	50	30
5. Taxes on Foreign Share.		— 20		— 15
6. Net Foreign Share of Profits.		20		15

Consequently, the foreign partner recovers in case A his pre-discovery exploration costs of (20) plus his profit share of (20), while in case B, the recovery is (20 + 15) which means a losses of (5) or 25% of the exploration expenditures.

3 — *Financing of Development Operations:*

The main objective of the cooperation with the foreign partner is to speed up the development of the discovered oilfields to get quick production and consequently quick return. Since development requires heavy investments which developing countries cannot provide in the suitable time, the national partner needs assistance in that respect to avoid delay of the development operations.

This is taken care of in the Iranian agreements where the foreign partner provides necessary development funds and then recovers them, with interest, from the oil share of the national partner.

The same principle is applied in one of the UAR. agreements but to a limited degree.

The absence of such a provision in other agreements constitutes a burden on the national partner.

4 — *Relinquishment of Exploration Areas:*

Progressive relinquishment of exploration areas is a common feature in all petroleum agreements to avoid keeping the exploration areas idle in the operator's hands and to open new chances for other operators.

Relinquishment is even more important for the developing countries which are usually eager to explore every part of country either jointly with new partners or through self financing.

The relinquished areas need to be of a reasonable size or form to permit conducting further exploration operations.

5 — *Commercial Discovery:*

The decision that a commercial discovery of oil has been established is of great significance in the participation agreements.

The consequences of this decision is the termination of the sole responsibility of the foreign partner and the beginning of the joint responsibility of the two partners. The national partner has then to participate in the expenditures required for:

1. Development of the oil discovery.
2. Further exploration obligations.

The national partner, therefore, is usually very particular about the establishment of a commercial discovery, which is an important turning point.

Regarding the development of the oil discovery and the risk which might be involved in this, the national partner is automatically protected from such risk, if any. The foreign partner who bears and pays 50% of the development expenditures and receives 25% of the profits should be more concerned about that risk than the national partner, who bears the same burden but receives 75% of the profits.

Consequently, if the foreign partner accepts the commercial discovery, there should be no risk involved in the participation of the national partner in developing such a discovery. The opposite case is more likely to occur: the discovery might be considered commercial by the standards of the national partner, who obtains 75% of the profits and might be satisfied with a lower return than the foreign partner who receives 25% of the profits and usually needs a higher return.

Regarding the other consequence of establishing a commercial discovery: that the national partner has to participate in exploration expenditures; this is in fact the most important consequence, but the national partner cannot be protected against that through any definition of commercial discovery. This problem has been, therefore, well-taken care of, in the UAR and Iranian agreements.

In the UAR agreements it has been dealt in two ways:

1. — In the UAR—ENI agreement, the national partner, may or may not participate after the commercial discovery. If he does not participate, the foreign partner continues development and further exploration operations with the right of the national partner to participate at any time.
2. — In the UAR — Pan American or Phillips agreements, the national partner does not participate in the exploration expenditures after the commercial discovery until and unless the foreign partner has exhausted the total exploration expenditure obligations specified in the agreement. This obligation is established for each agreement in accordance with the geological nature of the area and is designed to be enough to explore the main features of the area involved.

A similar principle is also applied in the Iranian agreement where the national party does not participate in the after-discovery exploration unless the foreign partner has expended his total obligation, which is a lump sum for exploration and development operations.

In conclusion, it is extremely important to define properly the commercial discovery on a sound economic basis, but whatever definition is selected it cannot protect the national partner from the after-discovery exploration risk unless the above mentioned provisions are considered.

Proper definition of commercial discovery is well presented in the Iranian agreements of 1965 which defined a commercial discovery well and commercial field.

The well is considered commercial, when its productivity based on the thickness of the pay zone, petrophysical properties of the reservoir rock, P.V.T. analysis data, productivity indices at various rates of flow and an assured drainage area of 1/2 mile radius around the well bore indicate that the well is capable of producing a sufficient volume of petroleum, the value of which, based on an estimated applicable posted price, shall cover twice the cost of drilling that well within a period of 12 years.

The field is regarded commercial if the quantity of petroleum reasonably foreseen as derivable therefrom, is such that delivery of petroleum at the seaboard shall be payable on the following basis :

If the cost of production is increased by an amount in respect of exploration expenditure and transport and landing charges as well as a sum equal to 12 1/2% of the applicable posted price for petroleum of similar quality and the resultant figure is deducted from the said posted price, there should be left a profit of not less than 25% of the applicable posted price.

It is also possible to use the productivity per well or wells or per area put on production for continuous 20 or 30 days period as an indication for commercial discovery, but certainly it is not as perfect as the above mentioned definitions.

6 -- *Positive Participation of the Two Partners:*

The advantage of the partnership agreement for a

developing country is that it permits the country to be deeply involved in the planning and execution of the operations. This enables the country to harmonize the development of its petroleum resources with the overall economic development of the country.

In the exploration phase, when the foreign partner is risking his money, he is, in effect, a sole operator working on behalf of the two partners. During this phase, the national partner must exercise his right of participation to the extent that does not limit the freedom of the operator who risks his own money. This has been accomplished in the UAR agreements and to some extent in others. In the UAR agreements, the foreign partner is appointed as operator during the exploration phase, but there is an advisory committee or exploration committee formed of 3 members of either party to study the exploration programs and budgets and other subjects of common interest and to make comments, assist and provide necessary information to the operator whose decision is final. The national partner has also the right to audit the exploration expenditures incurred by the operator and to inspect the supporting documents to ascertain that:

- The records of costs are correct.
- The cost of goods and services are in line with international prices.

In the development and production phases, the two partners have equal rights and operate jointly the company which develop and produce the discovery.

This joint and positive participation of the two partners brings them closer to each other and thus enables them to understand each other's problems. The national partner has the chance, then, to learn more about the industry, its bloomy and gloomy sides, and to be realistic in taking decisions. The foreign partner has the chance to understand the problems of the developing countries and to adjust his thinking and methods and match them with the aspirations of his partner.

This will undoubtedly lead to better cooperation between foreign companies and producing countries.

7 — *Sole Operations:*

The national and foreign partners in the partnership agreements have equal rights in running the operations and thus any decision has to be jointly approved. This fact in itself, forces either party to cooperate with the other to avoid delay of operations and consequent loss.

If, however, a situation arises that either party proposes to drill an exploration well or to develop an oil discovery which the other party does not agree to, there must be then a procedure which keeps everybody happy such as the sole operation procedure, which has been adopted in some of the partnership agreements. It has been introduced in these agreements in case of disagreement regarding the following:

- Drilling of an exploration well or wells.
- Drilling of development well or wells.
- Construction of development or production facilities.

In all these cases, the proposing party provides the necessary financing and conducts the operation on his own responsibility and risk. In case of success of operation, the non-proposing party has the right to participate in the project against a certain compensation paid to the proposing party. The compensation can be X% of the costs incurred by the proposing party, but it might be also through permitting the proposing party to recover his expenditure faster than at the normal recovery rate. Both methods were applied in the UAR agreements. In the UAR-Pan American and Phillips agreements the percentage method was applied, while the fast recovery method was used in UAR-ENI agreement.

The Algerian-French agreement included the sole risk procedure as well as a similar arrangement based on the right of either party to reduce his percentage of participation in a given area and consequently to reduce his obligation. Either party is also entitled to re-acquire his participation upon compensating the other party for his costs plus an additional compensation.

It is evident that the sole operations are of great advantage for the national as well as for the foreign

partners. It is most likely that the national party might — for local considerations — need to develop a small oil discovery not attractive to the foreign partner. This, he can develop through the sole operation procedure. It is also possible that the foreign partner might need to go into risky operations not acceptable to the national party. Sole operation procedure permits, then, either party to proceed with his project with the right of the other party to participate after compensating the proposing party.

The compensation is in effect an encouragement for the proposing party rather than a penalty for the declining party as shown in the following example.

If the cost of drilling an exploration well, which proves a commercial discovery, is 5 million dollars and the compensation for the proposing party is 300% of costs, the proposing party is then entitled to recover, from the production, a quantity of oil equivalent to 1.5 million dollars, i.e. to recover about one million barrels. This means that the recoverable oil in the field is reduced by one million barrels which is equal to:

1/100 of a discovery that can produce 100 million barrels.

1/200 of a discovery that can produce 200 million barrels.

1/300 of a discovery that can produce 300 million barrels.

which is a small premium even for a very small field of 100 million barrels of recoverable oil.

8 — *Disposition of Production:*

According to the partnership agreements, the oil produced is shared by the national and foreign partners, and each disposes of his share by his own means. The foreign partner, who is usually an affiliate or a subsidiary of an integrated company, is in a better position to dispose of his share using the marketing facilities of the parent company. The national partner, on the other hand, is in a relatively weak marketing position. He has to go into foreign marketing which involves heavy investments.

The disposition of the national share of oil is, therefore, a problem in the partnership agreements, particularly in countries whose crude production exceeds their domestic consumption.

Consequently, successful partnership agreements should handle this problem in one way or another.

In some cases, as in the UAR - Pan American agreement, the foreign partner promises to help the national partner if he encounters a difficulty in the disposition of his share.

In other cases, as in the UAR-Phillips agreement, the foreign partner undertakes to market a part of the national share against some marketing expenses determined in the agreement.

In case of the Iranian and Algerian agreements of 1963, the foreign partner undertakes that if he lifts more than 50% of his share, then 1/2 of his additional liftings is deemed to be purchased from the national partner at a reduced price determined in the agreement. The reduction is a compensation for using the marketing facilities of the foreign partner.

In all these cases, it is possible that one of the partners might be underlifting for some years and thus does not recover from a certain field as much as the overlifting partner. Consequently, partnership agreements should always be based on the principle that a party has the right to recover up to 50% of the petroleum produced from an oilfield until the time that party recovers 50% of the recoverable reserve of the field.

The application of this principle requires:-

1. To set a procedure of compensation for the underlifting party.
2. Careful estimation of the recoverable reserve to determine the relation of the overlifting and underlifting parties.

This is a complication in the disposition of oil and is bound to create disputes between the partners.

It is, therefore, evident that the procedure of disposition of production so far adopted in the present agreements should be simplified to enable both parties to dispose of the maximum part of their shares. Then half of the difference of liftings of the partners is considered purchased by the overlifting party on the basis of a price agreed upon. This, certainly gives one partner a chance in the market of the other partner, but this chance is compensated by some marketing fees and helps to smooth out the relation between the partners.

Government Receipts :

Partnership agreements give the country a relatively high income compared with other petroleum agreements.

The country receives that income either in form of royalty or taxes or as profit for its partnership. This is indicated from the comparison of the income of different agreements as presented in the following.

The comparison is based on the ratio of the total Government receipts to the gross income. This is a better expressive ratio than that of the percentage of governments receipts to the net profits. The latter is misleading in comparing areas with different costs of operations as in the case of Venezuela and the Middle East. It is, however, useful for comparisons within the same area or when operating costs are close.

To draw the comparison, let us assume a realized income of 100 dollars and that the operating costs range from 10% to 40% of that income and then apply this to the different agreements:-

A — Taxes & Royalty Agreements:

The best example of these agreements is that of Venezuela which gives the government a royalty of 16 1/2% and an income tax of about 52%. Thus, the government receipts are made of the taxes and royalty.

B — Profit Sharing Agreements:

These are represented by traditional profit sharing agreements of the Middle East and Libya which are based on 50/50 profit sharing calculated on post-

ed prices. The OPEC modifications introduced to these agreements in 1965 called for the expensing of the 12.5% royalty payment with discounting the posted prices by a percentage ranging between 8.5% and 8.5%.

The government receipts, accordingly, are made of the royalty of 12.5% and the 50% of the profits calculated on the discounted posted prices which for this comparison are assumed to range from 110% to 130% of the realized prices to cover the variations of these prices.

C — Partnership Agreements:

These are represented by the partnership agreements of Iran and UAR. The government receipts in these agreements consist of the net profit of the national 50% share of production and of 50% of the profits of the foreign partner which are calculated on a realized price or on posted prices according to the agreement. For this purpose of comparison, the price of the foreign share of oil is calculated on the base of 100% or 110% or 120% or 130% of the realized price, while that of the national share is computed in all cases on the base of realized prices.

The Saudi Arabian Aukirap agreement is a special case of the partnership agreements based on 40% participation, 15% — 20% expensed royalty and 40% income tax on the foreign share for the government.

The above-mentioned agreements are compared for different operating costs ranging from 10% to 40% of the realized price, and the results are presented in the following table.

COMPARISON OF GOVERNMENT RECEIPTS
IN DIFFERENT AGREEMENTS

TYPE OF AGREEMENT	Government receipts as percentage of gross income calculated for different operating costs :			
	10%	20%	30%	40%
I.— <i>Taxes & Royalty Agreement : (Ex. Venezuela).</i>	54.8	49.2	44.4	39.2
II.— <i>Profits Sharing Agreements : (Ex. Libya).</i>				
a) With posted price 110% of realized price	52.75	47.75	42.75	37.75
b) With posted price 120% of realized price	58	53	48	43
c) With posted price 130% of realized price	63.25	58.25	53.25	48.25
III.— <i>Partnership Agreements :</i>				
a) With 50% participation & without expensed Royalty, (Ex. Iran and UAR).				
1. With profit based on realized price	67.5	60	52.5	45
2. With profits based on 110% of realized price	70	62.5	55	47.5
3. With profits based on 120% of realized price	72.5	65	57.5	50
4. With profits based on 130% of realized price	75	67.5	60	52.5
b) With 40% participation and expensed royalty, (Ex. Saudi Arabia).				
1. With 15% Royalty	63	56.2	50.2	43.8
2. With 20% Royalty	65	58.4	52	45.6

The comparison of the government receipts for the different agreements is presented also in Fig. 1 and 2.

Fig. 1 compares the distribution of income of the different agreements on the basis of an operating cost of 10%. Each type of agreement is presented by one or more columns.

Fig. 2 compares the variation of the government receipts in different agreements upon changing the operating costs from 10% through 50% of the realized price.

This comparison indicates that partnership agreements generally give the highest income to the national part of Government. This is true as long as the operating costs are lower than 30% of the realized income.

In the Middle East, production cost and depreciation are in the average of 15 cents a barrel which is about 10% of the price compared with 15 — 20% in Venezuela.

When operating costs exceed 30%, profit sharing with expensing of royalty might be advantageous in some cases.

This conclusion might be criticised on the basis that the income of the partnership agreements is partly in return to the profits of the capital invested by the state in the project. This criticism could have been valid if :

1. The operating costs are exceptionally high and in such cases as pointed out before, partnership agreements become less favorable.
2. The national partner participates in the risk and in all the investments required for the project, which is not the case. The national partner participates mainly in the development investments and even in recent agreement it is not required to provide such investments.

9 - Accounting and Taxable Profits Procedures :

The success of participation agreements requires minimizing the disputes which might arise between the partners. Such disputes arise particularly in conjunction with the calculation of the Government share of profits or the settling of accounts between the partners.

It is, therefore, of importance to include in these agreements the following :

1. Taxable profits calculation procedure which should define, in particular, the elements of the operating costs, the tangible and intangible costs and the rates of depreciation and amortization, etc.
2. The accounting procedure to be adopted by the partners including the basis of exploration charges and of the development leases. This should particularly define the elements of labour, employee benefits, services, administrative overhead and general expenses, etc.

The UAR agreements include excellent examples of these procedures.

10 — *Local Contractors and Locally Manufactured Materials :*

The developing countries are very much concerned with the maximum utilization of their national manpower, know-how and locally manufactured materials. This is to increase their national income as well as to build up their local industry and know-how.

Consequently, partnership agreements need to include provisions for maximum employment of nationals and their preference to foreigners if equally qualified and experienced. The same applies to local contractors and locally manufactured materials which are to be given preference, provided that the service of the contractors and their costs and the prices of the local materials are comparable with international services, costs and prices.

It should be in the interest of the foreign partner to make the best use of the local services and material. This paves the way for a smooth and long term cooperation with the country.

It is also in the interest of the national partner not to force the use of the local services and materials beyond the limits of their efficiency and performance, particularly in the exploration phase. This phase requires the use of the most up to date, efficient methods, techniques and equipments to overcome the exploration risks. It is possible that any defect in the equipment used or the service provided might result in losing the

Discovery of an oilfield, which is a big loss for the country far greater than any gain obtained by using local materials or services.

The developing country has, therefore, to do its best to bring up well-trained national technicians and to encourage the formation of service contracting companies for geophysical survey, drilling and construction operations. The services of these companies have to be in the international standards which cannot be acquired except through cooperation with service contractors with international experience in such fields. The formation of mixed service contracting companies is the quickest way to build up the local experience.

11 — *Disputes* :

Partnership agreements establish a relation between the State which grants the concession and the national and the foreign partners who are the grantees. The national partner might be a state-owned organization, but legally, it is on the same level as the foreign company. Consequently disputes in the partnership agreements are of two types :

- a) Disputes arising between the state and the partners which are referred to the national courts since a state cannot submit to any foreign jurisdiction and is not becoming for it to enter into arbitration with a private entity.
- b) Disputes arising between the two partners which are referred to arbitration, since it is a case of business relation between two entities of similar status. The arbitration is usually carried out by the representatives of the two parties and a third neutral arbitrator, and it is conducted in a neutral country.

12 — *Diversification of Partnership of Capital* :

When a developing oil producing country cooperates with foreign capital, it is for its advantage to deal with those who control or have access to good markets to have good outlets for their production and stabilised prices.

This is the case of the major international oil companies which possess the strongest marketing facilities but very few of these companies go into partnership agreements with oil producing countries.

Next to these come the independent integrated companies and particularly those financed by the capital of the main consuming countries as France, Italy, Germany, Japan, Spain, etc.

Recently such companies become actively engaged in oil finding outside their home to ensure a dependable source for the consumption of their countries.

It is, therefore, for the advantage of the developing oil producing countries to cooperate with as many as possible with these companies or with those having access to the major consumption markets.

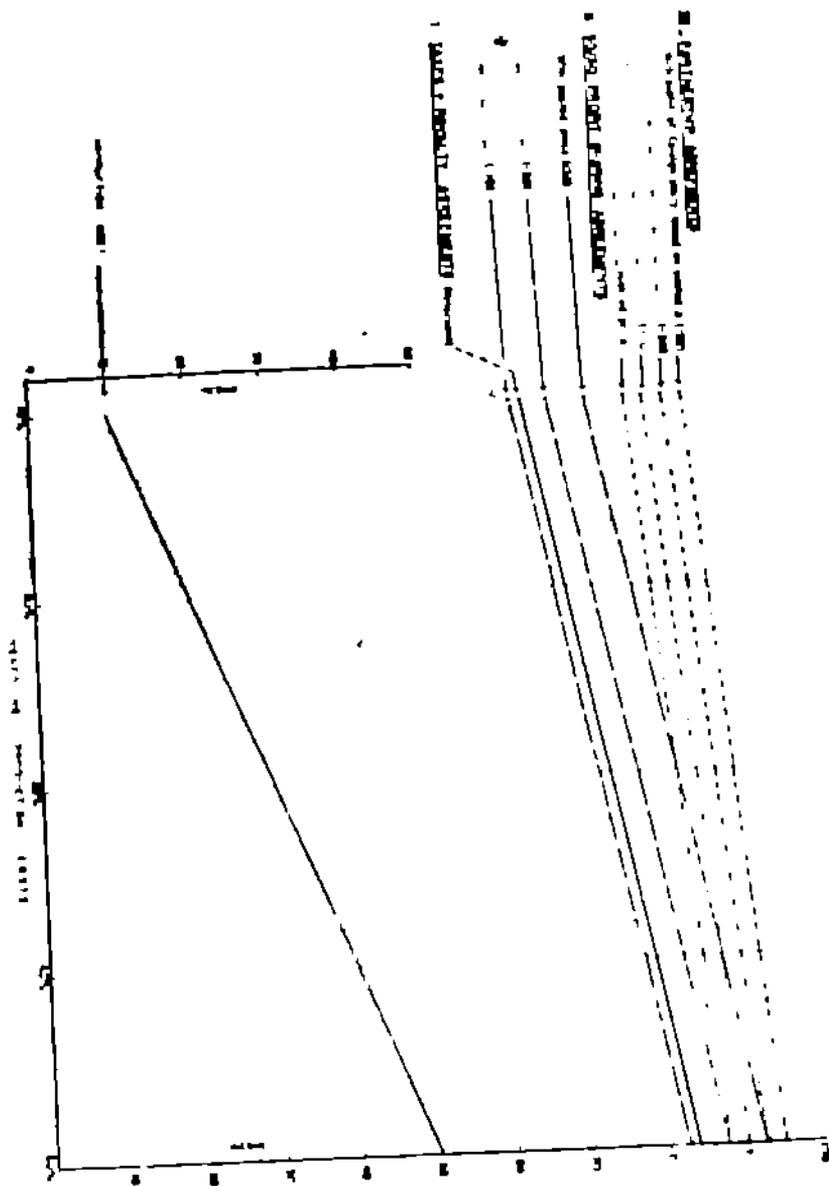
This diversified cooperation gives the oil producing countries a stronger position in the markets of the consuming countries, but this diversification should not be overdone since having too many operators in the country raise the production costs and consequently reduces the profit per barrel.

**COMPARISON OF THE GOVERNMENT RECEIPTS
IN THE DIFFERENT AGREEMENTS**

I TAXES & ROYALTY II PROFIT SHARING III PARTNERSHIP AGREEMENTS

AGREEMENTS AGREEMENTS AGREEMENTS

	(VENEZUELA)	(LIBYA)	(OFFSHORE IRAN & UAR)	(SAUDI ARABIA)
PARTNER PARTY SHARE	100%	100%	100%	100%
TAXES	0%	0%	0%	0%
ROYALTIES	0%	0%	0%	0%
PARTNER PARTY SHARE	100%	100%	100%	100%



COMPARISON OF THE GOVERNMENT RECEIPTS IN DIFFERENT AGREEMENTS
BASED ON PERCENTAGE OF GROSS INCOME

MANAGEMENT AND DEVELOPMENT

by

Dr. M. F. HL HITAMI

I. INTRODUCTION

While no-body claims yet to have identified all the causes of economic backwardness, quite a few of them have been related to behavioral factor inherent in the total environment. Emphasis has been layed on one set of factors or another by different authorities depending on the particular discipline to which they belong or seem to favor at the moment. There are those who stress the psychological factors,¹⁾ others emphasize the social and cultural barriers²⁾, and another group accords great importance to the political and administrative aspects of development.³⁾

Indeed, the description of the homo-sapiens as a culture-bound animal is particularly significant in the field of development where most contributors exhibit a <discipline-bound> attitude in identifying the causes of backwardness: The economists believe that no growth will be manifested in the absence of sufficient resources; the political scientists point to government systems that may not be compatible with growth objectives; the sociologists and anthropologists are more aware of the social and cultural barriers and the conflicts arising through modernization; the psychologists place greater emphasis on problems of attitudinal change; engineers and physical scientists, who are usually more practical and down to earth, identify the low level of technology used in backward regions as the most probable cause for underdevelopment.

With rare-but notable-exceptions, the role of management in development has been minimized or altogether ignored by economists. It was held that economic underdevelopment could be cured by the injection of theoretically calculated amounts of capital and resources. The vision of underdeveloped countries endowed with vast but misused and under-utilized resources did not trouble their elevated daydreaming until they loosened their academic apron strings and became know-all cure-all globetrotters. It then dawned upon them that the ability and efficiency of organizing and managing the development and utilization of existing resources is, at least, as important for economic progress as the availability of the traditional factors

of production. It was then realized that management, among other factors, had a direct and critical influence on the character and speed of development.

Alfred Marshall, in particular, is credited to be the first to consider management as a factor of production of the same critical importance as labor, land, and capital.⁴⁾ Joseph Schumpeter, also, assigned great importance to the functions performed by the «entrepreneur», who is both an innovator as well as an administrator. He believed that only entrepreneurs, by introducing new methods for performing economic activities, can be said to produce true profits.⁵⁾

In an illuminating study by a group of American experts on industrial development, the authors introduce the notion of «investment in organizations».⁶⁾ They assert that, beside accumulating capital and increasing investment, a growing economy must also accumulate managerial resources and utilize them effectively. Management is a form of human capital, critically indispensable for industrial development. As a country proceeds along the path of industrialization larger amounts of both capital and management become necessary and their utilization has to be greatly intensified. «Investment in organization» should be considered as of the same importance for development as investment in plant or equipment. The accumulation of managerial resources is thus conceived as analogous to the process of capital formation and accumulation. It has been remarked elsewhere that «...the accumulation and productive employment of high-level managerial resources, like the accumulation and productive investment of capital, is a universal imperative in the industrialization process».⁷⁾

Needless to point-out is the fact that the importance of the role played by management in industrial development is least appreciated by the newly developing countries. It is to be regretted indeed that an appreciation of the less tangible, but nevertheless necessary prerequisites for sound industrialization, comes only at a rather advanced stage of development, although the need for such appreciation is as great or maybe even greater, at earlier stages. The extent of importance accorded to management and also the intensity of utilization of managerial resources seems to be directly related to the degree of complexity in the social economic, political, and technological environments. The further a society travels along the path of development, the more intricate and complex becomes the interplay of the environmental factors and their effect on the business enterprise. Thus it becomes apparent that one of the main functions of management in the context of economic development is to continually evaluate and interpret the char-

ges in the environmental factors and translate them through appropriate decisions into administrative actions.

It is my belief that the environmental factors do not only affect the areas of decision making in the enterprises, they also tend to shape the character of management practice within the society. A clearer understanding of their influence in this respect is directly needed to explain and identify the effects of particular environmental conditions in determining the managerial philosophy favored by management in different societies at different stages of development.

In the present essay I intend to make an attempt at identifying the particular factors that influence the character of management practices in a given society. To do so I propose to proceed according to the following steps:

1. First, I will try to identify some of the general characteristics of management practices in societies at three levels of economic development (namely underdeveloped, industrializing, and advanced societies).
2. I will then try to relate these practices to some of the dominant environmental influence at each particular stage.

I do realize, however, that such an approach will necessarily be plagued by many limitations, important among which are:

1. The lack of verified experimental data concerning many of the assumptions.
2. The simple classification techniques which will lead to a high degree of generalisation.
3. The selection of a very limited number of factors for consideration.

Nevertheless, it should be realized by the reader that I am not attempting here to reach any definite or final conclusions; my intention is to formulate and propose some hypotheses that could be put through the rigors of verification as soon as enough detailed information becomes available.

II. CHARACTERISTICS OF MANAGEMENT PRACTICES DURING THE PROCESS OF ECONOMIC DEVELOPMENT.

Much criticism has been voiced against the idea of breaking down the process of economic growth into separate stages. While such a classification is limited to a certain extent by the

diversity of factors affecting the character of development in any particular society, yet, as far as the present endeavor is concerned, such a classification, however imperfect otherwise can lead to a better understanding of the environmental factors influencing management practices. It is, however, important to repeat, that such a classification will necessarily suffer from certain broad generalizations which might not be applicable to any specific managerial environment. The correlation of the characteristics of some managerial practices does lead, nevertheless, to a better identification of the influence of different environmental factors in the changing of — or forcing changes in managerial practices. It is not the purpose of this paper to propose any definite suggestions towards a theory of stages of management development, however appealing this concept might seem. All that is intended, is to point out and examine the factors that tend to shape the character of management practices. This might eventually lead, I hope, to a better understanding of the often-mentioned barriers to managerial efficiency in some of the developing countries.

For the sake of simplicity, I have broken down the development process into three stages which encompass underdeveloped, industrializing, and advanced societies respectively. As far as the purpose of this study is concerned, this crude classification will be quite sufficient. A more detailed division of the development process will not necessarily be conducive to a better understanding of the relationships under study. As a matter of fact, a more detailed classification might be successful at best or even downright confusing.

The first stage in this system of classification includes traditional or pre-industrial societies. The second stage includes societies that are in the process of industrializing their economies; societies passing through the transition or take-off stage, in Rostow's parlance, would be classified under this second stage. Under the third stage are grouped the advanced industrial societies that have reached a high level of economic development.

Two management aspects are selected for consideration and comparison within each of these stages:

1. superior-subordinate relations, and
2. criteria for manager selection

I will limit my discussion to these two important managerial aspects since they are comparatively easy to identify and describe, and also because the influences of environmental fac-

tors are most clearly marked in shaping the character of management practices associated with them.

A. *Underdeveloped Societies.*

It has been observed that superior-subordinate relationships in many underdeveloped or pre-industrial societies are characterized by the use of a highly autocratic authority system. The manager, who in most cases is also the owner of the enterprise, runs his business and controls the actions of his subordinates in an authoritarian fashion, which in some cases is tempered by a paternalistic attitude.

It will be observed by the reader that authoritarianism and paternalism in industry have their parallels in traditional societies in relationships based on age or class differences. These parallels are obvious in the psychological, socio-cultural, political, and economic traits of the society.

Aggressive and domineering personality traits are developed very early in the character of children in entrepreneurial classes in many societies. Attitudes of superiority, ruthlessness and mistrust towards inferiors are cultivated and encouraged.

Autocracy in socio-cultural traits is also evident in the patriarchal family system based upon the almost absolute authority of the familyhead and elders. The authority of the patriarch is based on deeply-rooted traditions and customs, and on highly cherished religious and ethical values. The transformation of an autocratic system such as paternalism from agriculture to industry, thus, becomes the most logical step and makes it the most logical system of management in the pre-industrial stage. As far as obligations, rewards, and maintenance of discipline, paternalistic management replaces the authority of the master or the family elder. This approach, which is not altogether conducive to the best results, does however help in limiting some of the disruptive effects of industrialization on the existing social structure.

The autocratic system becomes necessary due to the small sizes of enterprises and the assumption of its management by the owner. The low-level of technology and the limited number of employees makes it easy for one person to know and control all the aspects of the business. The authoritarian attitude of the manager is also encouraged by the absence of labor organizations. This last factor together with lack of Government controls and labor legislation gives the manager a free hand in labor relations decisions.

The autocratic system in management is also a reflection of the prevailing political environment where a dictatorial or quasifeudal leadership together with a few privileged families rule the majority of the under-privileged members of the society. The main objective of government in such societies is to safeguard and guarantee the existence and the privileges of the ruling class. Legislation reflects these objectives by taking the side of national and foreign capital in issue involving-management relations.

The stress on the extended or joint family at this stage of development is clearly reflected on the means of access to managerial positions, which becomes based upon membership in the family. It is the duty of the owner to give employment to his relatives, since nepotism is regarded as a laudable virtue. The appointment of relatives to management positions is also looked upon as one way for providing the means for safeguarding the security and reputation of the family. This practice is encouraged by the limited managerial specialization required by the low level of technology and the small size of the firm. Nepotism, as a sociological phenomena, has also been explained as a reflection of the prevailing dynamic power structure in the political system.

B. *Industrializing Societies*

The expansion of industrial firms and the creation and proliferation of state-owned public enterprises remove the close association between the manager and his subordinates. Forms of paternalistic management become impractical when labor organizations gain strength through support from the political leadership. Government legislation concerning minimum wage scales, working conditions and working hours limit management's freedom to a great extent and do not encourage management to view the worker in a paternalistic manner. Authoritarianism while being resorted-to in most cases, is countered by the political backing for the workers, the rising standards of education, the appearance of labor unions, and the modifications that take place in the social values and traditions.

In the private sector, as the firm expands and the technology employed becomes more complex, it becomes more and more difficult to recruit managerial personnel from within the family group. Certain specialized talents become more necessary as the firm grows and extends its operations into new lines or new geographical areas. Engineers, scientists, marketing experts, labor relations lawyers, etc., cannot all be found in one family. The owner is forced to recruit some outside professionals. But while the family may lose control over certain of

the areas handled by the professionals, it still maintains its authority over all outsiders.

When a new nationalist political leadership comes into the picture, as has happened in a great number of developing societies, there appears the novel phenomenon of political management. Individuals who have chosen to support the new political system, but who are not needed or desired to hold political offices, may be offered the top management positions in the state-owned public enterprises as a payoff for their support. Also, many private concerns hunt for these individuals and offer them attractive management positions so as to take advantage of their influence and contacts in the government circles. A more fundamental reason for the appearance of political management is that the new leaders, in attempting to consolidate their position, are forced to place their supporters, not only in industrial enterprises, but also within any organization of consequence in the country.

Because of the rapid rate of industrialization and the general poverty of managerial resources, civil servants are appointed in the new industrial enterprises. They usually bring with them all the routine and red-tape practices prevalent in government departments. Their managerial attitude constitutes one of the most difficult barriers in industrial development.

With the great emphasis placed upon technical progress, everything associated with science and technology is held in high esteem. Scientists and engineers rise very quickly to middle-and top-management positions. Technical know-how is considered the key to the solutions of all industrial problems. Needless to say, many members of this new class of technocrats lack the training and talent for management leadership. However, they bring with them the scientific attitude in problem solving, which is sometimes lacking in political managers and civil servants.

C. Advanced Countries

Due to the changes in the values held by society, more emphasis is put on the freedom of the individual. When this is translated into the superior-subordinate relations realm, it means that the worker relinquishes most of the ties of dependence on his boss. The reduction in the rate of unemployment and the abundance of job opportunities add greater horizontal mobility to the movement of workers, so that turnover rates in most companies are relatively high. This accelerates the pressure on management from workers who can rebel against its authority by quitting, restriction of output, or absenteeism. Government intervention through legislation regulating labor-

management relations constitute another pressure on the extent of management's authority. In advanced democratic countries, the autocratic system of management becomes unsatisfactory to the society in general and tends to be replaced by system of democratic management inspired by the prevalent political philosophy of constitutional democracy.

In large enterprises, it becomes more difficult to achieve a high level of accuracy in directing the operational activities without proper delegation of authority, especially, if the enterprise produces several diverse products or if its branches are sprawled over a large geographic area. This tends to force top management to decentralize, so that authority for making decisions is delegated to lower levels of management.

It was mentioned, when we were discussing management characteristics in industrializing societies, that as the firm expands beyond a certain size, the practice of family management is modified to include certain necessary talents in specialized field. Through this way professionals make their entrance and start influencing management practices through a more rational and pragmatic approach to business problems. As the firm grows, most of the new managerial positions tend to be filled by more professionals, and ownership interests are gradually squeezed-out of the management ranks. It becomes reasonable to predict that as industrializing societies attain higher levels of development, political management, also, because of its reliance on professionals as the organization increases in complexity, will eventually give way to professional management. As a matter of fact, it can be noticed that whatever form of political system or ideology an advanced society chooses to adopt, professional management always becomes the prevalent type.

III. ENVIRONMENTAL FACTORS:

The environmental factors influencing the character of management practice can be grouped into five sets:

1. Psychological
2. Socio-cultural
3. Political
4. Economic
5. Technological

The manner in which each of these sets influence management characteristics will be discussed in the following subsections.

A. *Psychological Factors:*

The personality traits and attitudes of the manager determine, to a large extent, the system of authority he will use and the manner in which he applies it in his work relations. The subordinate's attitude toward authority and his psychological needs, on the other hand determine the degree of his acceptance for the management system. It has been remarked that authoritarian managers have aggressive and domineering personality traits. They generally view their subordinates as inferior and untrustworthy dependents. Managers who use the democratic system of authority, by personal inclination, generally have more balanced personalities and their attitude towards their subordinates is tempered by the adoption of reasonable egalitarian principles. They view the subordinate as an individual who has certain rights and obligations.

It has been noticed that the subordinate's attitude towards authority in underdeveloped or traditional societies is that of submission and dependence. In advanced societies, on the other hand, the subordinate would tolerate very little authoritarian practices and would rebel against their excessive use by management.

B. *Social Factors:*

The most important social factors influencing management practices include:

1. The cultural traditions and customs,
2. The religious and ethical values,
3. The family system orientation,
4. The class structure; and
5. The educational philosophy.

The culture of a society is the result of the historical accumulation of socially acceptable customs, traditions, and moeurs. In many societies, particularly in the first stage of development, great emphasis is put on the maintenance of traditions. Religious and ethical values, even when not adhered to by the individuals, are held in great esteem and have a powerfully prevailing influence on the attitude of the society at large. The manager has to conform to the pressures exerted by their influences so as to maintain a satisfactory level of labor relations in his firm.

The criteria for manager selection are greatly dependent upon the family system orientation in the society. In traditional

societies, where the joint-family system prevails, the management positions are filled by the owner's relatives. With the increase in employment opportunities and the introduction of state-sponsored social security in the second and third stages of development, the joint-family system becomes less necessary as far as the security of the family member is concerned.

The class structure in the society also affects the criteria for manager selection. In quasi-feudal or dynastic societies only members of certain classes or castes are allowed to engage in significant economic activities. In more advanced societies, where there are less distinctions between the classes and where social mobility is greater, managers are selected on the basis of other criteria than those of belonging to a certain family or social class.

The educational system favored by the society exerts a powerful influence on the system of manager development. Traditional educational systems stressing the ability of the student to memorize and blindly accept the views of higher authorities, produce unimaginative and uncreative managers. In advanced societies where more importance is given to logical and inquisitive scientific thinking, managers generally exhibit a more rational approach to managerial problems.

C. *Political Factors.*

The influence of political factors is most keenly felt at the enterprise level through legislation concerning wage-scales, working-hours, working conditions, and union-management relations. The prevailing political ideology determines the extent of management's prerogatives and the ownership system. Where the political objectives of the leadership revolve around the safeguarding of the privileges enjoyed by certain families or classes, enterprise ownership has a comparatively greater degree of freedom in labor-relations decisions and, furthermore is guaranteed government support in most labor disputes. Socialist leadership, on the contrary, gives more importance to the welfare of the working classes, since they are regarded as the main support of the political system. In some emerging countries, as well as in some advanced ones, the appointment of political managers constitutes one way for guaranteeing the fulfillment of the political objectives.

It is also important to notice that the political system of authority is closely related to the managerial authority system in any particular society. In totalitarian and dictatorial countries the autocratic system is adhered-to in both the political

and managerial spheres, while in democratic countries management's authority assumes more democratic traits.

D. Economic Factors.

Among the economic factors that influence management the following are considered of importance :

1. The economic system and the rate of economic growth
2. The size and number of enterprises
3. The prevailing ownership patterns
4. The availability of resources, and
5. The extent of labor organization.

Actually, several of these factors are heavily interdependent: the ownership pattern depends upon the economic system and the size of the enterprise, the number and size of enterprises depends upon the rate of economic growth and the availability of resources, and so on. The economic factors and managerial practices are likewise strongly related: superior-subordinate relations are influenced by the type of economic system, the size of the enterprise, ownership patterns, and the extent of labor organization; the criteria for manager selection and development are dependent upon the size and number of industrial enterprises, ownership patterns, and the availability of strategic human resources.

The importance of the economic factors lies in their direct relationship to management practices. The pressures they exert on the firm can be immediately felt by management. Unless management's interpretation and evaluation of the economic environmental factors is fairly accurate, the results may be disastrous to the firm. The last remark applies more forcibly to developing countries experiencing rapid rates of economic and political change.

E. Technological Factors.

The technological factors influencing management practices include :

1. The type of product,
2. The level and complexity of the technology employed,
3. The type of industry (labor Vs capital intensive), and,
4. The scale of operations.

Firms engaged in the production of simple products on a

small scale of operations such as those prevalent in an underdeveloped environment, require simple organization structures, and the manager would find it comparatively easy to grasp all the operational details of his business. It thus becomes natural for him to supervise and control all aspects of the business. This however becomes more difficult when the product requires the use of an advanced level of technology. In such cases, specialists have to be called in. In this way technological factors also tend to influence the criteria for manager selection.

It should be noticed that the technological factors as well as the economic factors are interdependent : the type of product, the type of industry and the scale of operations determine the level and complexity of the technology employed : the type of product, the level of technology, and the scale of operations determine the intensity of use of capital and labor.

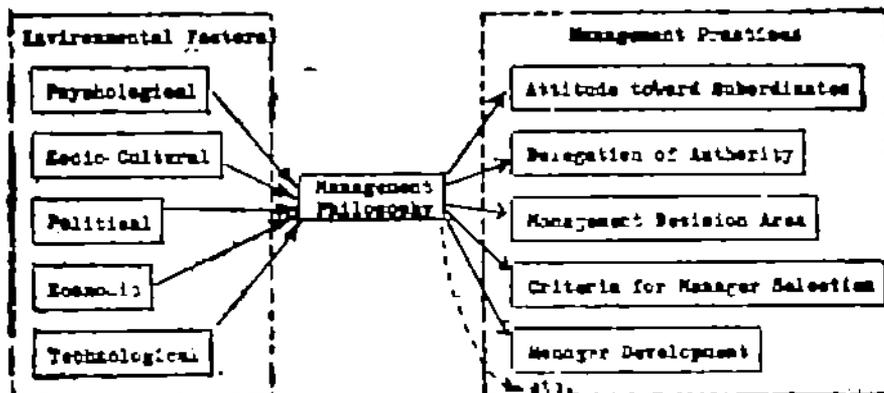
IV. — CONCLUSIONS

Earlier, it was stated that the objective of this paper is to identify the environmental factors that influence the character of management practices. Two aspects were chosen for examination, namely : superior-subordinate relations, and the criteria for manager selection. Through an examination of the characteristics of management in societies at three stages of development (underdeveloped, developing, and advanced societies) it was discovered that management practices are associated with certain conditions in the environment. It was decided that the character of managerial philosophy and practices is largely determined, or at least strongly influenced, by five sets of environmental factors :

1. *Psychological* : personality traits, developmental training, attitudes, needs, motivations, ...etc.
2. *Socio-cultural* : customs, traditions, religious and ethical values, family systems, class structure, educational philosophy, ...etc.
3. *Political* : ideology, system of government, patterns of leadership, national goals, system of authority, ...etc.
4. *Economic* : economic system, rate of growth, size of, and number of enterprises, ownership patterns, availability of resources, extent labor organization, ...etc.
5. *Technological* : type of product and industry, level and complexity of technology, scale of operations, .. etc.

It is suggested that these five sets of environmental factors exert certain pressures and inducements on the manager

to adopt a managerial philosophy in harmony with the prevailing conditions. The managerial philosophy thus adopted largely determines the character of management practices. This relationship is schematized below.



If these relations are true, then some interesting deductions can be made. If the character of management practices is really determined by environmental factors outside the area of managerial decision-making and control, then no appreciable change can be forced upon the internal managerial environment. This latter contention limits the importance traditionally given to the role of leadership in management. On the other hand, the role of national leadership assumes greater significance in this respect by inducing changes in the social, political, and economic environments. In this case, one of the main functions of management would be to raise operational and organizational efficiency by modifying its practices within the limits imposed by the environmental constraints. This necessitates that the manager should continuously keep in touch with, evaluate and interpret the changes taking place in the environment with the purpose of introducing improved management practices as soon as the need for them arises.

If we contend that each society requires the use of management practices in harmony with the existing environmental influence, it becomes apparent that the existing approaches to management theory will exhibit serious limitations when tested for applicability to environments other than those in which they were conceived. The adaptability of certain management «principles», for example, becomes questionable when they are applied under different environmental conditions. The same remark applies to the empirical and behavioral approaches since both rely heavily on either case studies or research work done in a particular environment. Many of the contributions made through

these three approaches while by no means insignificant, have to be modified by taking into consideration the influence of environmental factors acting on management under different conditions. A recurring example might serve to illustrate this point: It is held by most authorities in the field of management that one of the most serious barriers to managerial efficiency is the unwillingness of a manager to delegate part of his authority to his subordinates. Well, let's examine the applicability of the principle of delegation of authority in the case of a typical manager in a developing society. First, it is rather difficult to convince a manager to adopt a democratic practice such as delegation when he was born, raised and is working in a society characterized by autocratic relationships in interpersonal, family, and political affairs. Second, even if the manager is induced to change his managerial philosophy, he would still have to face the problem of training subordinates to accept responsibility. In this respect, it should be born in mind that it is quite difficult to find qualified management personnel in developing nations due to the grave shortages in strategic human resources. Also it should be remembered that it would be a difficult task indeed to delegate authority to subordinates who, due to the same environmental influences, are reluctant to accept responsibility.

This example also shows that the transfer of management practices, that have proven successful in one country, to another can be a highly hazardous proposition. While certain management techniques in the area of accounting and production are transferable, practices involving the human element can hardly be expected to meet with the same degree of success in managerial situations in different societies. It follows that another important function to be performed by management is to examine and evaluate successful practices in other countries, and to test them for adaptability to its particular environment. Many developing countries seem to be willing to import management systems from advanced countries as readily as they import modern technology. While the latter are highly transferable, the former can hardly be considered as such.

- 1) e.g. Everett E. Hagen: *On the Theory of Social Change: How Economic Growth Begins* (Homewood, Ill., Dorsey Press 1963).
- 2) e.g. David C. McClelland: *The Achieving Society* (D. Van Nostrand Co., New York 1961).
- 3) e.g. Paul A. Barun: *The Political Economy of Growth*. (Prometheus Paper Back, 1960).

- 4) Alfred Marshall: *Industry & Trade: A Study of Industrial Technique and Business Organization and their Influence on Conditions of Various Classes* (Macmillan & Co., London 1919).
- 5) Joseph A. Schumpeter: *Business Cycles: A Historical and Statistical Analysis of the Capitalistic Process*, Vol. I (McGraw-Hill, New York 1939).
- 6) C. Kerr, J. T. Dunlop, F. Harbison and Ch. Myers: *Industrialism and Industrial Man*, (Harvard University Press, 1960).
- 7) F. Harbison and Ch. Myers: *Management in the Industrial World* (McGraw-Hill, 1969) p. 23.

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THE CONCEPT AND PRACTICE OF SOCIALIST ARBITRATION ⁽¹⁾

By

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INTRODUCTION

Socialist arbitration is a relatively new institution. It was created for the first time in 1932 in the Soviet Union and after the second world war in Eastern European Socialist Countries. The system of Socialist arbitration was organized for the first time in Egypt by an order of the Council of Ministers on the 10th of January, 1966. The system was re-organized by the law No. 82, 1966 on Public Establishments. This law delegated to the Minister of Justice the power to make the appropriate regulations in order to put the law into effect. The Minister in pursuance of this power made two orders, the order No. 985, 1966 and the order No. 986, 1966.

The reason usually given for the emergence of the Socialist Arbitration system is the transfer of the property of means of production to the People. The conflicts of interest between socialist establishments and organizations are very different in nature from the conflicts of interest in which a private individual is a party. As a rule, Socialist Arbitration has jurisdiction only over disputes between socialist organizations and enterprises, it has no jurisdiction over a dispute in which a private individual is a party. It is usually claimed that this difference of nature comes from the fact that the issue of conflicts of interests between socialist organizations and enterprises does not affect the interests of the People as a whole

(1) A Lecture delivered at the Egyptian Society for Political Economy, Statistics and Legislation.

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since these organizations and enterprises are the property of the People⁽²⁾. Without questioning the theoretical soundness of such an assumption, there is every reason to think that, from a purely practical point of view, the issue of conflicts between socialist organizations and enterprises affects directly or indirectly the interests of private individuals. For example if a socialist enterprise is ordered by an arbitration award to pay damages to another socialist enterprise, it is likely that this award will produce an increase in the amount of shares of profits payable to the latter's employees and on the other hand a diminution in the amount of shares of profits payable to the employees of the first. Besides, the fact that a certain enterprise has lost the case may open the way for holding investigations and inquiries and imposing heavy liabilities upon those who caused by their wrong or negligence the loss of the enterprise.

The use of the term « arbitration » with respect to our institution is confusing. Arbitration comes from the Russian « *arbitraj* ». But the ordinary arbitration is called in Russian « *Tretakj and* », i.e., « the Court of third person »⁽³⁾. Russian lawyers do not need to add an epithet to « *arbitraj* » because the word conveys by itself a definite meaning quite distinct from ordinary arbitration. In other languages the lawyers had to find an epithet to avoid confusion. The epithet commonly agreed upon is « public » and thus our institution came to be labelled « Public Arbitration ». But I think that the use of the epithet public with respect to socialist systems leads only to more confusion, because the very concept of the relations between Public Law and Private Law had radically changed in a society where the role of private enterprise is reduced or is being reduced. Socialist lawyers claim that there is no room in a socialist country to insist on the traditional division between Private law and Public law⁽⁴⁾. In the hope to evade the ambiguity of the epithet « public », one may be tempted to prefer the use of the epithet « economic ». But here again we encounter the same sort of terminological difficulties. Socialist lawyers do not as yet agree on the problem whether there is an Economic Law⁽⁵⁾. Even for those who admit that

(2) M.R. KHALIL, « *Le dirigisme économique et les contrats* », Paris (L.G.D.J.), 1967, No. 840.

(3) R. DAVID, « *Les grands systèmes de droit contemporain* », Précis Dalloz, 1964, No. 192, p. 237, No. 1 & 2.

(4) E. AL-ABHIOUTY, note in *Al-Quonoun wal Iqtisad*, 37 (1967), p. 264, 266.

(5) See the learned discussion in Dahn GHANEM'S work on « *The Sources of Obligations* », Cairo, 1966, in Arabic, p. 5.

there is or there must be an economic law, there is wide divergence among them as to whether Economic Law must englobe Civil Law or must remain a separate entity different from Civil Law⁽⁶⁾. Having regard to the ambiguities inherent in the use of the epithets « Public » and « Economic », I prefer personally the use of the epithet « Socialist ». Socialist Arbitration is in my view the proper terminology to designate our institution and to distinguish it from other institutions.

II

THE DIFFERENT SORTS OF SOCIALIST ARBITRATION

Socialist arbitration is divided in many socialist countries into two main branches : State Arbitration and Departmental Arbitration⁽⁷⁾. In some countries e.g., Czechoslovakia, there is a third sort, viz., Cooperative Arbitration⁽⁸⁾.

State arbitration (gosudarstvenny arbitraj) is by large the most important sort of arbitration. In the Soviet Union there are three different levels of arbitration :

1. State Arbitration attached to the Council of Ministers of the Union.
2. State Arbitration attached to the Council of Ministers of the Union Republics.
3. State Arbitration attached to the Executive Committees of Regional Soviets.

In other socialist countries there are analogous territorial divisions of State Arbitration.

Departmental arbitration (Vodometvenny arbitraj) is confined to disputes within one department.

Cooperative arbitration in Czechoslovakia is competent to deal with disputes between cooperatives.

(6) AL-ABSIOUTY, op. cit., p. 237.

(7) DAVID, op. cit., No. 122, p. 232.

(8) Art. 12/2 of the law No. 121, 1962, Bulletin of Czechoslovak law, 1962, 1—2, p. 87.

In Egypt there is only one sort of Socialist Arbitration. The law No. 32, 1968 created an arbitration bureau and attached it to the technical counsellor of the Ministry of Justice.

III

THE JURISDICTION OF SOCIALIST ARBITRATION

The general principle concerning the jurisdiction of socialist arbitration is that it has jurisdiction over the disputes between socialist enterprises and organizations⁽⁹⁾. In Bulgaria the arbitration has no jurisdiction over administrative and fiscal disputes⁽¹⁰⁾. In the Soviet Union, the arbitration has no jurisdiction over disputes involving a private individual or a KOLKHOZ⁽¹¹⁾. The competence of the different levels of arbitration is based on the value and the nature of the dispute⁽¹²⁾. The arbitration attached to the Council of Ministers of the Union has jurisdiction over the disputes concerning the execution of contracts having the value of one million roubles and over the disputes concerning the execution of contracts having the value of 10,000 roubles. The arbitration attached to the Council of Ministers of the Union Republics has jurisdiction over disputes concerning the conclusion of contracts having the value of 500,000 roubles and over the disputes concerning the execution of contracts having the value of 5,000 roubles. The arbitration attached to the regional soviets has jurisdiction over the disputes that lie outside the jurisdiction of either the arbitration attached to the Council of Ministers of the Union or the arbitration attached to the Council of Ministers of the Union Republics. In other socialist countries there are similar value limitations on the jurisdiction of arbitration⁽¹³⁾.

In Egypt, art. 68 - 1 of the law No. 32, 1968 provides that the arbitration has jurisdiction over:

(9) P.V. LOGINOV, « O sotsialisticheskim norm materialnovo pravo i arbitraznovo postojannost » *Svietskoye gosudarstvo i pravo*, 1967, 1, p. 97.

(10) J. STALEV, « State arbitration in the Bulgarian People's Republic », *Rev. of Contemp. Law*, 9th year, No. 2 1963-1962, p. 117, 119.

(11) P. PECORI: « Il nuovo codice di procedura civile della repubblica socialista federativa sovietica di Russia », *Riv. dir. proc.* 1967, p. 298, 302.

(12) DAVID, *op. cit.*, No. 187, p. 234.

(13) For example see for Bulgaria, STALEV, *op. cit.*, p. 119; For Roumania, see V. VENIAMIN, « Le droit public et l'organisation judiciaire de la Roumanie d'après-guerre », in « *Law in Eastern Europe* », vol. VII, Leyden (Bythoff), 1963, p. 42.

1. The disputes between public sector companies.

2. The disputes between public sector companies and government authorities, public organizations and public establishments.

From the wording of this provision it appears that the arbitration acquires jurisdiction if one of the parties to the dispute is a public sector company and the other party is not a private individual or a private juristic person. Art. 66/2 gives to private individuals and juristic persons the right to agree with a public sector company to refer the dispute to arbitration. The agreement must be made after the occurrence of the dispute. Here again a party to the agreement must be a public sector company. A private individual or a juristic person cannot enter into an agreement with a government authority or a public organization to submit a dispute to arbitration.

It is interesting to note that the Order of the Council of Ministers that established for the first time the arbitration system is explicit in giving to arbitration jurisdiction over the disputes between Public organizations, public establishments, public sector companies and government authorities. The law No. 82, 1968 has thus unduly restricted the jurisdiction of arbitration. But the Order of the Council of Ministers did not contain any provision permitting a private individual or a private juristic person to agree with a public sector company to refer the dispute to arbitration. To avoid all ambiguity, I think that the provision of art. 66 must be repealed to extend the jurisdiction of arbitration over all the disputes between public sector companies, public establishments, public organizations and government authorities and to give to private individuals and private juristic persons the right to agree with a public sector company, or a public establishment or a public organization or a government authority, to refer the dispute to arbitration, without requiring that the agreement must be after the occurrence of the dispute.

IV

THE PERSONNEL OF ARBITRATION

The technical nature of economic disputes makes it necessary to choose the arbitrators from a panel of experts armed with technical knowledge. In Soviet law the arbitration board consists of lawyers and technical experts. The head arbiter *glavnyy arbitr* chooses the arbiter that will solve the dispute from a preestablished panel. Every party to the dispute nomi-

nates a representative.⁽¹⁴⁾ This method of forming arbitration boards is followed in other Socialist laws.⁽¹⁵⁾

In Egypt, the Head of the Arbitration Bureau nominates the chairman of the Board of Arbitration that will resolve the dispute from among the Councillors of Ordinary Courts or the Councillors of Administrative Courts according to the nature of the dispute. Every party to the dispute nominates a representative. If the party fails to nominate a representative, the Head of the Arbitration Bureau makes the nomination from among the members (not necessarily counsellors) of the Ordinary Courts or the Council of State according to the nature of the dispute. The Minister of Justice appoints the chairman and the members of the board according to the nominations by the head of arbitration bureau.

V.

THE PROCEDURE OF ARBITRATION

Socialist writers do not agree on the procedural law that should be applied to arbitration disputes. Some writers think that the law of Civil procedure must be applied.⁽¹⁶⁾ Some others,⁽¹⁷⁾ claim that the procedural law that should be applied must comply with the content of Economic Law. The new procedural law must be based on two bases: *First*, it must provide adequate safeguards for the rights of enterprises and organizations, *Secondly*, the rules of procedure must be so formulated to prevent any abuse of the safeguards by one party to the detriment of the other party. Besides, the procedure must be as informal as possible. *Finally*, the procedure must be logical and exempt from arbitrariness.

Arbitration procedure is different from civil procedure in many respects: *First*, according to a well established principle in classical civil procedure, only interested persons can commence the proceedings, the judge is not entitled to commence

(14) DAVID, op. cit., No. 789, p. 236.

(15) See for example for Poland, J. TOPINSKY, « Economic Arbitration in the planned Economy of Poland », Rev. Cont. Law, 12th Year, 1963, No. 1, p. 9.

(16) ZEYDER, in Pravovodnyye, 1963, No. 3, p. 71; FALCONVITCH, in Sov. gos. i pr., 1964, No. 1, p. 65, cited by LOGINOV, op. cit. p. 97.; STALEV, op. cit. p. 123.

(17) LOGINOV, op. cit. p. 97, 100.

the action *ex officio*. But in some socialist laws, e.g. Czechoslovakia⁽¹⁸⁾ and, Poland,⁽¹⁹⁾ the chairman of the arbitration board or the head arbiter has the right to start the procedure *ex officio*.

Secondly ; according to classical civil procedure the judge is bound by the subjective and objective elements of the dispute as determined by the parties. The judge is not entitled to change *ex officio* the parties to the dispute (the subjective elements) or the claims of the parties — (the objective elements). But the laws of socialist countries do not follow this rule. For example in Czechoslovak law the board of arbitration is given a freehand in the examination of the dispute. The board can, *ex officio* adjudicate a right to a party to the dispute, examine new facts, and order a third person to be a party to the dispute⁽²⁰⁾. Thirdly, in socialist laws we find special rules for the review of arbitration awards that are different from the classical pattern of review. The arbitration awards can be quashed by the head arbiter or by the Council of Ministers if found inconsistent with socialist legality or with the economic policy of the State⁽²¹⁾. Even where an appeal against the award is permitted, its rules are not similar to the classical rules of procedure. The appeal can be brought by the head arbiter, and the appellate board possesses very wide powers in dealing with the appeal, e.g., it is not bound by the maxim *quatenus deobatum quatenus appellatum*⁽²²⁾.

But it is misleading to think that the difference is great in socialist countries between the rules of civil procedure and the rules of arbitration procedure, because already the rules of civil procedure in Socialist countries give the judge very wide powers in fixing and examining the elements of the dispute⁽²³⁾.

In Egypt, the Law No. 82, 1966 provides that the arbitration board is not bound by the rules of the law of civil procedure but that the board must comply with the safeguards

(18) SVITAVEKY, op. cit., p. 41.

(19) TOPINEKY, op. cit., p. 12.

(20) SVITAVEKY, op. cit., p. 50.

(21) Art. 42 of the Czechoslovak Arbitration Law, No. 121, 1962. In Bull. Civ. Law, 1963, 1—2, p. 25.

(22) See, e.g. for Poland, TOPINEKY, op. cit., p. 16; For Bulgaria, STALEV, op. cit., p. 128.

(23) See, PECORI, op. cit., 206, etc.

and fundamental principles of procedure. The law also provides that the board must make the award speedily within three months from the date of the order of the minister of justice instituting the board. Two orders of the minister of justice, the order No. 885 and the order No. 988, 1966 contain quite a few procedural rules and the practical result is that the arbiters are left with a freehand in the formulation of their rules of procedure.

The awards of the arbitration boards are final and are not subject to any review.

VI

THE FUNCTIONS OF SOCIALIST ARBITRATION

Socialist writers assign to socialist arbitration important functions, viz., the protection of the rights of socialist organizations and enterprises; the furtherance of cooperation between socialist organizations and enterprises in the fulfillment of the National Economic Plan; the struggle against bureaucracy; enabling the economic organs in the fulfillment of their duties, helping the government in the work of economic development; making a compromise between the national and regional interests (24).

To carry out these functions the arbitration has the power not only to settle the disputes, but also to give advisory opinions on the problems submitted to it by the appropriate organs (25). The pre-contractual disputes represent a substantial part of the work done by arbitration. A dispute is said to be pre-contractual when one party demands from another the conclusion of a contract in fulfillment of a certain item in the plan, and the two parties fail to agree on the terms of the contract. The party who is eager to conclude the contract, may refer the matter to arbitration to obtain an order to compel the recalcitrant party to conclude the contract (26).

Some Egyptian writers think that it is doubtful whether the Arbitration in Egypt has jurisdiction over pre-contractual

(24) LOGUNOV, op. cit., p. 97. SVITAVSKY, op. cit., p. 24. E. V. ANDEMOV, *Res arbitraja v novikh uslovijakh Khochtivstvennogo upravleniya*, Sov. gus. I pr., 1967, No. 2, p. 78.

(25) DAVID, op. cit., No. 120, p. 252.

(26) DAVID, op. cit. loc. cit. SVITAVSKY, op. cit. p. 23.

disputes⁽²⁷⁾. I think that there should be no doubts about this, because pre-contractual disputes are real disputes that justify a judicial intervention. But it is clear that the Socialist arbitration in Egypt is not competent to give advisory opinions.

VII

THE NATURE OF SOCIALIST ARBITRATION

Many theories were put forward to determine the nature of socialist arbitration.

According to one theory, socialist arbitration has an administrative nature. According to a second theory, socialist arbitration has a mixed nature, administrative and judicial at the same time. According to a third theory the nature of arbitration varies according to its functions. With respect to precontractual disputes, the decisions of arbitration are administrative decisions in a judicial form. With respect to other disputes the decisions of arbitration are judicial decisions. This theory is warranted by the provision of art. 6 of the Fundamentals of Civil Legislation in the U.S.S.R. that arbitration shares with ordinary courts the function of protecting civil rights. According to a fourth theory, socialist arbitration is a political organ in charge of the protection of socialist property and the promotion of socialist behaviour and attitudes⁽²⁸⁾.

In Egypt there is no difficulty. Arbitration boards are true judicial boards and their decisions are true judicial decisions.

IX

CONCLUSIONS

The institution of socialist arbitration plays an important role in the planned economies of socialist countries. In Egypt the institution has so far proved to be satisfactory.

(27) G. EL-OTHEIFY, *The Law of Public Establishments*, 1966 p. 100 (in Arabic); F. WALY, *The Law of Soviet Civil Justice*, *Al-Qanoun wal Qihaz*, 37 (1967), p. 267 (in Arabic).

(28) DAVID, *op. cit.*, p. 236; ARMINJON, NOLDE and WOLFF, « *Traité de droit comparé* », vol. III, Paris 1961, No. 893, p. 257; VENIAMIN, *op. cit.*, p. 161, STALEV, *op. cit.*, p. 123—124.

From the date of their creation in January 1968 to October 1967, the arbitration boards have decided 3,700 cases, and 300 cases have been settled amicably, out of a total number of 6,000 cases (29).

The arbitration boards are in many instances faced with difficult problems of economic expansion and development, and certainly their task is made easier by the participation of non professional judges, as representatives of the parties. It is too early to make a valid appreciation of the role of arbitration in Egypt, but it seems certain that its success will depend very much on the ability of the judges to create new procedural and substantive rules. The main drawback in the present system, is that there is no appeal from the arbitration awards. Apart from the fact that this may lead to injustice, there is in fact no remedy to eliminate the would be-contradictions in the awards made by different arbitration boards. I think that it is proper time to create an appellate arbitration board to ensure uniformity in the creation and interpretation of the rules of law.

Some Egyptian writers expressed the view that it was inevitable to create a system of socialist arbitration in Egypt on the assumption that the same circumstances produce always the same results. They argue that since socialist arbitration in the Soviet Union and other Eastern European countries was a result of the expansion of the appropriation of the basic means of production by the people, the expansion of public sector in Egyptian Economy had as an inevitable result the creation of a system of socialist arbitration (30). But I do not think that this assumption is valid. Experience shows that the same sort of problems are not necessarily dealt with by the same sort of institutions. The Egyptian legislator could have done very well by creating new divisions in ordinary courts or in the council of state to deal with the increasing number of public sector disputes. The creation of a separate system of arbitration causes a new split in the judicial system. At a time when there is a strong trend of opinion claiming the fusion of ordinary courts and council of state (31) it indeed seems absurd to

(29) The Official statistics are not yet published, and I relied upon the information given to me by Mr. Mostafa EL-Fiqi, the Technical Counsellor of the Ministry of Justice.

(30) KHALIL, op. cit., No. 360.

(31) See the anonymous note in *Al-Qanoun Wal Iqtisad*, 38 (1963) p. 173-176; *AL-ASSIOUTY*, op. cit., p. 256; *EL-OTHEIFY*, « Socialist Justice », 1966, p. 28. (In Arabic).

create a new independent sort of judicial organs. I believe in the great advantage of having a unified system of courts with a universal jurisdiction over all sorts of disputes. But a unified system of courts does not mean necessarily a unified procedure. Within the present system of ordinary courts there are four procedural Laws : Civil and Commercial Procedure, Islamic Law Procedure, Personal Status Procedure for Foreigners, Penal Procedure. The integration of the system of arbitration in the system of ordinary courts will add to the list a fifth new sort of procedure.

