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The Necessity for Large Private Business Organizations in the Economy of Honduras

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I. Introduction

In Honduras the government owns and operates a number of large enterprises. On the contrary, there is an abundance of small and medium size private enterprises (pymes) that are classified as micro empresas (micro business) that have one to four employees, and pequeñas empresas (small businesses) with five to 10 employees. Medianas empresas (medium size businesses) have 11 to 50 employees. Large enterprises have more than 50 employees. The average number of employees in the microbusiness is three; in the small ones seven, and in the medium size 14 (Banco Interamericano De Desarrollo, 2013).In this article, the author is referring to national Honduran enterprises only, be either private or government owned and operated.

II. The Development of Large Private Enterprises in the Anglo-American World

Nations that accepted the Protestant Reformation created advanced industrial economies. A positive impact emanating from religion creates an economic system which favors, sustains, and develops industrialization as a major factor of the economic activities of a nation (Theodore, 2011). In the latter part of the 18th century the factory system appeared in England as the result of the transformation of the production of cotton which was a vital industry in the country. This drastic economic change is known as the First Industrial Revolution when new industries appeared on the scene (Allen, 2009). As the direct result of the First Industrial Revolution, the development of large-scale private enterprises appeared and demanded large-scale capital. The corporate form of business in the newly established large private enterprises offered the advantages of broadly distributed ownership, limited liability, and the ability to attract many investors (Brech, 2002).

The Protestant Reformation also affected the United States. Such strong impact, accompanied by the entrepreneurial motive, resulted in a decentralized and independently owned and operated industrial complex, a democratic educational system, and a flexible social structure. Such impact also assisted Americans toward pushing industrialization and developing their infrastructure instead of trying to expand the agricultural sector with more and more land (Howe, 2007).

The Second Industrial Revolution that took place in the United States immediately required the presence of large private enterprises, especially in the corporate form, which provided all the necessary factors of production the new socio-economic system of the country needed. The large private business enterprises dominate the United States economy today. The United States threw off early structures and systems, such as partial or total ownership and/ or control of large business enterprises by the government, and moved towards having large private business enterprises in the corporate form and a professional management economy at high speed (Wilson & Thompson, 2006).

III. The Case of Honduras

Honduras witnessed an important reform known as the Liberal Reform at the end of the 1800s, the result of which was the centralization of power by the government. The economic infrastructure was defined and structured around the exportation of agricultural products, such as coffee, sugarcane, bananas, cacao and other similar products (Arancibia, 2001). During its colonial period, Honduras did not have any industries and did not inherit an industrial tradition from Spain.

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Unlike the United States that pushed for industrialization and paid less attention to agriculture, Honduras selected the opposite choice (Hernandez, 2000).

Furthermore, Honduras exported its natural resources, such as minerals, in order to attract foreign capital and revenues (Bacerra, 2012). Large government enterprises were created to control the sizeable factors in agriculture—production, distribution, exportation, etc.—whereas a large number of farmers assisted the government in the above-cited factors through their very small business operations, mainly proprietorships.

The Honduran government continued to support the idea of the nation being an agricultural state and exporter of agricultural products and raw materials until it became necessary to create industrialization in order to enter into complete integration with the Central American and Latin American states at the end of the second quarter and the beginning of the third quarter of the previous century. Large enterprises with more than 50 employees were 2% and the remaining 98% were pymes. The industrial sector remained the third element in the GDP of the nation and it was the lowest among all the Central American nations (Funes & Zelayal, 2007). During the same period, the less developed agricultural nations of South Europe were reaching high industrial development levels through the assistance received from the United States (Theodore, 2013).

Preparing for the Central American Integration, the Honduran government created additional large enterprises which were owned and operated by it (Avilla, 1999). On the other hand, private industrial enterprises remained small and produced artifacts, shoes, footwear, and garments and operated with semi-skilled personnel (Molina, 1982). No large private enterprises were created.

In 1982 a change in the government took place that promulgated the reduction of government involvement in the economy, privatization of government enterprises, and the exportation of non-traditional products, such as textiles, garments, and footwear (Hernandez, 1992). Lamentably, none of the above goals was implemented due to continuous political turmoil. At the end of the previous century, industrialization remained stagnant and, in some cases, declined because of the high cost of the raw materials and transportation (Barahona, 2005).

Honduras entered the new century and the new millennium as an agricultural nation and exporter of agricultural products at the time many other small nations around the world had attained a high level of industrialized economies. One of the major problems that retarded economic development has been the weakness of the state in articulating development policies. The state needs to control enterprises that provide public services and also allow the private sector to exist (Agosin, Machado & Nazal, 2004)

IV. The Necessity for Large Private Enterprises in Honduras

Honduras needs to maintain its economic strength in agriculture, the exportation of agricultural products and services, and the exportation of minerals and raw materials. It must also create industries beyond those existing today. Additional industrialization will necessitate the creation of large private enterprises (more than 50 employees) and the selected privatization of a portion of large government enterprises (Euraque, 2008). Privatization means the sale of government businesses and monopolies. Private enterprises will function better, will have good factors of production, and will attain economies of scale(Molina1982).Industrial, agrarian, and commercial business transactions need to be private operations financed, owned, and operated by private persons (Bacerra, 2012).

By having fewer large enterprises under its control and ownership, the government can manage more effectively and efficiently those enterprises retained by necessity due to their nature—such as natural monopolies (Sanchez, 2013).Furthermore, by taxing large private enterprises which have to have the corporate form due to their size and complexity, the government will receive high revenues. Newly created private enterprises must receive the necessary assistance from the government in the beginning of their formation in order to survive and developed (Funes & Zelayal, 2007).

In addition, large private enterprises can have a small portion of their managers and investors from developed nations—with minority control interests in order for Honduran enterprises to maintain the national entity-- who can provide global strategic directions and high power performance operations that are necessary today for the effective and efficient competition on a global basis.

V. Conclusions and Recommendations

Honduras has several large national enterprises that are owned and operated by the government. In order for the economy of the country to be competitive globally, the government needs to selectively privatize its large enterprises that are not essential to the defense of the nation or are not natural monopolies. In addition, the government needs to promote the formation of new large private enterprises and assist them during their early years of operation.

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