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ECONOMIC REVIEW OF EASTERN EUROPEAN COUNTRIES:

C Z E C H O S L O V A K I A

Note by the Italian Delegation

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INTRODUCTION

1. It is difficult in Prague to produce a balanced and well-documented report on the Czechoslovak economy, based on reliable and detailed facts such as can be found in the West. For in Prague certain basic economic indicators are lacking such as the figures for the balance of payments, the volume of money, , the amount of bank deposits, etc.

2. Moreover, even such statistics as are made public are not infrequently vague, sometimes contradictory, and often susceptible to the charge of being, at least in part, propagandist rather than real.

3. These statistics cannot usually be checked, except for those concerning foreign trade. Consequently the whole statistical material has to be accepted for what it is - a collection of numerical values which can give only a general idea of the trend of the country's economy.

4. A second weak element in Czechoslovak statistics lies in the fact that they disregard the element of quality. For instance, when in the West we speak of the production of some particular article (a complex mechanical product such as an automobile, an apparatus for domestic use like a washing-machine, or some article of clothing) there is always implicit a certain technological and qualitative norm common to every country. In practice it is merely taste or custom that determine the purchaser's choice between similar goods or products offered by the various countries competing to sell.

5. This is not the case in Czechoslovakia, where the inferior quality of the average production, as compared with that of the West, is such as to falsify in many instances the real significance of statistical data.

6. To give an everyday example, according to the figures for production published in Czechoslovakia, the latter is the country with the highest per capita consumption (or purchase) of shoes. This would lead to the conclusion (applying, naturally, the concept of qualitative uniformity in production such as can be taken for granted in the West) that the average Czechoslovak citizen is the best-shod person, with the biggest range of shoes, in the world.

7. But this conclusion, true though it is on the basis of statistics, is cancelled out, in practice, by the aforementioned factor of quality, so that one of the most appreciated gifts that the Western visitor can bring to a Czechoslovak friend is in fact a pair of shoes of real, long wearing leather, an object of normal production in the neighbouring non-Socialist countries but virtually impossible to find of local manufacture.

8. This very ordinary example - to which we confine ourselves so as not to weary the reader, but which could be multiplied by other similar cases - is a proof of the way in which the economic observer in this country has to rely in forming his judgment on an empirical examination of the economic conditions as they appear to himself, rather than on studying the published figures.

9. In any case, however, one thing is certain: namely, that the Czechoslovak economy finds itself today in a largely static phase, in which it is difficult to discern signs of an immediate dynamic revival such as might suggest that this stagnation is merely transitory rather than due to structural factors, as some economists in the West - and perhaps in the East too - seem to think.

10. It is now sixteen years since rigidly Marxist ideas were imposed on the country's economic life - and in this connection it is worth recalling that Czechoslovakia is the only one of the satellite countries to be described, like the U.S.S.R., as a Socialist Republic, not merely a Popular Democracy. The static economic situation just mentioned has led to a veiled but none the less real recognition on the spot that the systems adopted have failed in practice, and that a change of methods will be needed if the country is to be given that impetus of dynamism and technological development that Western Europe has shown it possesses since the war.

11. But many members of the Stalinist old guard are still in positions of authority; moreover the population is by nature submissive, and this makes any reaction on their part belated and easy to control. Thus development in a less dogmatic direction, however real, is timid and very slow (1).

12. In addition, as a further result of the cautious attitude adopted by the leadership, the evolutionary principle in question is represented as a natural phenomenon of intra-Marxist conceptual development (of which Yugoslav methodology and practice have, though only of recent months, been adduced as an enviable example), rather than as a process of rapprochement towards some of the still condemned precepts of a free economy, which in fact it is.

13. Consequently in Czechoslovakia "revisionism" has not yet advanced as far as it has in Rumania, Poland, Hungary, or even in the U.S.S.R. itself. The principles advanced in the U.S.S.R., first by Professor Libermann and subsequently by Academician Trapeznikov, have been only partially accepted in Czechoslovakia by a minority of economists, and have not been the subject of any public debate.

(1) For recent developments in this field see Annex page

14. All the same, it cannot be denied that a movement of thought is developing, especially among the younger university lecturers, which may one day lead to an acknowledgment that it would be advisable to adopt freer economic methods, but which for the moment merely tends towards advocating more efficient planning and better management in productive concerns.

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15. This slowness in the practical application of the evolutionary process means that the real bottlenecks in the economy have not yet been tackled or solved. These bottlenecks consist, basically, in a psychological and individualistic detachment on the part of the worker from the results of his work; a lack of any form of internal competition which, as is well known, reduces the price of goods, improves their quality, and facilitates wider distribution over the whole market; out-of-date technological methods of production resulting from the policy of isolation pursued over the years; a sometimes mistaken allocation of productive investment; etc..

16. These bottlenecks will be examined in later chapters. Here we will merely observe in conclusion that the present Czechoslovak leadership, after having in 1948 replaced the former well-developed bourgeois economy by a totalitarian Marxist structure, is now becoming prepared to admit that it is not in a position usefully to carry on the experiment according to its original precepts and is being forced to modify the methodology in a direction which, if not liberal, is at least more understanding of the real needs of human nature as relating to the economic life of an organized society.

Note. The figures and statistical data given in the present study are all derived from Czechoslovak sources, principally from the country's statistical bulletin, the little book Facts on Czechoslovakia, the daily newspapers Rude Pravo (organ of the Czechoslovak Communist Party), and Prace, and the periodical Vita Cecoslovacca (Czechoslovak Life).

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CHAPTER I

POPULATION, MANPOWER AND PRODUCTIVITY

A. Composition of the population

17. The Czechoslovak Socialist Republic is a bi-national State. This characteristic is underlined in the Constitution, where it is stated that Czechoslovakia "is the common State of two Slav nations which enjoy equal rights, the Czechs and the Slovaks". The country also includes within its territory some significant minorities - Hungarians, Germans, Poles and Russians.

18. The total Czechoslovak population at the end of 1962 was 13,856,000; it is now around 14 million.

19. The censuses of 1930, 1947 and 1960 show substantial modifications in the ethnic composition, due mainly to the historical developments briefly summarised below.

20. In 1939, after the Munich agreements and the annexation by Germany of the Sudeten regions, the territories of Bohemia and Moravia were organized under a German protectorate and Slovakia became a theoretically autonomous state.

21. When the war ended in 1945 the Czechoslovak Republic was reconstituted on the basis of the territories belonging to it before 1938, except for Ruthenia (sub-Carpathian Ukraine) which in June 1945 was annexed, with its 850,000 inhabitants, to the USSR.

22. In November 1945 it was decided to expel from Czechoslovakia the German minority, numbering some 3 million or 22.5% of the population. The censuses of 1930 and 1960 show the ethnic composition of the country as follows:

	<u>1930</u>	<u>1960</u>
	(in 000s)	
Czechs and Slovaks	10,022	12,959
Germans	3,318	163
Hungarians	720	410
Russians	569	76
Poles	100	79
Total:	<u>14,729</u>	<u>13,688</u>

23. Thus the great structural changes which took place between 1938 and 1946 brought about a reduction of something like a million in the total population.

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24. This reduction had obviously unfavourable repercussions on manpower, which is at present insufficient to achieve the aims laid down in the country's various industrial and agricultural development plans.

25. Statistics of 1930, 1947 and 1962 relating to the composition of the population by sex and age show the following results:

Age Years	1930		1947		1962	
	<u>m.</u>	<u>f.</u>	<u>m.</u>	<u>f.</u>	<u>m.</u>	<u>f.</u>
	(in 000s)					
0 - 4	713	697	597	576	586	560
5 - 14	1,245	1,218	940	960	1,325	1,271
15 - 24	1,421	1,415	1,042	1,028	981	955
25 - 44	2,085	2,292	1,772	1,758	1,800	1,840
45 - 64	1,237	1,418	1,138	1,360	1,582	1,738
65 - 75	319	382	290	357	340	488
75 -	120	162	115	135	150	238
Total:	7,143	7,586	5,855	6,180	6,764	7,090

26. The figures for 1962 show a slight ageing of the population, due to improvement in health conditions, to the fall in the birthrate during the war period and to the particular political situation of the Czechs and Slovaks, who virtually did not fight at all in the war and therefore did not suffer the serious losses of life sustained by other European peoples.

27. Average life expectancy, according to the Czechoslovak official statistics, rose from 54.9 years for men and 58.9 for women in 1957 to 68 and 73 respectively in 1960.

B. Employed labour force

28. The composition of the working population according to branches of economic activity was shown to be as follows in the 1948 and 1961 censuses:

	<u>1948</u>	<u>1961</u>
	(in 000s)	
Industry	1,640	2,373
Building	253	514
Agriculture and forestry	2,331	1,480
Transport	280	379
Trade	439	496
Public education, health, administration, etc.	333	705
Others	269	198
Total:	<u>5,545</u>	<u>6,145</u>

29. The most striking feature in the above table is the shift which took place between 1948 and 1961 of large numbers of workers from agriculture to industry. This movement was not, at any rate at first, spontaneous in character, for between 1948 and 1952 the Government itself used every means to induce agricultural workers to go into the new industrial concerns. As a result of this hasty policy of industrial employment over half a million hectares of land were abandoned, while the average age of agricultural workers rose to about 46. Women workers today represent some 44% of the total labour force in Czechoslovakia, a very high percentage when compared with western countries.

30. From the above it is clear that at present there is no unemployment in Czechoslovakia; on the contrary, the Government has to face the problems arising from shortage of manpower. This does not mean, however, that there is not some poverty among certain strata of the population: old people, who as a result of the social, economic and financial reforms are now without the resource of private inheritances, can rely only on modest State pensions which in many cases are insufficient for their livelihood. (Cf. Chapter V on Standard of Living.)

31. The Government and the Party point to the contrast between the present situation of full employment and the earlier one between 1929 and 1935 when there was extensive unemployment, especially in Slovakia; and from this they attempt to argue that the phenomenon of unemployment is peculiar only to capitalist economies. Against this it can be argued that the present situation of full employment in Czechoslovakia is due not so much to the change in the economic system, but rather to contingent circumstances, to the elimination of part of the active population (i.e. the expulsion of the Sudeten Germans), the adoption of an accelerated industrialisation which was often irrational and uneconomic, etc.

32. Legislation for the various economic plans, new investments and the conversion of some light industries to heavy industry have, however, ensured for production a "purchaser at any price": the State. As long as this industrial policy is maintained it is impossible for the phenomena regarded as typical of the cyclical fluctuations of a free economy to take place in Czechoslovakia. In fact, any error of calculation on the part of the planners will produce wastages which, when discovered, can always be attributed to some particular manager and can in any case be absorbed in the regulated collective whole; but a productive concern will not be forced to limit or suspend production and therefore to reduce or dismiss numbers of its employees.

C. Productivity

Index of productivity of labour in industry

(1955 = 100)

	1956	1957	1958	1959	1960	1961	1962
TOTAL	107	113	122	130	140	148	154
Production of capital goods	108	114	123	134	145	154	161
Production of consumer goods of which:	105	112	119	126	133	140	145
Energy	113	122	134	144	162	175	185
Fuels	103	112	119	127	136	143	146
Metallurgy	109	117	120	128	136	141	141
Chemicals	111	119	127	138	158	174	188
Timber	107	114	124	130	134	140	144
Cellulose	104	107	113	117	123	128	133
Glass, porcelain, ceramics	105	111	119	127	135	143	147
Textiles	102	106	112	116	122	130	134
Clothing	102	111	122	127	137	146	152
Hosiery and furs	102	106	112	116	119	121	126
Printing	102	106	113	117	121	127	134
Food	106	110	115	123	127	133	139

33. Despite the reassuring figures of this official survey of productivity in industry (there are no similar data for agriculture), the authorities are worried because in actual fact, and not just as the statistics would make it appear, the productivity of labour in Czechoslovakia is lower than in capitalist countries of a comparable industrial level, and shows no tendency to increase appreciably. This is due to the following causes:

(i) Disorders in the national economic system arising, in very many cases, from the failure to achieve the optimum combination of factors essential for production. In particular, lack of investment has altered in a negative sense the "optimum" proportion between capital employed in the individual concerns and the number of workers on their payroll, bringing this ratio down to a level well below that found in western countries. In other words, whereas modern industry demands, as we know, a high rate of capital for every productive worker, in Czechoslovakia there are too many technicians and managers who are forced to work with worn-out or obsolescent machinery.

(ii) In addition, in this problem which is basically a technical and financial one, there is also a human aspect: the worker, who for the reasons just given has a low rate of productivity owing to the frequent inadequacy of the tools he has to use, often lacks personal incentives to produce more.

34. There is a twofold explanation for this. First, the worker's wage in many cases has a purchasing power greater than the availability of goods on the market, thus making virtually useless any additional productive effort which might increase his earnings. Secondly, the mechanism in force for payment of overtime does not provide the worker with a commensurate reward.

35. Lastly, every Czechoslovak, since he is living in a period of labour shortage, can be certain of always finding another job as well paid, or nearly so, as his present one: this reduces his interest in showing any special zeal (and hence increasing his productivity) in carrying out his duties, the more so since, it should be remembered, career promotion much more often governed by political considerations than by the individual's efficiency at work.

CHAPTER II

ECONOMIC POLICY AND PLANNING

A. Guiding Principles of Czechoslovak Economic Policy

36. An analysis of Czechoslovakia's economic development from 1948 to date shows how it has been conditioned more by political considerations than by respect for definite economic requirements.

37. This is confirmed by an examination of certain fundamental aspects of the organization of productive activities and of the structure of the country's foreign trade.

38. Let us take, in the first place, the vital problem of forming the directing cadres of any concern: here it must be emphasized that criteria of selection take account, in making the final choice, of the guarantees of political orthodoxy that a candidate may present. These guarantees in fact constitute the determining factor, other technical qualifications being equal, for his appointment.

39. The adoption of this practice means that candidates who are well qualified but politically dubious are kept out of the productive management circuit, while others are preferred to them whose loyalty is assured but who are often unsuitable from a technical standpoint - with negative results on production that can easily be imagined.

40. In this connection it may be recalled that a member of the Central Committee of the Czechoslovak Communist Party, writing recently in the official daily Rude Pravo, said that only 23 per cent of industrial technicians possessed the educational and professional qualifications officially required for their jobs.

41. The procedure just described is the normal method of choosing directing cadres for a factory. As regards the formation of the bodies in charge of the country's general economic policy, a selection based on the candidate's observance of Marxist principles represents the normal criterion, while an estimate of his professional capacity is a secondary consideration in making the final choice.

42. Moving from decisions on the human plane to decisions about investments, it is interesting to note that even in such important matters economic choices are almost always subordinated to political requirements.

43. A logical consequence of this subordination is that when it comes into full play the resulting decision is often contrary to economic interests. The practical application of such an attitude has of recent years caused numerous and inevitable distortions in the country's economic life.

44. As we know, every country, irrespective of the political and economic regime in force there, disposes annually of a certain amount of capital to distribute, in the form of new investments, among the industrial, agricultural, and tertiary sectors of the economy.

45. In capitalist countries this sum of money is divided up among numerous new enterprises and the modernization of existing concerns, in other words in carrying out plans for financing that have been worked out by the individual entrepreneurs, whether public or private.

46. Matters are conducted very differently in countries with a collective economy. There, the formation of capital and the planning of its investment is the business of the State alone. In the specific case of Czechoslovakia, the mechanism regulating the inflow of such public investments into the country's productive circuits is inspired a good deal more by political principles and considerations than by criteria of economic productivity.

47. For example, in 1955 the Planning Commission decided to establish two enormous plants, one for steel and the other for electricity, which were quite out of proportion both to the country's physical dimensions and to its capacity for carrying out the scheme. This decision signified an unconomic concentration of investment confined to the two plants in question, while the country's productive activity as a whole had to carry on virtually without the normal quotas of investment needed to guarantee the efficiency of a concern and the renewal of its obsolete machinery. Consequently, at the present time 35 per cent of Czechoslovak industry possesses machinery some ten to twenty years old, while 25 per cent of the machinery is more than twenty years old. On the other hand, the two big plants, because of their colossal size, are behindhand in completion, with corresponding increases in the planned expenditure.

48. As was mentioned above in Chapter II, (part C on productivity) an important corollary of this state of affairs is the disorder in the economic system caused by the lack of criteria which would allow an optimum combination of the factors of production.

49. In particular, the absence of investment just mentioned has altered in a negative sense the "optimum" relationship between capital employed in the individual factories and labour units on their payroll, bringing it down to a level well below that found in capitalist countries. In other words, while modern industry demands a high rate of capital for every worker, in Czechoslovakia too many technicians and managers have to work with worn-out or obsolescent machinery.

50. Pursuing our study of the negative effects of the political factor on Czechoslovakia's economy into the sphere of foreign trade, the first thing to note is the special position of this country in relation to the U.S.S.R. For instance, it is said here that Russia exports raw materials to Czechoslovakia at prices higher than the international price (1).

51. Another example of the burden for Czechoslovakia arising from its trade relationship with the U.S.S.R. is the exploitation of the important uranium deposits north of Prague. This mineral, utilized since 1954, is entirely annexed by the Russians, who are said to make no specific payment for it but instead merely make good every so often some deficit arising in the Czechoslovak balance of payments. There have for some time been rumours that this situation is to be modified and that Czechoslovakia would at last benefit to some adequate extent from the mining of this mineral, but so far nothing concrete has happened.

52. A further serious effect of the politicization of the country's economic life on Czechoslovakia's foreign trade is to be seen in the long-term loans and the provision of machinery and manufactured goods made to the underdeveloped countries, at prices specially advantageous to the purchaser. This policy is bound to have a negative effect on the country's balance of trade.

53. Lastly, the role of "universal supplier" of capital goods which Czechoslovakia has had to play vis-à-vis the countries of the Eastern bloc since the war has produced an excessive and uneconomic diversification of her industrial production.

54. This has resulted in increasing costs, with a corresponding loss of competitive power, for the goods in question which, in order to be sold on free markets, must be offered at prices in line with international prices. This represents a serious burden for Czechoslovakia, since she has to fight against Western competition with its greater experience and specialization in the various branches of production.

B. Planning of Economic Activities

55. The productive system is characterized in Czechoslovakia, as in all the other countries of the Eastern bloc, by a completely State-centralized structure in which permanent planning of national economic activities is carried out. This planning has hitherto been divided into three types of plan; long range, five-year, and one-year plans.

56. The long range plan determines the general trend of economic development for a period of 15-20 years and is compiled on the basis of the economic and technico-scientific studies undertaken by the State Planning Commission.

(1) This is so, for example, in the case of oil.

57. The five- or seven-year plans and the one-year plans (regarded as transitional) are drawn up within the framework of the long range plans, and are sufficiently detailed to fix the production targets assigned to each individual factory.

58. While sometimes there is no particular continuity in the framing of the different five-year plans (though they all follow the same economic direction), at other times the authorities responsible may decide to abandon a part or the whole of the directives contained in a plan. In such cases, once the term of the five-year plan to be altered is over, interim plans are introduced, of one or two years' duration. Their main function is to facilitate the smooth changeover of direction from the previous five-year plan to the following one.

59. This procedure is applied in all branches of the national economy, both productive and non-productive, including the private sector. This latter consists almost entirely of the agricultural co-operative farms, which are also included in the planned economy because a certain minimum of their main productions has to be sold to the State, the proportion being fixed according to the size and yield of the farms.

60. Plans since 1949 have covered the following periods :

1949-53	first five-year plan
1954	interim one-year plan
1955	" " "
1956-60	second five-year plan
1961-65	third five-year plan (abandoned in 1962)
1963	interim one-year plan
1964	" " "

A new one-year plan is at present being prepared for 1965, while another five-year plan, the fourth, is envisaged to cover 1966-70. Lastly, a long range plan covers the twenty years 1960-80.

61. These plans, despite the errors of method and calculation, represent the general structure within which Czechoslovak productive activities have developed during the past 16 years. For this reason it may be worthwhile to examine each one briefly.

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(i) The first five-year plan (1949-53)

62. The five-year plan 1949-53 represents Czechoslovakia's first Marxist planning and was the instrument whereby the change was effected from a liberal to a socialist economy of Soviet type.

63. The plan's economic aims were very wide: it proposed to recast the whole national economic structure, channelling investments towards the sectors of heavy industry and the production of capital goods, while the manufacture of consumer goods - which before the war represented the main item of Czechoslovak economic production - was markedly reduced in accordance with the new directives on economic policy.

64. Many reasons influenced this extensive structural alteration. In summary they can be reduced to two. First, the U.S.S.R. and the other socialist countries had an urgent need of capital goods for their reconstruction; Czechoslovakia whose factories had suffered comparatively little damage during the war, was the only country still in a position to produce them quickly. Secondly, the war had shown that every crisis in the export of manufactures and consumer goods upset the whole economic structure of the country, which was thus deprived of essential imports. It was therefore necessary to try to free productive activities from their dependence on imports from abroad by making at home those capital goods whose lack had been most felt during the war.

65. One particular event greatly reinforced the Planning Committee's decisions in this direction: this was the Korean war of 1950. The Czechoslovak Government then realized that its own army was unprepared to face a general war which at that time seemed a real threat.

66. Between 1950 and 1953, therefore, very considerable investments were directed (under Soviet pressure) towards war industries, and productive efforts were concentrated on this sector. Capital, managers, and manpower were diverted from peacetime industries. During this period, too, construction was begun of the huge metallurgical plant at Ostrava which absorbed a good part of the available investment and practically all the qualified technicians. At the same time agriculture was almost entirely nationalized through the creation of co-operatives and State farms.

67. In 1953, however, the negative effects of the lack of balance in these directives for economic policy began to be felt on a national scale. Despite an increase in the national income of 55 per cent as compared with 1948 and a rise of 139 per cent in the production of capital goods, the situation in agriculture and in the consumer goods sector was disastrous.

68. The scarcity of these goods, in combination with wage increases, gave rise to inflationary tendencies which threatened to endanger the stability of the whole economic system. A monetary reform was therefore introduced which reduced the purchasing power of the crown to about one-fifth of its previous value and destroyed the savings accumulated in recent years. Nevertheless this step, which was naturally most unpopular, proved insufficient to solve the economy's difficulties.

(ii) The interim one-year plans 1954 and 1955

69. In 1954, therefore, a one-year plan was introduced, followed in 1955 by another similar plan, with the aim of effecting a more balanced distribution of the financial reserves among the various productive sectors. The rate of investment in war industries was considerably reduced; it was decided to complete the construction of factories already started rather than to embark on new ones; a policy of agricultural mechanization was initiated; and finally a large quota of capital was allocated to the production of consumer goods.

70. It must however be pointed out that the imbalances resulting from the previous five years were too serious to be cured in a mere two years. Despite the new directives the consequences of an excessive concentration on heavy industry persisted and became apparent in the shortage, poor quality, and high price of many consumer goods, especially durable goods.

(iii) The second five-year plan (1956-60)

71. Notwithstanding the lesson of the first five-year plan mistakes themselves the result of the politicization of the economy to which reference has already been made, the second five-year plan (1956-60), which appeared in 1956, was in general trend similar to its predecessor.

72. The most significant difference between the two plans lay in the attention given to the chemical industry, which took the place of metallurgy as regards the volume of investment given to it. This decision was inspired by the wish to improve agricultural productivity through the use of new fertilizers, and to increase exports of chemical products. It was also hoped to substitute synthetic and plastic products for various other types of metal or manufactured goods. To further the expansion of the chemical industry new electric power plants, both thermic and hydraulic, were built, and electricity production rose from 16 milliard kwh in 1955 to 24 milliard kwh in 1960.

73. In the consumer goods sector, however, the situation remained practically unchanged; but methods of conserving stocks were improved, and an effort was made to increase food production. To this end mechanization of agriculture was intensified, bringing an appreciable increase in each individual farmer's productivity.

74. These favourable results of the plan were offset by the housing shortage resulting from the low rate of investment in building under the earlier plans. Nevertheless it was not until 1958 that it was decided to launch a 12-year plan providing for the construction of 1½ million dwellings (the first estimate, of 1,200,000, proved insufficient). This plan, if carried out in full, should cover the population's needs up to 1975, taking into account the demographic trend.

75. Lastly, a further factor which may be worth mentioning in evaluating the results of this plan is the abnormal composition of the national income in 1960. The share of industry, especially heavy industry, rose to reach 70 per cent of the total, while agriculture and building represented only 15 and 10 per cent respectively, the remaining 5 per cent being accounted for by other items. Another particular feature of this plan is that it was not approved by law until 1957, two years after it began to be implemented.

76. Thus in 1960 the country's general economic situation still suffered from serious imbalances, though thanks to the mechanization of agriculture this did not go so far as the negative paradoxical situation of 1953.

(iv) The third five-year plan (1961-65)

77. In these unfavourable conditions the new five-year plan (1961-65) was launched. Its objectives may be summarized by means of some figures. Taking 1960 as the basic year (= 100), in the succeeding five years the national income was supposed to rise to 142, industrial production to 156, and agricultural production to 122. Expansion of the chemical industry continued to be the main objective, and here output was expected to double. In order to achieve these results it was decided to increase employment by 9 per cent as compared with 1960 and at the same time to improve per capita productivity in the various sectors by 50 per cent. Income per capita, according to the estimates, was to increase by 25 per cent. This plan was abandoned by law after two years and in practice at the beginning of 1962. There were many and complex reasons for this decision; they are worth mentioning here because of their repercussions in 1963 and 1964.

78. In the first place, it was recognized that the possibilities of investment had been overestimated. Existing financial reserves and the plants in operation were, in fact, incapable of assuring the flow of investment required to carry out the plan. Moreover the idea of increasing the labour force by nearly 10 per cent, as envisaged in the plan, was found to be completely unrealistic. There was already full employment and hence a shortage of manpower in certain sectors where new posts had been created in accordance with the plan.

Given the absolute impossibility of increasing employment, the only other course would have been to increase the workers' productivity by means of improved machinery and equipment. This involved heavy investment which, as we have seen, the State was unable to undertake.

79. The Czechoslovak authorities point to a further reason for the failure of this 1961-65 plan in that it entrusted two-thirds of the capital to be used directly to the individual concerns (differing in this respect from the rigid centralization of the earlier plans). These concerns were not up to what was expected of them and utilized some of the money they received on non-essential services or at any rate on objects not warranting priority from an economic or financial standpoint.

80. To sum up, the following may be mentioned as determining factors in the crisis of production and distribution :

- (a) mistakes in planning and in administration of the plans;
 - (b) insufficient and badly distributed capital;
 - (c) low individual productivity;
 - (d) out-of-date internal transport, especially railways;
 - (e) excessive burdens on the balance of payments due to the policy of aid to underdeveloped countries.
- (v) The interim one-year plans 1963-1964 and 1965

81. The Czech authorities, aware of the full extent of the economic crisis of 1962 and also of the errors of method largely responsible for it, decided that 1963 must represent the indispensable phase of transition between the abandoned five-year plan for 1961-65 and a new plan intended to cover the seven years 1964-70.

82. In particular, it was proposed to effect in 1963 a complete reorganization both of planning and of industrial management at the factory level. The aim was to secure greater specialization in production, with a consequent reduction in costs, and to see that the goods produced were better suited to the demands both of the internal market and, more particularly, of export.

83. It is, however, all too clear that the hoped-for results were not achieved in 1963, and while the crisis of 1962 was, indeed, partially overcome the year failed to produce economic expansion. Instead the economy ran into a period of stagnation. This was due partly to an incidental factor, the exceptional severity of the winter of 1962-63 which severely affected production during the winter months, and partly to the fact that a good many of the negative elements that had caused the 1962 crisis still persisted.

84. In short, 1963 brought no visible improvement in the country's economic life apart from a perceptible increase in the amount of foodstuffs on the market. Indices of production remained practically stationary (the official statistics show an overall increase to 100.7 per cent as compared with 1962), while agricultural and industrial waste goods not utilized on the market amounted to a value of 1,500 million crowns (a figure corresponding in value to the whole of Czech exports to the Common Market countries plus the United Kingdom).

85. The economic development plan for 1964 was formally presented to the National Assembly on 31 January 1964 by the Deputy Prime Minister, Cernik. Before outlining the main features of the new plan he expressed some views which are worth mentioning on the development of the economy up to 1964. He began by stressing the results achieved in economic development during the past decade, mentioning the lower standards reached by capitalist countries during the same period and making suitable reference to the vital aid received from the Soviet Union in the economic sphere. Next, with a bare minimum of truth, Cernik admitted that a certain tension between resources and needs had arisen in Czechoslovakia in recent years. According to him this was due to the following causes :

- (a) a disproportionate broadening of the range of production, which had demanded excessive investment, an uneconomic distribution of manpower, and an extravagant use of raw materials, all to the detriment of the desired, but not achieved, rise in the productivity of labour;
- (b) the unsatisfactory development of agriculture despite progress in the use of mechanization;
- (c) a disproportionate increase in manufacturing-plants as compared with the supplies of raw materials available;
- (d) the accumulation of excessive stocks of goods produced, which had risen between 1960 and now by the equivalent of 2,100 milliard lire;
- (e) construction of new factories planned on insufficiently modern lines.

According to Cernik, these negative factors had resulted in a decline in the value of production for 1963 of over 350 milliard lire as compared with the plan's estimate for that year.

86. Planning for 1964 was to be governed by the following economic and social directives :

- (a) every care should be taken to increase the productivity of labour; to this end the administrative side should be reduced and personnel should be directed towards genuinely productive activities;
- (b) the chemical industry and agriculture should be regarded as priority sectors in the sharing-out of available investment;
- (c) foreign trade with Western countries and the "third world" should increase by 3.7 per cent and with the socialist countries by 2.8 per cent;
- (d) the effort to bring Slovakia up to the level of the more advanced regions of Bohemia and Moravia should be steadily maintained in 1964;
- (e) social insurance should be extended to include categories of citizens who hitherto had only partially benefited from it;
- (f) new investment should be allocated to house-building, the target being to complete 81,000 new dwellings;
- (g) lastly, much stricter control should be exercised over the factories in order to achieve a substantial reduction in the percentage of waste goods and also to improve the technical quality of manufactured goods; the latter should become more specialized and the range of diversification should be reduced.

87. The new programme further envisages a halt in economically superfluous and technically out-of-date production. Manpower should be redistributed according to the new needs, involving the transfer of tens of thousands of workers from one factory to another, possibly far distant. Workers should be transferred to agriculture from the marginal, uneconomic, or obsolescent branches of industry. Lastly, the bureaucratic and administrative apparatus is to be reorganized. There should be considerable reductions in personnel, and working methods should be speeded up (1).

88. From the foregoing it will be clear that the modest phenomenon of "tension between resources and needs" to which

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- (1) According to recent information made available in Prague about the fulfilment of the 1964 plan (first six months), gross production reached 102 per cent, coal-mining 103 per cent, electricity production 101.5 per cent, etc. During the first half of the year investment is said to have amounted to 17,600 million crowns, a considerable increase over that for the first half of 1963.

Mr. Cernik so lightly referred must be interpreted as a far-reaching phenomenon of negative character in the economic field. It has called forth a thorough revision of the methods which have for many years governed the conduct of the country's economic life. Indeed the President of the Republic himself, Mr. Novotny, said in his New Year message, referring to the new methodology adopted in the plan for 1964, that if the country wished to maintain its present standard of living many mistakes of the past would have to be eliminated.

89. It may be remarked in this connection that while Western Europe advances at a more or less steady rate on the path of a progressive improvement in its people's standard of living, in Czechoslovakia it is regarded as a satisfactory result for 1964 merely to maintain the standard of previous years - a modest standard distinctly below the levels of Western European countries.

90. The general directives for the economic plan for 1965 were approved by the Government in the first half of July 1964. As far as it has been possible to find out, the new plan envisages an increase in industrial production of 5.9 per cent, as compared with the 1964 plan. The increase is to be achieved chiefly through improvement in industrial productivity. Gross production of agriculture should increase by 1.3 per cent, with an increase of goods coming on the market of 2.5 per cent. Investments are to rise by 6-7 per cent, most of the increase being devoted to scientific and technological research, to the chemical and energy sectors, and to the modernization of agriculture and transport.

(vi) The fourth five-year plan (1966-70)

91. Meanwhile a considerable number of economists and industrial and agricultural experts (some say as many as 2,000) are at work on the new five-year plan 1966-70. Its main objective will be to achieve a better balance between the various activities and, above all, an increase in the productivity of factories and manpower by means of new equipment and specialization in industrial production.

92. No official information is so far available about details of the structure of the new five-year plan. But from private information and personal contacts it can be said that another fundamental aspect of the new plan will be the relaunching of agriculture. This is confirmed by various articles recently appearing in the press, which state that in the years between now and 1970 agriculture will come near to industry in respect of the importance of capital devoted to it, technical level, and quality

of manpower, as well as - this is an important factor - the average age of agricultural workers. In order to achieve this latter objective it seems that the new plan envisages bringing into agriculture some 40,000 young recruits a year as well as devoting part of the military service period to agricultural work. By 1970 the following yields should be achieved (in quintals per hectare of land cultivated - 1961 figures in brackets): wheat 32 (26); sugar-beet 360 (280); maize 50 (c.25); potatoes 180 (104). To obtain these results 200 kg. of mineral and chemical fertilizers would be used (as against 100 kg. today), which, as is well known, represents the largest amount used at present in Western Europe.

93. In industry, mechanical engineering and chemical production are to have priority. The main accent will be on the quality of the product rather than on a high rate of quantitative increase; in fact, the annual rate of increase of mechanical production should be around 8 per cent instead of 11.5 per cent as originally envisaged (and never maintained) for 1961-65. It is interesting to note that, especially in the mechanical engineering sector, efforts are to be made to restrict the range of the articles made, since the correct conclusion has at last been reached that production is too diversified (about 80 per cent of all the types of mechanical manufactures made in the world are at present produced in this country): this implies an uneconomic horizontal structure and excessive costs.

94. The idea of quality also seems to be taking on decisive importance in the vital sector of steel production. The long-term development programme for 1960-80 had put annual steel production at 14-15 million tons by 1970. This figure has now been reduced to 12 million tons for that year, which represents only 1½ million tons above the estimated production for 1965. In compensation efforts will be made to improve the quality of special steels and pressed steel products.

95. In the sphere of coal and lignite mining the main emphasis will be on a more rational utilization of existing resources and on mechanization of production, rather than on a net increase in the amount produced. In general, the modernization of existing concerns and a more complete utilization of their capacity for production will take precedence over the construction of new productive units; in fact, as we said before, the fundamental aim of the new plan will be reduction of costs rather than increased production.

96. As to consumption and a rise in the standard of living, such information as it has been possible to gather suggests that the new plan envisages an annual increase in individual consumption of 3.2 per cent (as against 5.5 per cent envisaged in the third five-year plan). The sale of meat, eggs, milk, fruit and vegetables should rise by a third between 1966 and 1970 and that of manufactured consumer goods by about 40 per cent.

97. The working week is to be reduced to 42 hours for all workers (as against 44 at present) and to 40 for those engaged in particularly arduous work.

98. Lastly, as to the possible success of the plan in the building sector - it will be recalled that 1½ million dwellings should be built by 1970 - it seems that profound scepticism is felt in responsible circles, both because of the difficulty of finding the necessary investment and because of lack of the equipment indispensable for executing so vast a programme.

(vii) General remarks on planning

99. The vicissitudes of the plans from 1948 until now lead to the conclusion that a real crisis has arisen in certain sectors of the economy, largely as a result of the methodology applied. Even the programme of reforms proposed by the Government for 1964 will encounter difficulties in application that may prove insuperable.

100. On the human plane the first of these difficulties lies in the passive resistance that will undoubtedly be put up by those affected by the reforms (by the people who are to be transferred or compelled to change their work, to lose comfortable managerial or other posts, etc.).

101. In economic terms, on the other hand, in order to achieve an effective improvement in productive conditions and in people's standard of living the Government will have to eliminate two fundamental bottlenecks that are having a negative effect on the country's economic life: shortage of capital for productive sectors, and the widespread low productivity of the manpower employed.

102. There is obviously a very close connection between these two unfavourable elements. A solution for both can only be found by taking courageous decisions; by having recourse to financial aid from the capitalist countries in the form of loans or long-term industrial financing, and by instituting rewards and personal incentives for managers, technicians, and workers employed in the sectors of production, distribution, and foreign trade.

103. The Czechoslovak Government has already followed the same lines that Khrushchev advocated for the Soviet Union in his speech to the Plenum in deciding to have recourse to Western financial support, especially for the purchase of complete industrial plants.

104. In the matter of "economic stimuli", however, it does not appear that a policy of personal incentives is yet being consistently pursued. Indeed, the President of the Republic, Novotny, in a recent speech, finding himself unable, probably for lack of finance, to promise the traditional carrot to the deserving worker, threatened

pecuniary sanctions for the slacker. In other words, he was confining himself to a policy of inveterate incentives, the efficacy of which may be doubted: for since the rigid bonds of the Stalinist system were loosened the instruments necessary to impose at all times and places an iron discipline from above are no longer available.

105. On the other hand, the new plan may probably achieve some success in applying the twofold principle of improving the quality of goods (a criterion hitherto almost entirely absent in many factories where the production of manufactured goods was valued by weight) and of restricting the range of articles made in the mechanical sector where till now there has been too much diversification.

CHAPTER III

NATIONAL INCOME
(Net material product)

106. According to the official statistics, the Czechoslovak national income since 1948 has developed as follows (1948 = 100):

<u>1950</u>	<u>1952</u>	<u>1954</u>	<u>1956</u>	<u>1958</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964(Plan)</u>
121	147	162	188	218	251	267	272	261	265

Totals for the years 1960-63, in milliards of crowns(1), were:

		<u>Percentage increase over previous year</u>
1960	162.0	-
1961	173.0	+ 11.0
1962	175.4	+ 2.4
1963	171.1	- 4.3

107. The composition of the national income is as follows:

<u>Sector</u>	<u>1948</u>	<u>1951</u>	<u>1953</u>	<u>1955</u>	<u>1957</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
National income:	100	100	100	100	100	100	100	100	100	100
from:										
Industry	58	66	67	62	62	65	62	64	67	67
Agriculture	20	13	13	15	15	13	15	13	11	12
Forestry	2	1	1	1	1	1	1	1	1	1
Building	7	9	10	10	11	10	10	10	10	8
Transport	4	3	3	3	3	3	4	4	4	4
Raw material purchases	1	1	1	2	2	1	1	1	1	1
Trade	8	6	5	6	5	6	6	6	5	6
Various	0	1	0	1	1	1	1	1	1	1

About 96% of the national income is provided by the so-called socialist sector, 3% by individual farms and 1.1% by the private sector.

(1) For the value of the Czechoslovakian Crown as compared with the US \$, see Chapter VI: Budget and Currency, paragraph

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108. As usual, the spectacular increases in prosperity claimed on the basis of statistics are not confirmed in the reality of the Czechoslovak citizen's daily life, which seems far from showing a corresponding improvement.

109. In the specific case of the national income, however, the reasons for the gap between the published figures and the actual state of affairs can be clearly identified in the different method of income-accounting used in the socialist countries as compared with the systems adopted in western countries.

110. In socialist countries, the services of those not engaged in "material production" are left out of account. Thus, for example, wages or salaries paid to State employees (in civil administration, the armed forces, education, etc.) and the costs of social insurance are not included. The fact that these sectors of the national product (representing about a third of public expenditure) are not reckoned in calculating the national income (as they are in the West) completely falsifies any formal comparison between the figures for the East and for the West. If the value of the services not included had increased in Czechoslovakia since 1948 at a regular rate, the rate of increase in the national income shown in the preceding tables might even have been higher than appears.

111. In actual fact, however, the omission works in just the opposite direction. To put it simply, one may say that in Czechoslovakia in estimating the national income the only components recognised are those that are in themselves dynamic (such as the production of heavy industry, of the chemical sector, etc.) while administrative services are left out since, being by nature relatively static, they do not appear liable to contribute so rapidly to the expansion of the national income.

112. Another fact will also help to give a more accurate idea of the real rate of increase of the Czechoslovak national income. As we know, this economic indicator is normally calculated in monetary terms, an index which, however, reflects reality only insofar as prices correspond to the value of goods, in other words to their production costs. When this is not the case it is impossible to obtain reliable calculations. In a market economy this close correspondence between costs and prices is determined by the play of competing economic forces and by the law of demand and supply, whereas in Czechoslovakia this relationship is established solely and exclusively by the planning policy. Here the connection between costs and prices exists only in a limited way, in the capital goods sector, but not in relation to consumer goods, where prices are always very considerably increased by a supplementary taxation quota (turnover tax). To give an idea of the importance of this tax it may be mentioned that in 1962 it represented more than a third in value of the entire State revenue. The existence of this tax on consumption, which in many cases doubles the price of sale of an article, falsifies the calculation

of the national income, where the item represented by consumer goods is reckoned not on the basis of costs - possibly increased by the modest profit of the factory, as in the West - but on that of retail prices which include the above-mentioned tax(1).

113. In order to demonstrate the importance of this phenomenon in relation to the formation of the Czechoslovak national income, the example may be cited of the production of automobiles, motorcycles and in general such goods as are regarded here as luxuries or at least not indispensable: these goods are burdened on the home market by a turnover tax equal to more than 100% of their cost. The effect of this is to introduce among the components of the Czechoslovak national income an invisible element (the turnover tax incorporated in the value of goods) which artificially swells it to an extent that is quite impossible to determine for a foreign observer lacking the particular technical knowledge needed to do so.

114. In conclusion, in studying the statistical tables given here relating to the Czechoslovak national income, it is necessary to bear in mind the different methodological approach behind their drafting. Only in this way can they be regarded as a moderately reliable description of an important aspect of the country's real economic situation.

(1) It may also be mentioned as an additional note that in this country the value of a crown is not the same when it is used to purchase some item of capital goods essential for an industry as when used to buy an item of consumer goods necessary to the individual. In the first case the purchasing power of the monetary unit in question will be greater than in the second, since in the consumer goods sector the State imposes the turnover tax which destroys the correspondence between price and cost.

CHAPTER IV

INVESTMENT

115. The official published statistics show the following figures for investment in Czechoslovakia since the coup d'état of 1948:

	<u>Volume of investment</u> <u>(in million crowns)</u>
1948	8,936
1949	11,851
1950	14,311
1951	17,354
1952	20,504
1953	21,304
1954	20,966
1955	22,559
1956	25,647
1957	28,076
1958	31,936
1959	38,182
1960	42,965
1961	46,105
1962	44,268
1963	39,200

116. The distribution of investment among the various sectors of the national economy between 1948 and 1962 was as follows:

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Distribution of Investment by Sectors
(in million crowns at constant prices 1961)

	Scientific Research	Communal Services	Housing	Health	Educa- tion	Adminis- tration	Industry	Buil- ding	Agri- culture	Trans- port	Trade	Other
1948	22	136	1,678	302	346	208	4,375	84	375	1,351	33	26
1949	32	139	1,932	357	418	400	5,689	170	849	1,734	82	49
1950	54	144	2,206	385	457	627	6,764	327	1,142	1,876	178	153
1951	97	181	2,478	384	562	965	7,840	413	1,800	2,341	167	126
1952	97	200	3,150	388	490	1,344	9,450	515	1,842	2,738	157	133
1953	133	212	3,652	374	401	2,048	8,311	435	2,372	3,058	159	149
1954	152	198	4,653	313	678	1,005	8,251	370	2,338	2,467	311	230
1955	175	302	5,068	335	870	935	8,192	460	3,187	2,343	474	218
1956	303	498	5,036	401	1,013	967	9,581	505	4,043	2,488	513	299
1957	280	586	5,084	437	1,198	920	10,514	862	4,300	2,994	574	327
1958	259	680	5,021	432	1,160	861	13,085	960	5,216	3,260	676	326
1959	297	1,003	5,605	519	1,533	830	15,861	1,100	6,399	3,883	808	344
1960	368	1,216	6,218	611	1,868	740	17,737	1,449	7,156	4,169	910	523
1961	360	1,295	5,257	691	1,914	913	19,129	1,525	7,709	4,664	935	713
1962	389	1,038	6,001	582	1,775	783	19,967	1,228	6,694	4,437	844	-

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117. The 44.3 milliard crowns invested in 1962 were subdivided as follows (in percentages):

	<u>Per cent of total</u>
Industry	45.1
Agriculture	15.1
Building	13.6
Transport	10.2
Other	14.0

118. In 1963 the total amount of domestic investment effected by the Czechoslovak Government was equivalent, as shown above (paragraph 115), to 39,200 million crowns, a figure some 5 milliard crowns below the amount invested in 1962. This considerable decrease affords a further proof of the difficult situation in which Czechoslovakia finds itself at present, a situation which in 1963 allowed the Plan to be only 92.2% fulfilled in the sector in question. The main repercussion of the reduction of investment was felt chiefly, in 1963, in the building sector. In that year only 82,000 units (lodgings) were built, as against 85,000 in 1962 and 87,260 in 1961. Consequently, the housing plan was only 95.1% fulfilled.

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CHAPTER V

STANDARD OF LIVING

(Wages, Prices, Consumption)

119. It is very difficult to define and classify the Czechoslovak economy according to the criteria of development generally adopted in international technical terminology, which are, as we know, based on the citizens' average living standard. Even the most elementary question, namely, whether we are in an under-developed country or a country with a high standard of living, creates real perplexity in the mind of anyone living and moving about here.

120. It is, indeed, true that in Czechoslovakia one does not find those signs of poverty and undernourishment that characterise the countries usually described as "developing". Yet at the same time it is equally true that one does not find the widespread prosperity that is an obvious characteristic - sometimes side by side with negative social discrepancies - of countries defined as "industrialised" or "developed"(1). Which definition is one then to choose? For according to current terminology a country is bound to fall into one or other of these two categories. As a compromise between the two descriptions, one might say that Czechoslovakia is in fact a country that is economically developed but depressed in respect of consumption; industrialised, but at a low standard of living in certain sectors such as clothing, housing, motorisation, diversified diet, etc.

121. In addition, distribution here proceeds by fits and starts, goods often come onto the market in bad condition, food queues are quite normal occurrences, while some goods such as fruit and vegetables are unobtainable for many months of the year. Moreover, the normal citizen's purchasing power is low (the average wage in 1963 was 1,390 crowns a month, or US \$ 80 in real terms), the goods in circulation are few and usually of poor quality, amusements are limited both in quality and quantity, etc.

A. Pensions

122. The average pension is about 700 crowns a month (about US \$ 40 in real terms) and pensions can vary in amount, according to fifteen separate categories, from a maximum of 2,200 crowns a month to a minimum of 350-400 (as against a difference in the wage scale varying from a minimum of 800 crowns a month to a maximum of 6,000); and from 1st January, 1965, taxation on these payments will amount to from 1 to 14 per cent of the total.

(1) Rude Pravo, the Party Daily, recently stated that 16 years of socialism have not succeeded in completely eliminating the sub-proletariat.

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Considering the modest scale of these pensions, it is no exaggeration to say that most people who are no longer earning are in a truly desperate situation, especially if we remember that the retirement pension represents the only source of income for non-workers, since the socialist State does not permit of incomes from property or private activities.

B. Housing

123. Another factor that calls for mention in order to complete the picture of the living standard of Czechoslovakia is housing. True, rents charged by the State are low; but the average citizen has only an area of 9 square metres to live in (planning regards 12 square metres as the "optimum", seldom achieved), while because of lack of maintenance, especially in the provinces, premises are very often in a deplorable state.

124. Nor can it be said that any substantial improvement has been made since 1948 in the inhabitants' living conditions. Wages and pensions - the only source of income they can have - have certainly risen somewhat of recent years; but prices of consumer goods and housing have risen simultaneously in the same proportion.

C. Wages

125. The following table shows the progress of average wages in Czechoslovakia (in crowns per month):

<u>1955</u>	<u>1957</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
1,154	1,232	1,257	1,310	1,336	1,350	1,390

It can serve as a basis for a brief survey of wages policies since 1948.

126. At the end of the war, the level of wages in Czechoslovakia was characterised by a tremendous disparity between the wages paid to a worker in the different sectors of the economy. In particular, factory workers, labourers, and the whole body of unskilled workers - in other words, those who principally contributed to the advent of socialism - received wages capable of sustaining only a bare minimum of livelihood. The Communist Party therefore considered it a first necessity to increase the wages of such workers in 1948-49 so as to make them equal to wages paid in the other productive sectors. The effects of this levelling-up quickly made themselves felt. Given the uniform wage level and the shortage of workers, manpower tended to concentrate in those activities where work was least arduous, abandoning the mines, agriculture, the textile industries where automation had not yet been introduced.

127. In 1950, therefore, it became necessary to issue new directives about wages policy and establish certain rules for it.

The authorities responsible decided to abandon the guiding principle of hours of work, hitherto used in determining wages, and instead adopted the principle of units of goods produced by each worker. Tables were drawn up showing the degree of qualification required for a specific job, the responsibilities and personal risks it involved, the time needed to produce a single unit, and the number of units that could be completed in a certain period. These elements in combination determined the worker's wage per unit of production. Above a certain minimum, established by different criteria according to the type of work done, remuneration took on the character of a "reward for production" which could be increased proportionally according to the additional quantity of goods produced.

128. These criteria, being both complicated and lacking in incentive, soon proved unsatisfactory. First and foremost, the system attached little importance to the quality of the finished product; in certain sectors, in fact, the worker, mindful of the "rewards", chose to produce a larger number of inferior articles instead of bothering about their finish. The result was a production well above the established minimum but of inferior quality, which compelled the Government to distribute the "rewards for production" to the workers, thus increasing costs and creating large stocks of unsold goods. Secondly, the system took no account whatever of the effects of technological changes on workers' productivity. As a result of new investment, better equipment made it possible to produce more goods in the same period of time; but the tables, being basically static, took no account of these variations and maintained unchanged the minima laid down in 1950, thus ceasing to bear any relation to the real efficiency of the factories and the productivity of the workers.

129. It therefore proved necessary, around 1959, to revise the wages system completely. The only point regarded as satisfactory about the criteria of remuneration adopted in 1950 was their re-evaluation in money terms of the work in certain sectors such as mining, building, and metallurgy. These activities, which before the War were among the worst paid, are now the best paid in Czechoslovakia, simply because of the law of demand and supply of labour, which even in a socialist economy is found, if under another name, to have great weight.

130. For the other activities, important changes were made in 1950 in the system of tables. Production minima in the various sectors were first calculated afresh, and then, on the basis of a more advanced technology, the time factor was introduced as a corrective to the "quantitative" basis of the worker's remuneration. In other words, he now got a wage in which the determining factors were the hours of work rather than the units produced, and the quality rather than the quantity of the units.

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131. A second reform concerned the system of rewards. This was completely revised: whereas previously they had been awarded to individuals, they were now given to the whole body of workers in a particular factory on a basis of its capacity to fulfil the objects of the plan, its reduction of costs, etc.

132. These changes did not, however, produce the desired results in the shape of a rise in individual productivity, and at the beginning of 1964 the authorities were at last forced to introduce the idea of quality of production, which was now to take precedence over quantity. In addition, the importance was recognised of a greater differentiation of wages with a view to improving the quality of goods put on the market. For this purpose, a "national payments fund" was set up to provide the financial means needed to recompense deserving workers by personal rewards; this was tantamount to recognising the important distinction between productive work and work that creates waste goods or at any rate goods of little use for the community.

D. Prices for consumer goods

133. The present method of determining remunerations makes it almost impossible for the total amount of wages, expressed in monetary terms, to fluctuate appreciably during the year; this is why it also enables the authorities to assess in advance the quantity of consumer goods and their price, according to a scale of preferences which, obviously, is imposed by them. At this point the question may be asked whether the wage level is determined in relation to the availability of consumer goods and their price, or whether the price is determined in the light of average wages in the various sectors? The scarcity of consumer goods and the artificial inflation of their value created by the turnover tax lead one to think that these two factors reciprocally condition each other.

134. In any case, as far as the development of consumption is concerned, the few statistics available about the movement of prices of consumer goods show that they have fallen in many sectors. This fact is, however, in direct contrast to the findings of the daily observer on the spot, namely that prices rise progressively at a rate at least parallel to increases in wages and pensions. Consequently, the average citizen's purchasing power has failed - as is universally, though not officially, recognised - to reach the increase in absolute value that the following table, issued by the Czechoslovak statistical offices, would suggest.

E. Personal Consumption

<u>Personal Consumption</u> (1948 = 100)								
<u>1950</u>	<u>1952</u>	<u>1954</u>	<u>1956</u>	<u>1958</u>	<u>1960</u>	<u>1962</u>	<u>1963</u>	<u>1964</u> (Plan)
120	124	136	159	174	201	211	214	216

According to this table, consumption has increased at a rate not unlike that found over the same period in the most advanced western

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countries - a claim which is in direct opposition to the very small-scale development that has characterised Czechoslovak economy during the period in question.

135. To complete the statistical picture we give below the figures relating to the chief consumer goods said to have been sold on the Czechoslovak market in 1963.

Consumer goods sold in Czechoslovakia

	<u>Unit</u>	<u>1963</u>	<u>1963 as % of 1962</u>
Meat	1,000 tons	470.3	102.3
Milk	million litres	1,449.6	103.4
Cheese	1,000 tons	28.2	90.5
Eggs	million units	915.5	109.8
Lard	1,000 tons	54.0	100.0
Butter	" "	81.6	106.2
Vegetable oil	" "	76.0	102.3
Flour	" "	561.6	97.9
Rice	" "	56.6	89.3
Sugar	" "	332.6	103.8
Potatoes	" "	967.6	110.8
Vegetables	" "	424.6	114.6
Fruit	" "	160.3	118.7
Coffee	tons	6,977.0	99.4
Tea	"	1,141.0	99.1
Clothing	thousand units	26,280.0	97.2
Luxury shoes	million pairs	27.3	103.0
Refrigerators	thousand units	191.3	114.1
Television sets	" "	329.8	114.9
Automobiles	" "	26.4	89.2
Wireless sets	" "	306.3	103.9

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CHAPTER VI

BUDGET AND CURRENCY

A. The 1963 Budget

136. In Czechoslovakia only the Budget estimates are published and not the final figures. The estimates for 1963 were as follows (in million crowns):

Revenue	125,877	(123,322 m. crowns in 1962)
Expenditure	125,815	(123,201 m. crowns in 1962)
Balance	62	(121 m. crowns in 1962)

The 1963 Budget therefore represents a total increase of 1.7% over that for the previous year.

137. The socialist sector is responsible for 86.5% of the revenue (86.8% in 1962). Estimated yield of the turnover tax is 50,097 million crowns (50,345 million in 1962). Taxes and dues paid by the population represent 10% of the total revenue, amounting to 12,767 million crowns (12,498 million in 1962).

138. Expenditure is distributed as follows:

	<u>per cent</u>	<u>per cent</u> <u>in 1962</u>
Development of the national economy	52.1	52.6
Education, health, sport, social services, building, housing	36.7	36.4
Defence and police	9.0	8.8
Administration and justice	2.2	2.2

There are no important variations between 1962 and 1963; expenditure on defence and social services have gone up slightly.

139. Building and transport, including the concerns run by the National Committees, receive a total allocation of 38,483 million crowns (42,550 million in 1962), divided as follows:

- 8,334 million crowns to extractive industries and sources of energy (1962 - 8,470 million);
- 4,597 million crowns to the iron and steel sector (1962 - 6,236 million);

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- 3,800 million crowns to the chemical industry, where special attention is paid to fertilisers and petrochemicals (1962 - 4,440 m.);
- 5,605 million crowns to the mechanical engineering industry (1962 - 6,050 million);
- 2,542 million crowns to building and the production of building materials (1962 - 3,430 million);
- 4,550 million crowns to the consumer goods and food industries (1962 - 4,300 million);
- 9,047 million crowns to transport and communications (1962 - 9,690 million).

Defence appropriations rise by 478 million crowns or 0.2%, while the allocation for cultural and social services goes up by 4.8%.

140. The budget of the National Committees absorbs 35,711 million crowns (36,583 million in 1962); of this, 48% is covered by revenue of the National Committees themselves while the rest falls on the State. The 1963 estimates allow 49,500 million crowns for investments, including current upkeep. The investment plan for Slovakia absorbs an appropriation of 10,400 million crowns (13,300 million in 1962). An allocation of 5,356 million crowns is made for technical development and scientific research (5,030 million in 1962). Of this sum, 1,742 million crowns are to be devoted to actual technical development, which thus receives an allocation 18.8% higher than in 1962.

141. Agriculture gets an allocation of 18,546 million crowns (17,538 million in 1962), distributed as follows:

- 1,050 million crowns to agricultural co-operatives (1,444 million in 1962);
- 816 million crowns for purchase of fertilisers (839 million in 1962);
- 1,000 million crowns (approximately) for agricultural schools (928 million in 1962) hence an increase of 8%.

The Ministry of Agriculture also gets a special allocation of 3,557 million crowns (4,754 million in 1962) to supplement possible differences in prices, allow particular interventions and reductions, etc. Investments in agriculture are estimated at 10,487 million crowns, of which 4,101 million is for unified agricultural co-operatives.

142. The allocation for education and culture, of 9,970 million crowns (1962 - 9,763 million), is 5.8% higher than in 1962, for Slovakia the increase over 1962 is 9.5%. Health services get

6,718 million crowns (6,509 million in 1962), an increase of 3.4%. Estimated expenditure for health insurance is 8,100 million crowns, an increase of 3% over 1962, and for social insurance 15,316 million crowns or 8.2% over 1962 (when it was 14,125 million).

B. The 1964 Budget

143. The Budget estimates for 1964 were presented to the National Assembly on 31st January, 1964 by the Finance Minister, Dvorak, in a more succinct form than those for the previous year. It is therefore only possible to give totals for the main headings of the Budget, without going into details as in 1963.

(in million crowns)

	1962		1963		1964	
	Total	%	Total	%	Total	%
<u>Revenue</u>						
Socialist economy	107,066	86.8	108,873	86.5	113,160	86.8
Taxes and duties	12,498	10.1	12,767	10.1	13,105	10.0
Other sources	3,758	3.1	4,237	3.4	4,148	3.2
TOTAL	123,322	100.0	125,877	100.0	130,413	100.0

<u>Expenditure</u>						
Socialist economy	64,747	52.6	65,620	52.2	69,446	53.3
Social services, health, education etc.	44,831	36.4	46,117	36.6	47,177	36.2
Defence	10,854	8.8	11,332	9.0	10,948	8.4
Administration	2,769	2.2	2,746	2.2	2,746	2.1
TOTAL	123,201	100.0	125,815	100.0	130,317	100.0

From the above it will be seen that the percentages of revenue items differ very little. On the expenditure side, however, expenditure on economic development has gone up by 0.9%, while that for defence has fallen by 0.6% in relation to the total and by 3.5% as compared with the 1963 figure.

C. Currency

144. The volume of money incirculation, for which there are no official statistics, tends to be adjusted by the organisms responsible for regulating it in proportion to the value of goods

annually estimated by the plan. This method can give rise to possible disparities in the relationship between money in circulation and production according to the degree in which the plan's estimates of production are fulfilled. If they are under-fulfilled - as has often happened in the past - an inflationary pressure is created, since the amount of money put in circulation is to a certain extent in excess of the goods produced and available on the market.

145. The basic unit of the monetary system is the "Czechoslovak crown" (Kcs.), subdivided into 100 haler. Since the war it has twice been the subject of currency reforms, the first on 20th October, 1945 and the second on 10th June, 1953.

146. The second reform introduced a new currency pegged to gold and to the Soviet rouble. Gold parity remained fixed at 0.1234267 gr. of fine gold, while the relation with the rouble became 1.880 Kcs. per one Russian monetary unit. The International Monetary Fund did not approve of the gold parity of the Kcs. and consequently on 31st December, 1954, Czechoslovakia ceased to be a member of that organization. Czechoslovakia was the last of the satellite states to anchor its currency to that of the USSR, thus completing the rouble monetary area. Since the earlier official gold base was 0.01773 grs. of fine gold and the exchange rate with the rouble was Kcs. 12.50, the relationship between the old and the new crown was therefore about 7 to 1. The conversion of the old currency to the new was, however, carried out on a basis of 50 pre-reform Kcs. to 1 new Kc. But in certain cases the following standards of exchange were fixed:

- (i) 1 new Kc. to 5 old Kcs. up to 300 Kcs. per person (for wage-earners, pensioners, and people having the right to a ration card);
- (ii) 1 new Kc. to 5, 6.25 or 10, or 25 old Kcs. respectively for sums up to 5,000, 10,000, 20,000 or 30,000 Kcs., and for savings bank funds deposited before 16th May, 1953.

Owners of ready money had to make the exchange in person and in one single operation at a bank. Salaries, wages, pensions, and other payments of the kind were revalued, as a result of the reform, on a basis of 5 old Kcs. to 1 new Kc.

147. Official rate of exchange

1.00 Kc . = 86.20 lire;
7.14 Kcs. = 1.00 US dollar;
1.80 Kcs. = 1.00 rouble (to December 1960);
8.00 Kcs. = 1.00 new rouble (from 1st January, 1961).

148. Tourist rate of exchange

In October 1957, a special compensatory rate was introduced (which in 1959 reached 100% of the official rate) for non-commercial transactions and tourists.

On a basis of this rate, quotations were as follows:

- 1.00 Kc. = 43.52 lire;
- 14.28 Kcs. = 1.00 US dollar;
- 100.00 Kcs. = 86.00 roubles (to 31st December, 1960);
- 100.00 Kcs. = 8.60 new roubles (after 1st January, 1961).

Since January 1964, an even more favourable rate of exchange has been authorised for tourists. Above and beyond the daily rate of expenditure of \$4 per head, it allows a rate of 28.5 crowns for every additional dollar, which is a rate more nearly in line with the real purchasing power of the crown.

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CHAPTER VIIINDUSTRYA. Structure of the Czechoslovak industry

149. Czechoslovak industry is characterised by the dual nature of the economy, in some respects not unlike the dualism existing in Italy. Some regions are highly industrialised - the areas round Prague, Plzen and Brno - whereas Slovakia's economy is based chiefly on agriculture and forestry, with a low standard of living and relatively widespread under-employment. The Czechoslovak Socialist Government, aware of this unsatisfactory state of affairs, decided some time ago to establish industrial concerns in Slovakia. But their plans encountered two obstacles, the lack of adequate infrastructure and the difficulty of finding qualified manpower on the spot. The origins of this dualism lie in the history of the country's industrial development.

150. Bohemia and Moravia have a longstanding manufacturing tradition. Within the framework of economic unity under the Habsburg Empire, these regions played a foremost part in the mechanical engineering and textile industries as well as in such typical industries as glass and porcelain. When the Czechoslovak Republic was established after the first World War, the centres of Prague, Brno, Liberec (Reichenberg), Usti (Aussig) and Karlovy Vary (Karlsbad) continued their prosperous development, which was also maintained during the partition of the Republic and the German occupation. The Protectorate's industry worked for the war economy of "Greater Germany"; owing to its geographical situation it was unlikely to suffer from bombing and the Germans established new factories there, especially for the production of synthetic petrol.

151. The country in fact emerged from the war with most of its productive equipment intact. Its difficulties in this sphere did not, therefore, stem from the need for actual "reconstruction", (as was the case in nearly all the other European countries); they had their roots in the new political and economic situation created by the expulsion of the Sudeten minority and the initiation of a vast programme of social reforms. In the light of these new needs, the Government's first decision concerned the nationalisation of the numerous plants and factories belonging to expelled Germans, which represented a large part of the country's industry, trade and banking. The nationalisation of a large proportion of economic undertakings was decreed on 28th October, 1945, in other words before the Communist coup d'état. The date, which falls on the anniversary of the foundation of the Republic in 1918, is now remembered and celebrated as "Nationalisation Day". It is on this basis that the two-year Plan for 1947-8 was successfully initiated; it aimed at restoring industrial production rapidly to

its pre-war level. It will be recalled that during this period Czechoslovakia announced its acceptance to participate in the Marshall Plan, only to withdraw it spectacularly three days later after Gottwald's hasty journey to Moscow.

152. After the coup d'état of 1948 which established the Communist régime, industrial policy underwent a violent change, since the Czechoslovak bourgeoisie was no longer able to resist the total nationalisation of industry. The bourgeoisie had hitherto been spared during the measures carried out in the first stages of nationalisation against the German owners; indeed, they had welcomed the expulsion of the German industrialists, not realising that this constituted a death-blow for the bourgeois class and its economic rôle in the country. Thus industry was completely nationalised - although the Constitution of 9th May, 1948, stated that private ownership of concerns employing up to 50 workers would be respected. Today less than 1% of production is in private hands, including handicrafts concerns going into liquidation "because of the age" of the craftsmen themselves.

153. Apart from the transfer to the State of the ownership and administration of industrial concerns, the main change lay in the aims of production, now framed in accordance with Party doctrines and the economic and political requirements of the Soviet Union. In other words, industrial production was no longer automatically directed towards satisfying home or international export market demands. It now served to attain particular objectives fixed in relation to the directives of the new general policy. Since the market economy was to be destroyed, the complementary relationship of Czechoslovak economy with that of the West had to be destroyed too, and all production had to be planned with a view to the new links with the Soviet Union (and to a much lesser degree with the other "popular democracies") and the development of heavy industry necessary for war production and the "building of socialism".

B. Industrial production - physical output and plan fulfilment up to 1963

(i) General performance

154. The following table for 1937, 1948, 1960, 1962 and 1963 illustrates the development of industrial and energy production in Czechoslovakia:

<u>Product</u>	<u>Unit</u>	<u>1937</u>	<u>1948</u>	<u>1960</u>	<u>1962</u>	<u>1963</u>
Electric power	milliard kWh	4.1	7.5	24.4	28.7	29.9
Coal	million tons	16.7	16.7	26.2	27.2	28.3
Lignite & peat	" "	18.0	23.6	58.4	69.5	72.5
Coke	" "	3.5	4.3	8.5	8.9	9.0
Iron ore	" "	1.7	1.6	4.7	5.2	5.2
Steel	" "	2.3	2.6	6.8	7.6	7.6
Pressed steel excl. pipes	" "	1.6	1.8	4.5	5.1	5.1
Sulphuric acid	thousand tons	165.0	215.0	553.0	643.0	725.0
Diesel engines	thousand HP	-	100.0	1059.0	830.0	830.0
Machine tools	thousand units	-	15.4	37.5	37.8	37.8
Ball-bearings	million units	-	1.6	37.2	43.3	43.3
Tractors	thousand units	0.2	9.1	32.5	32.4	28.4
Lorries	" "	2.0	7.2	15.9	15.5	15.5
Automobiles	" "	12.6	18.0	56.2	64.3	56.5
Diesel-electric locomotives	single units					478.0
Motorcycles & scooters	thousand units	14.1	68.0	191.3	186.4	186.4
Plate-glass	million sq. metres	17.5	20.0	29.1	26.9	26.9
Paper	thousand tons	246.0	260.0	443.0	468.0	468.0
Cotton (woven)	million metres	377.3	279.7	463.9	495.5	467.0
Silk	" "	35.0	25.0	64.8	75.1	75.1
Wool	" "	33.0	40.2	46.2	48.1	46.8
Footwear	million pairs	55.0	64.4	82.5	85.0	76.4
Beer	million hl.	8.3	8.2	14.1	15.7	15.7
TV sets	thousand units	-	-	262.9	307.4	235.0
Refrigerators	" "	-	7.6	132.4	181.9	221.0
Cement	million tons	1.3	1.7	5.1	5.7	5.2
Timber	million metres	3.3	3.1	4.0	4.0	4.0
Chemical plants	thousand tons					74.9

155. Fulfilment of the Plan in the different sectors was as follows:

(in percentages)

	<u>Plan Fulfilment</u> <u>1962</u>	<u>Plan Fulfilment</u> <u>1963</u>
Combustible fuels	100.3	101.8
Energy	96.4	96.7
Metallurgy and mining	97.1	101.1
Chemical industry	100.4	101.0
Heavy engineering industry	97.3	101.0
Engineering industry	99.0	100.6
Building materials	98.4	100.8
Consumer goods	101.5	100.2
Food industry	97.0	100.2

156. Average monthly wages in industry increased by 1.2% and wages of workers in general by 1.6%.

(ii) Fuels

157. In the solid combustibles sector, coal production exceeded estimates by 2.1 million tons.

	<u>Production</u> <u>1962</u> (in million tons)	<u>Production</u> <u>1963</u> (in million tons)	<u>Plan Fulfilment</u> (in %)
Coal	27.2	28.3	101.01
of which from Ostrava basin	21.5	22.3	101.2
Brown coal	65.2	68.5	101.8
Lignite	3.7	4.0	108.1
Coke	8.9	9.3	100.7

Nevertheless, difficulties of fuel supply continued in the various branches of the economy throughout the year. Electricity production in 1963 was 29.9 million kWh, as against 28.7 million kWh in 1962. But the Plan for energy supply was only 98% fulfilled. During the first and third quarters of 1963 the development of industrial production was considerably disturbed by the shortage of power available and by interruptions in supply. However, by the end of the year the supply of electricity became regular as a result of better functioning of the power stations, especially the hydraulic stations.

(iii) Iron and Steel

158. The Plan for gross production in this sector was fulfilled as a whole, though steel pipes remained at the level of 95.8% and steel at 99.5% of the planned goal. The main deficiencies are attributed to the plants at Trinec, Vitkovice and Kladno. Production (in thousand tons) was as follows:

	<u>Production</u> <u>1962</u>	<u>Production</u> <u>1963</u>	<u>Plan Fulfilment</u> (in %)
Iron	3,477	5,254	101.5
Pig-iron	5,177	-	-
Steel	7,639	7,598	99.5
Pressed steel	5,066	5,106	100.8
Steel pipes	763	731	95.8

(iv) Chemical Industry

159. The Plan as a whole was fulfilled in 1963 (+3.4%) though production of plastic materials remained below the planned level.

	<u>Production</u> <u>1963</u>	<u>Plan Fulfilment</u> <u>(in %)</u>
Synthetic fibres (tons)	75,385	100.5
Plastic materials (tons)	94,039	99.1
Nitrate fertilisers (tons/n)	153,811	101.1
Phosphate fertilisers (T/F 205)	203,191	103.1
Sulphuric acid (1000 tons)	725.1	100.2
Tyres (1000 units)	1,594.4	100.0

(v) Engineering and Metallurgical Industry

160. Production in this branch was practically normal as regards fulfilment of the Plan.

<u>Nature of Product</u>	<u>Unit</u>	<u>Production</u> <u>1962</u>	<u>Production</u> <u>1963</u>	<u>Plan</u> <u>Fulfilment</u> <u>in %</u>
(1 crown = 86.20 lire)				
Iron & steel industry equipment	million crowns	891.1	909.3	101.8
Pressed steel equipt.	ths. tons	64.2	34.7	96.3
Foundries equipment	million cr.	91.0	-	-
Chemicals equipment	" "	1,403.7	1,364.7	100.8
Cement works equipt.	ths. tons	9.0	-	-
Textiles equipment	million cr.	796.6	945.5	101.1
Roadbuilding machinery	" "	241.9	-	-
Machine tools	units	25,672.0	21,583.0	98.3
Automatic & semi-automatic machines	"	2,080.0	1,704.0	85.2
Sowers	"	3,508.0	-	-
Agricultural machinery	million cr.	976.0	783.3	103.8
Tractors	ths. units	32.4	28.4	103.6
Diesel engines for main railways	units	144.0	266.0	101.5
Electric engines for main railways	"	189.0	212.0	100.5
Presses	"	-	3,715.0	100.9
Electronic measuring apparatus	million cr.	-	117.4	100.3
Motor lorries including chassis	ths. units	15.5	13.0	100.3
Motor vehicles	" "	64.3	56.5	101.1
Motorcycles	" "	155.7	-	-
Scooters	" "	30.7	-	-
TV sets	" "	307.4	234.5	101.2
Refrigerators	" "	192.0	221.1	100.5

(vi) Building Materials

160^{bis} In this branch too the Plan was generally speaking fulfilled. But since the housebuilding programme was slowed down in 1963 production of building materials also declined.

<u>Product</u>	<u>Unit</u>	<u>1963 as % of 1962</u>	<u>Produc- tion 1962</u>	<u>Produc- tion 1963</u>	<u>Plan Fulfilment in %</u>
Cement	1,000 tons	90.7	5,710	5,178	100.7
Lime	" "	95.0	2,355	2,238	95.7
Bricks	million units	80.1	2,071	1,680	100.1
Prefabricated sections	1,000 cu.m.	96.6	2,345	2,293	99.9
Cement pillars	1,000 units	-	79	-	-

(vii) Consumer Goods

161. There was a considerable decline in production in various branches of this industry. Moreover, the quality of many goods failed to reach the required standard.

<u>Product</u>	<u>Unit</u>	<u>1963 as % of 1962</u>	<u>Produc- tion 1962</u>	<u>Produc- tion 1963</u>	<u>Plan Fulfilment in %</u>
Wooden furni- ture	million crowns	100.2	2,584	2,594	101.5
Textiles:					
cotton	1,000 metres	97.8	477,694	466,971	100.5
wool	" "	97.4	48,075	46,831	100.8
linen	" "	92.7	68,773	63,720	101.7
hosiery	1,000 units	104.6	45,412	47,490	101.0
Footwear:					
leather	1,000 pairs	94.7	47,735	45,268	101.1
rubber	1,000 pairs	83.8	37,048	31,049	100.7
Paper	tons	100.6	463,726	467,130	100.3

(viii) Food Industry

162. The rate of increase in production of the food industry was higher than that in other industries. Improvement was especially marked in poultry and sugar production. However, because of the poor quality of sugarbeet the plan for sugar was only fulfilled to the extent of 93.7% of the planned target. Production figures are as follows:

<u>Product</u>	<u>Unit</u>	<u>1963 as % of 1962</u>	<u>Produc- tion 1962</u>	<u>Produc- tion 1963</u>	<u>Plan Fulfilment in %</u>
Meat (fresh)	1,000 tons	98.7	479.7	473.7	100.4
Meat products	" "	98.9	212.2	209.9	96.2
Poultry	" "	125.8	20.6	25.9	112.3
Milk	million litres	101.8	1,178.7	1,200.0	99.0
Butter	1,000 tons	115.6	64.1	74.1	96.7
Edible vegetable fats	" "	100.6	124.2	124.2	99.7
White bread	" "	100.1	360.7	361.0	98.4
Refined sugar	" "	107.1	928.0	993.6	93.7
Chocolate	" "	107.9	22.6	24.4	100.7
Alcoholic liquors	1,000 hl.	98.9	371.8	367.7	96.9
Beer	million hl.	105.5	15.7	16.6	104.0
Fruitjuices	1,000 litres	103.1	9,145.0	9,426.0	93.1
Tinned foods	1,000 tons	98.5	27.2	26.8	104.3

163. In 1963 difficulties caused by the exceptionally severe winter considerably reduced the rate of work in industrial production, largely owing to shortages in power supplies and raw materials, as well as to workers' absenteeism caused by influenza epidemics. Consequently, although the plan for 1963 provided for an increase of only 1% in industrial production, even that modest target was not fulfilled in the main branches of industry. A number of decisions were taken in that year to cope with the unsatisfactory development of industrial production. These included the concentration of investment in industries working mainly for export, the introduction of methods of production more fully based on automation (in an attempt to reduce difficulties arising from the labour shortage) and efforts to speed up the construction of new electric power stations.

C. Industrial production - physical output and plan fulfilment first half 1964

(i) General Performance

164. As regards industrial production in the first half of 1964, the authorities give the following figures for Plan fulfilment:

	<u>Plan Fulfilment in %</u>	<u>1964 1st half as % of 1963 1st half</u>
Industry in general	102.0	104.5
Fuels	103.1	105.9
Energy	100.4	109.5
Metallurgy and mining	102.6	108.3
Chemical industry	101.1	110.1
Building materials	103.0	107.9
Consumer goods	101.2	100.4
Food industry	102.9	102.5

The considerable difference between production for the first half of 1964 and that for the same period in 1963 should cause little surprise since the winter of 1962-1963 was extremely severe and this held up production in many factories.

(ii) Iron and steel

165. Iron and steel production is also said to have achieved a satisfactory rate in the first half of 1964, surpassing the plan's targets in every sector.

	<u>Tons</u>	<u>Plan Fulfilment in %</u>
Iron	2,820,000	101.7
Steel	4,188,000	103.0
Pressed steel	2,763,000	103.4
Steel pipes	380,000	102.3

(iii) Chemical industry

166. Chemical production achieved the following results:

		<u>Plan Fulfilment in %</u>
Synthetic fibres	40,000 tons	102.0
Plastic products	48,400 tons	101.5
Nitrate fertilisers	85,100 tons	96.0
Phosphate fertilisers	113,200 tons	104.1
Sulphuric acid	426,400 tons	101.2
Truck tyres	387,000 units	100.1
Motorcar tyres	292,000 units	98.6
Paper	246,300 tons	100.2

(iv) Engineering

167. In the engineering and mechanical industry production was as follows:

		<u>Plan Fulfilment in %</u>
Diesel engines	510,000 units	99.2
Electric locomotives	114 units	100.0
Diesel locomotives	151 units	98.7
Buses	5,728 units	99.0
Bicycles	192,000 units	100.8
Refrigerators	119,300 units	101.0
Washing machines	97,900 units	94.8

(v) Consumer goods

168. The industries producing consumer goods were said to have fulfilled the plan by 101.2%, and the food industry achieved an increase of 2.5% over the first half of 1963.

(vi) Energy

169. In the energy sector, the plan for coalmining was said to be 103.2% fulfilled and that for power 101.5%.

D. The Growth of Industry

170. The statistics given above are summarised in the following table showing overall industrial production. It will be seen from it that between 1938 and 1962 (taking 1958 = 100) the index figure for Czechoslovak industrial production rose from 31 to 143.

<u>1958 = 100</u>	<u>1938</u>	<u>1948</u>	<u>1953</u>	<u>1955</u>	<u>1957</u>	<u>1959</u>	<u>1961</u>	<u>1962</u>
Czechoslovakia	31	33	64	75	90	111	135	143
France	52	55	73	84	97	101	114	120
Federal Rep. Germany	51	27	66	85	97	108	119	131
Belgium	64	78	86	100	106	104	116	122
Austria	39	36	66	88	98	106	123	125
Netherlands	49	56	79	93	100	109	126	130
Italy	43	44	70	84	96	111	142	156

171. Thus the general index of industrial production registered an enormous advance in the period under review, an advance the more impressive when compared with the corresponding development in the main continental European countries and in Italy. As we know, however, Czechoslovakia had already reached quite a high industrial level in 1938, certainly equal to the average level of Western European countries. It is therefore clear that an almost five-fold increase in the industrial indices of so advanced a country ought to have produced a veritable explosion of production and productivity, even greater than that occurring during the same period in Germany, France and Italy, accompanied by primary and secondary phenomena of great importance in the economic field.

172. However, the most objective and best disposed observer, when estimating Czechoslovakia's present industrial production, cannot accept so optimistic a view of the situation, since he does not find confirmation of the very considerable progress claimed either in the flow of goods coming on the home market or in a proportional increase of manufactured goods for export. It may further be mentioned that one of the most outstanding facts in Czechoslovak economic life of recent years has been the abandonment, in 1961-62, of the 1960-64 Plan because of the evident impossibility of realising the industrial objectives forecast and of the crisis experienced at the same time by the country's economy. According to the statistics given in the present study, and in particular from the picture emerging from the last table, progress has been continuous in every field without wavering or regressing. All this goes to confirm the existence of occasional discrepancies between the official data and the country's real economic situation.

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CHAPTER VIII - AGRICULTURE

A. The agricultural crisis

173. Czechoslovak agriculture is at present undergoing a crisis and its difficulties are openly recognised by the Party and the Government. These difficulties are the logical consequence of the following negative factors which have arisen in this field during recent years :

- (a) transfer of manpower from the countryside to the factories;
- (b) insufficient investment in agriculture;
- (c) difficulty of reconciling a policy of productivity with the socialisation of property;
- (d) lack of incentives for production;
- (e) semi-abandonment of the frontier areas bordered by Germany, formerly inhabited and cultivated by Sedeten peasants;
- (f) shortage of qualified administrators in the agricultural co-operatives.

This combination of causes has led to a reduction in the area cultivated, as shown in the following table (in thousand hectares) :

<u>1938</u>	<u>1951</u>	<u>1953</u>	<u>1955</u>	<u>1957</u>	<u>1959</u>	<u>1961</u>	<u>1962</u>
8,000	7,506	7,455	7,294	7,317	7,389	7,296	7,260

174. The agricultural crisis is particularly evident in the case of the wheat harvest. Before the last war Czechoslovakia was self-sufficient in wheat. At present, however, there is a deficit between production and consumption which can only be filled by annual imports of 1½ - 2 million tons of wheat, involving an expenditure in foreign currencies equivalent to some 80 milliard lire.

175. The significance of points (a) et (b) above is too obvious to need much explanation; these are, moreover, widespread phenomena in many capitalist countries. But it may be worth recalling that difficulties in increasing productivity (point c) are often connected with the policy of developing agricultural co-operatives, which at present administer some 70% of the cultivable land. Hence the phenomenon represented by the birth and evolution of the agricultural co-operatives is important enough in Czechoslovakia to merit particular mention.

B. Socialisation

176. There are at present four types of co-operatives; in the first two types the form of co-operation is elementary and the members receive a quota of the harvest corresponding to

the area they possess. In the third and fourth types of co-operative, on the other hand, the work of cultivating the land is organised collectively, boundaries between the fields are done away with, and the produce of the land is divided between the members according to the amount of work they do and, to all intents and purposes, not on a basis of the area of land each individual member has brought into the co-operative. It may be recalled that in the agrarian sphere the pressure brought to bear by the higher organs of the Party was directed in the early days towards the complete destruction of private property and towards its socialisation. Consequently a campaign of intimidation was initiated against recalcitrants who objected to the introduction of co-operatives. This campaign signified, in the economic field, withholding the necessary materials and equipment from such recalcitrants, refusing to grant them agrarian credits, and fixing discriminatory quotas for the amount of produce to be handed over to the authorities. But the peasants' resistance to these actions of the Government produced negative results, both political and economic. This led to a modification of the Party's agrarian policy, which from 1956 onwards has been based on the principle of "persuasion" rather than force. Members who wished to return to private farming were even allowed, in theory, to withdraw from the co-operatives.

177. Cultivated land is at present divided as follows :

	<u>Number of farms</u>	<u>Area in ha.</u>
State sector	27,887	1,346,527
Co-operative sector (J.Z.D.)	12,187	4,020,591
Private plots of members of co-operatives	630,386	314,134
Private farmers	947,091	1,619,728
Land belonging to towns and in joint ownership	3,064	140,353

C. Investment

178. Investment in agriculture was as follows :

	<u>as % of total investment</u>
1952	4.9
1955	10.0
1962	15.1
1963	15.5

D. Physical output

179. Production of the main crops in recent years was as follows :

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
	(in million tons)				
Wheat	1.65	1.50	1.67	1.64	1.74
Rye	0.97	0.90	0.99	0.92	-
Barley	1.45	1.75	1.58	1.75	-
Oats	0.93	1.02	0.96	0.91	-
Maize	0.50	0.57	0.46	-	-
Potatoes	6.33	5.09	5.33	5.00	6.39
Sugarbeet	4.95	8.37	6.89	5.81	7.73

During the same period the yield in quintals per hectare was as follows :

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
Wheat	22.9	23.3	26.0	24.5	24.3
Rye	20.3	20.8	21.4	20.8	20.2
Barley	21.9	24.8	22.8	25.3	23.3
Oats	18.4	20.4	20.6	20.1	19.6
Maize	28.0	30.5	24.7	23.5	29.6
Potatoes	108.7	90.0	104.0	102.6	127.2
Sugarbeet	205.6	346.3	280.3	228.4	298.5

180. Between 1960 and 1963 the development of livestock has been the following :

	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
(in 000's)				
- Cattle	4,387	4,518	4,507	4,480
Pigs	5,962	5,895	5,897	5,845
Sheep	646	603	529	678

E. Mechanization and fertilisers

181. The number of tractors and threshing machines between 1959 and 1963 was as follows (in thousand units) :

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
Tractors	74.3	94.3	115.6	137.6	150.4
Threshing machines	5.7	6.3	8.9	9.8	11.0

182. Use of fertilisers per cultivated hectare of land was as follows :

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
kg.					
	100.3	97.1	97.6	112.0	120.0

F. Agricultural performance in 1963

183. In 1963 total agricultural production showed an increase of 6 - 7 per cent as compared with 1962. In particular, vegetable production rose by 15 per cent, while animal production fell by 2 per cent, largely as a result of fodder shortage. Agricultural undertakings received a good deal of new equipment in 1963, including 12,881 tractors, 1,873 reapers, 1,163 threshing machines, 5,445 automatic fertiliser distributors, etc. But the efficiency of existing machinery was restricted by acute shortage of spare parts.

184. As to land improvement, important works of land reclamation were carried out over some 53,000 hectares; however owing to labour shortage the Plan's targets were not fulfilled. Nor was the Plan fulfilled in respect of recruitment of new labour forces for agriculture. In fact, instead of the 42,630 new workers envisaged in the Plan, only 37,351 workers went into agriculture, or 87.6 per cent of the planned quota.

185. The cereals harvest slightly exceeded the Plan's forecast (100.1 per cent), and production of potatoes, sugarbeet (in quantity but not in quality), vegetables and fruit was equally satisfactory. Milk production was 1.1 per cent below that of 1962, while meat production remained stationary at the 1962 level.

CHAPTER IX

COMMUNICATION AND TRANSPORT

A. General Situation

186. Czechoslovakia is covered by a relatively wide network of communications, consisting of 13,000 km. of railways, 125,000 km. of roads, nearly 3,400 km. of internal airways, and 473 km. of navigable waters. Czechoslovakia ranks fifth among European countries in respect of the importance of her railways, and second as regards per capita volume of means of transport. But the infrastructure of both railways and roads is for the most part, antiquated, belonging to the period between the two world wars. There are at present in service, 4,400 locomotives, 750 electric engines, and 138,000 railway wagons. Many of these vehicles are old-fashioned (1,200 steam locomotives are more than 40 years old), while 35 per cent of railway wagons, both goods and passenger, were constructed before 1945. The number of automobiles in circulation is 314,000, or one per 43 inhabitants, as against one per 13.7 in Italy, 7.2 in Germany, 5.2 in France, etc.

187. The main role in Czechoslovak transport is played by the railways, which absorb about 85 per cent of the traffic. A particular characteristic of the railway network is the irregular distribution of the lines, with a greater density in the western part of the country. In recent years, in order to facilitate trade with the East, it has been found necessary to divert traffic eastwards and intensify and modernise the lines in that direction. Owing to the mountainous nature of the country there are numerous bridges and tunnels: 180 bridges and some 200 tunnels, with a total length, respectively, of 16 km. and over 50 km.

188. Limitations on traffic are largely due to the following factors:

- (i) shortage of double-track lines and shunting lines;
- (ii) slow development of electrification;
- (iii) slow speed and restricted load of trains, due to the worn-out state of rolling-stock and its lack of homogeneity.

A vast programme is under way, aimed at increasing the potentialities of the railway system. The main lines are to be extended, lines are to be electrified, diesel engines introduced, and bridges, tunnels and rolling stocks are to be reinforced and modernised. But the programme is proceeding at a very slow pace.

189. The Czechoslovak merchant navy consists at present of 11 ships, while a twelfth is under construction at a Polish ship-year. Total tonnage, including this last vessel, is around 90,000 tons. In 1963, the merchant navy transported some 500,000 tons of goods, which gives it second place, after the Swiss merchant navy, among the fleets of landlocked European countries.

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B. Performance in 1964

190. In 1963, the targets fixed by the Plan for the transport sector were not reached, as can be seen from the following figures:

A) <u>GOODS TRAFFIC</u>	<u>million</u> <u>tons</u>	<u>Plan fulfilment</u> <u>in %</u>	<u>1963 as %</u> <u>of 1962</u>
Railways	203.1	97.4	97.7
Roads	161.5	96.6	100.5
Waterways	4.1	106.7	103.5
Total	<u>368.7</u>	<u>97.1</u>	<u>99.0</u>

B) <u>PASSENGER TRAFFIC</u>	<u>million</u> <u>units</u>		
Railways	626.2	97.8	97.9
Roads	1,503.2	98.7	106.9
Waterways	1.0	103.0	115.4
Total	<u>2,130.4</u>	<u>98.4</u>	<u>104.1</u>

The reduction in goods traffic in 1963 as compared with the previous year is largely due to difficulties created by the weather in the first half of the year. To a lesser extent this decline in efficiency of the rail and road networks is also a result of the progressive deterioration of rolling-stock and road vehicles, which has not been adequately offset by the number of new units brought into service.

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CHAPTER X

FOREIGN TRADE

191. In this chapter an attempt is made to analyse Czechoslovak foreign trade by means of a series of tables showing the general development of trade exchanges between 1948 and 1963, the geographical distribution and commodity composition of imports and exports.

A. Geographical distribution

192. From an examination of these data certain basic conclusions can be reached. The first, concerning the countries of origin and destination of the goods, is that Czechoslovak foreign trade today is largely based on exchanges with the other Communist countries (three-quarters of the total), in particular with the Soviet Union. Trade with the industrialized Western countries (including Japan), on the other hand, which in 1948 still represented almost half the total (47% of imports, 44.1% of exports), had by 1963 fallen to 17.2% and 15.2% respectively. Even trade with the developing countries contracted between 1948 and 1963, despite the political considerations introduced after the Communist coup d'état into trade relations between Czechoslovakia and many countries belonging to the "Third World". Whereas in 1948 those countries accounted for 16.3 per cent of total Czechoslovak exports and 13 per cent of imports, in 1963 the respective percentages were 9.2 and 9.3.

(1) Trade with the West

193. The most obvious question arising from this spectacular change of geographical direction is whether it is a temporary phenomenon or a permanent one due to structural causes. It seems reasonable to answer that the general pattern of Czechoslovak foreign trade is likely to remain unchanged for a number of years. This answer is chiefly based on the recognition that, with her present standards of production, Czechoslovakia could not increase substantially her purchases from the West because of the impossibility of supplying - beyond a certain level not far off the present one - products of interest to the West. In other words, any considerable increase in Czechoslovak imports from the capitalist countries would encounter a natural check, not so much for political reasons, but rather because of the fundamental scarcity of means of payment. For some years past there has, in fact, been a genuine difference in the quality of Czechoslovak exports to the West and to the East (excluding the U.S.S.R.), to the advantage of the West. But only a relatively small amount of goods can be diverted today from the generally easily satisfied socialist markets to the more exacting and selective markets of the capitalist world. This is why any considerable increase in trade exchanges between Czechoslovakia and the West seems unlikely in the immediate future. There is just one possible exception to this forecast: namely, the purchase from the West of complete industrial plants, to be effected by means of long-term credits. The need to modernize the

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productive processes is widely recognized, and it is therefore likely that Czechoslovakia, in order to import the machinery she needs, may even encroach upon her reserves of foreign currency if such purchases cannot be completely covered by sales of home-produced goods.

(ii) COMECON

194. As to the types of goods involved in Czechoslovakia's foreign trade, it may be noted that the item which has shown the greatest increase between 1948 and 1963, as regards both imports and exports, is machinery, whereas all other categories have either diminished or remained practically stationary. This remarkable expansion of exports of machinery - rising from 20.3% of total sales abroad in 1948 to 48% in 1963 - explains why Czechoslovakia has been a constant and vigorous defender of COMECON. Indeed a large proportion of these sales are made to the Eastern bloc, as a result of the "socialist" division of labour sponsored by COMECON. If this situation were to alter materially - in accordance with the Rumanian line, for instance - Czechoslovakia would have to try to place her manufactures to a much greater extent in the West, which, by reason of their quality and lack of technical up-to-date-ness, would be very difficult to do. Hence the pro-COMECON attitude always energetically adopted by Prague.

(iii) Developing countries

195. Special mention must also be made of the principles governing trade between Czechoslovakia and the so-called developing countries. Among the peculiar aspects of these trade relations are:

- (a) the granting of long-term credits by the Czechoslovak financial authorities, at a rate of interest of about 2-2½ per cent;
- (b) the fixing of unchanging yearly prices for both purchase and sale; in other words, these prices are not subject to seasonal fluctuation or modifications due to the terms of trade;
- (c) the frequent acceptance by Czechoslovakia of stocks of goods in counterpart for her sales which cannot easily be transformed or marketed within the country.

The composition of Czechoslovak exports to these countries consists as to 50% of capital goods, 20% manufactured goods, and 30% of chemical products, foodstuffs, etc. The underdeveloped countries with which the volume of trade exchanges is at present highest are Argentina, Brazil, Ghana, India, Indonesia, Mali, etc.

196. Finally, from such data as it has been possible to obtain, and which it is hoped are accurate, it would appear that aid given by Czechoslovakia to under-developed countries has developed in the manner shown in the following table. The total sums refer to industrial credits or direct loans granted, but it is not known how much of these sums have been actually utilized or distributed.

Czechoslovak aid to Communist and Underdeveloped Countries

(in million dollars)

	<u>Communist countries</u>	<u>Underdeveloped countries</u>	<u>Total</u>
1953	-	1.0	1.0
1954	-	5.0	5.0
1955	-	30.5	30.5
1956	10.0	110.7	120.7
1957	112.5	28.0	140.5
1958	-	30.7	30.7
1959	25.0	134.0	159.0
1960	125.0	152.3	277.3
1961	130.0	154.4	284.4
1962	128.0	150.2	278.2
TOTAL	<u>530.5</u>	<u>796.8</u>	<u>1,327.3</u>

If these figures correspond to the facts, during the period in question every Czechoslovak must have provided the underdeveloped countries with something like a hundred dollars, a per capita figure almost double, so one is told in Prague, the burden borne for the same purpose by the Soviet citizen.

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Development of Czechoslovak Foreign Trade
1948 - 1963

		<u>1948</u>	<u>1953</u>	<u>1958</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
				(in million crowns)				
<u>TOTAL</u>	Turnover	10,328	13,483	20,667	26,964	29,303	30,697	33,277
	Imports	4,906	6,330	9,772	13,072	14,570	14,904	15,554
	Exports	5,422	7,153	10,895	13,892	14,733	15,793	17,723
	Balance	+ 516	+ 823	+1,123	+ 820	+ 163	+ 889	+2,169
Communist countries	Turnover	4,098	10,578	14,574	19,357	20,432	22,775	24,819
	Imports	1,949	4,992	6,893	9,316	10,045	11,034	11,437
	Exports	2,149	5,587	7,681	10,041	10,387	11,741	13,382
	Balance	+ 200	+ 595	+ 788	+ 725	+ 342	+ 707	+1,945
Other countries	Turnover	6,230	2,904	6,093	7,607	8,871	7,922	8,458
	Imports	2,957	1,338	2,879	3,756	4,525	3,870	4,117
	Exports	3,273	1,566	3,214	3,851	4,346	4,052	4,341
	Balance	+ 316	+ 228	+ 335	+ 95	- 179	+ 182	+ 224

Development of Czechoslovak Foreign Trade1948-19631948 = 100

	<u>1948</u>	<u>1953</u>	<u>1958</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
TOTAL Turnover	100	130	200	261	284	297	322
Imports	100	129	199	266	297	304	317
Exports	100	132	201	256	272	291	327
Communist countries							
Turnover	100	258	356	472	499	556	605
Imports	100	256	354	478	515	566	587
Exports	100	260	357	467	483	546	623
Other countries							
Turnover	100	47	98	122	142	127	136
Imports	100	45	97	127	153	131	138
Exports	100	48	98	118	133	124	133

Development of Czechoslovak Foreign Trade
with main areas1948 = 100

	<u>1948</u>	<u>1953</u>	<u>1958</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
<u>TOTAL</u>	100	130	200	261	284	297	322
Communist countries	100	258	356	472	499	556	605
Other countries							
of which :							
(i) <u>Industrialised countries</u>	100	43	80	102	118	107	114
of which :							
European countries:	100	46	86	105	120	113	105
(ii) <u>Developing countries</u>	100	59	154	185	216	190	202
of which :							
Asian countries	100	57	141	181	194	191	202
African countries	100	69	209	210	330	250	286
American countries	100	53	131	170	157	153	132

Geographical Structure of Czechoslovak Foreign Trade
in percentages

	1948	1953	1958	1960	1961	1962	1963
<u>TOTAL</u>	100	100	100	100	100	100	100
Communist countries	39.6	78.5	70.5	71.8	69.7	74.2	74.6
Other countries of which :	60.4	21.5	29.5	28.2	30.3	25.8	25.4
(i) <u>Industrialised countries</u>	45.7	14.9	18.1	17.8	19.0	16.4	16.2
of which: European countries	38.9	13.6	16.7	15.7	16.5	14.8	14.3
(ii) <u>Developing countries</u>	14.7	6.6	11.4	10.4	11.3	9.4	9.2
of which:							
Asian countries	7.5	3.3	5.3	5.2	5.2	4.6	4.7
African countries	3.4	1.8	3.6	2.8	4.0	2.9	3.1
American countries	3.8	1.5	2.5	2.4	2.1	1.9	1.4

Geographical Structure of Czechoslovak Imports
in percentages

<u>TOTAL</u>	100	100	100	100	100	100	100
Communist countries	39.7	78.9	70.5	71.3	68.9	74.0	73.5
Other countries of which :	60.3	21.1	29.5	28.7	31.1	26.0	26.5
(i) <u>Industrialised countries</u>	47.3	14.9	19.5	18.9	20.4	17.6	17.2
of which :							
European countries:	39.9	13.5	18.2	16.5	16.9	15.9	14.9
(ii) <u>Developing countries</u>	13.0	6.2	10.0	9.8	10.7	8.4	9.3
of which:							
Asian countries	5.5	3.3	4.5	5.3	4.5	3.6	4.6
African countries	3.7	1.6	3.0	2.5	4.0	2.8	3.0
American countries	3.8	1.3	2.5	2.0	2.2	2.0	1.7

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Geographical Structure of Czechoslovak Exports

in percentage

	1948	1953	1958	1960	1961	1962	1963
<u>TOTAL</u>	100	100	100	100	100	100	100
Communist countries	39.6	78.1	70.5	72.3	70.5	74.3	75.5
Other countries	60.4	21.9	29.5	27.7	29.5	25.7	24.5
of which :							
(1) <u>Industrialised countries</u>	44.1	14.9	17.0	16.6	17.7	15.3	15.3
of which :							
European countries	38.0	13.8	15.4	14.9	16.1	13.8	13.7
(ii) <u>Developing countries</u>	16.3	7.0	12.5	11.1	11.8	10.4	9.2
of which							
Asian countries	9.3	3.3	5.9	5.2	5.8	5.5	4.7
African countries	3.2	2.0	4.2	3.0	4.0	3.0	3.1
American countries	3.8	1.7	2.4	2.9	2.0	1.9	1.4

197. It will be seen from these figures that Czechoslovak foreign trade increased by 9% in 1963, as compared with 1962; trade with the USSR and the other communist countries increased by 12%, trade with the developing countries by 6,2% and with the "capitalist" countries by 7%.

198. Czechoslovakia's main trading partners in 1963 were the following :

	<u>Turnover (in million crowns)</u>
USSR	12,953
Soviet-occupied zone of Germany	3,274
Poland	2,460
Hungary	2,043
Rumania	1,106
Bulgaria	1,075
United Kingdom	963
Federal Republic of Germany	878
Cuba	788
Yugoslavia	500
India	479
Austria	462
Egypt	440
Italy	435
France	336
Netherlands	277
Communist China	276
Sweden	207

B. Commodity Composition

Development of Czechoslovak Imports
by categories of merchandise
in million crowns

	<u>1948</u>	<u>1953</u>	<u>1958</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
<u>TOTAL IMPORTS</u>	4,906	6,330	9,772	13,072	14,570	14,904	15,554
of which :							
I. Machinery	335	889	1,825	2,831	3,426	3,903	3,978
II. Raw materials, chemical products & building materials	2,770	3,433	5,326	6,906	7,836	7,589	7,759
III. Livestock	9	4	3	9	4	3	2
IV. Foodstuff	1,639	1,908	2,281	2,885	2,680	2,763	3,226
V. Consumer goods	133	96	337	441	624	646	589

Development of Czechoslovak Exports
by categories of merchandise
in million crowns

	<u>1948</u>	<u>1953</u>	<u>1958</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
<u>TOTAL EXPORTS</u>	5,422	7,153	10,895	13,892	14,733	15,793	17,723
of which:							
I. Machinery	1,099	3,031	4,725	6,266	6,567	7,517	8,474
II. Raw materials, chemical products & building materials	2,361	2,637	3,391	4,115	4,369	4,457	4,829
III. Livestock	1	1	6	11	13	19	16
IV. Foodstuff	298	613	769	723	903	753	1,161
V. Consumer goods	1,663	871	2,044	2,777	2,881	3,047	3,243

Development of Czechoslovak Exportsby categories of merchandise

1948 = 100

in million crowns

	<u>1948</u>	<u>1953</u>	<u>1958</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
<u>TOTAL IMPORTS</u> of which:	100	129	199	266	297	304	317
I. Machinery	100	250	514	798	965	1,100	1,121
II. Raw materials, chemical products & building materials	100	124	192	250	283	274	280
III. Livestock	100	44	33	100	44	33	22
IV. Foodstuff	100	116	140	176	164	169	197
V. Consumer goods	100	72	254	332	469	486	482

Development of Czechoslovak Exportsby categories of merchandise

1948 = 100

in million crowns

	<u>1948</u>	<u>1953</u>	<u>1958</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
<u>TOTAL EXPORTS</u> of which:	100	132	201	256	272	291	327
I. Machinery	100	276	430	570	598	684	771
II. Raw materials, chemical products & building materials	100	111	143	172	185	189	205
III. Livestock	100	100	600	1,100	1,300	1,900	1,600
IV. Foodstuff	100	206	258	242	303	253	389
V. Consumer goods	100	52	121	170	173	183	195

STRUCTURE OF CZECHOSLOVAK IMPORTS

In percentages

	1948	1953	1958	1960	1961	1962	1963
<u>TOTAL IMPORTS</u>	100	100	100	100	100	100	100
of which:							
I. Machinery	7.2	14.1	18.7	21.6	23.5	26.2	25.5
II. Raw materials, chemical products & building materials	56.5	54.2	54.5	52.9	53.8	50.9	49.9
III. Livestock	0.2	0.1	0.0	0.1	0.0	0.0	0.0
IV. Foodstuff	33.4	30.1	23.3	22.0	18.4	18.5	20.8
V. Consumer goods	2.7	1.5	3.5	3.4	4.3	4.4	3.8

STRUCTURE OF CZECHOSLOVAK EXPORTS

In percentages

	1948	1953	1958	1960	1961	1962	1963
<u>TOTAL EXPORTS</u>	100	100	100	100	100	100	100
of which:							
I. Machinery	20.3	42.4	43.4	45.1	44.5	47.6	48.0
II. Raw materials, chemical products, & building materials	43.5	36.8	31.1	29.6	29.7	28.2	27.2
III. Livestock	0.0	0.0	0.0	0.1	0.1	0.1	0.1
IV. Foodstuff	5.5	8.6	7.1	5.2	6.1	4.8	6.5
V. Consumer goods	30.7	12.2	18.4	20.0	19.6	19.3	18.2

CHAPTER XI

TOURISM

199. According to information published in Prague about the movement of tourists to and from Czechoslovakia, in 1963 over 800,000 foreigners (with no distinction between East and West) visited the country, as against 650,000 in 1962. Between 1 January and 30 June 1964, thanks largely to the authorities' decision to simplify the procedure for granting entry visas, the figure is said to have risen to 1,400,000, of whom over 300,000 came from the West, and in particular from Austria (190,000) and the Federal Republic of Germany (80,000). During the same period 700,000 Czechoslovak citizens are said to have gone abroad, several tens of thousands of whom went to the West. In July 1964 alone, 17,740 Czechoslovak citizens are said to have crossed the frontier to spend their holidays in a Western country.

200. The Czechoslovak Government is anxious to obtain hard foreign currencies and is therefore making considerable efforts to increase tourism from the West. This is one reason for the more liberal arrangements adopted since the beginning of 1964 with regard to entry visas. A definite if modest programme for improving facilities for the reception of foreign tourists is also being carried out. However, in view of the deplorable state of roads and railways in Czechoslovakia, the obvious inadequacy of its hotel arrangements, and the poor quality of food generally provided in restaurants, it seems unlikely that in the immediate future foreign tourism in Czechoslovakia will far surpass the figure already reached following the opening of the frontiers in 1964. That figure is in fact very near the absolute limit for which the country could cater.

201. Visits of Czechoslovak citizens to the West, on the other hand, can only be made in accordance with two formulas:

- (a) collective journeys organized by the State agency CEDOK. The tourist is allowed foreign currency up to a maximum of about \$18 per person. The remainder of his expenses abroad are met directly by CEDOK against payment made at home by the tourist in Czech crowns;
- (b) individual journeys. These are authorized only on invitation, i.e. following a declaration by a citizen of a Western country that all the Czechoslovak tourist's expenses abroad will be defrayed by his host in the West. In this case too the Czechoslovak tourist is authorized to take foreign currency abroad with him up to the value of \$18.

202. These administrative and currency restrictions, even if less stringent today than in the past (the passport concession on receipt of an invitation from the West is a recent measure), obviously represent a powerful check on the expansion of Czechoslovak tourism to the West. Figures have not so far been released concerning the flow of foreign currency arising from the tourist movement from and to Czechoslovakia.

CONCLUSION

203. The first general conclusion that can be drawn from the information and data contained in the present study is that Czechoslovakia is a country which (bearing in mind the provisos mentioned in the chapter on Standard of Living) must be defined as socially advanced, well equipped with raw materials and manufacturing industries, and adequately endowed with skilled manpower. But since it is governed by a regime with social rather than productive aims and background (1), it does not manage to yield, in economic terms, as much as might justifiably be expected given its potential possibilities.

204. The lines of economic policy adopted in Czechoslovakia, and their limitations and lacunae, have been described in Chapter II of the present study, and there is no need to repeat what was said there. But some conclusions may be summarized in order to draw together the threads of a wide subject that does not readily lend itself to synthetic treatment.

205. The first phase in Czechoslovakia's economy, which lasted right through from the coup d'état until 1963, was characterized by the most meticulous application of traditional Marxist principles. The salient points of this economic policy were the following :

- (a) the establishment of an economic regime which was as far as possible autarchic within the orbit of the communist countries, and heavily dependent upon the economy of the U.S.S.R.;
- (b) national economic planning based on the development of heavy industry and the production of capital goods, while production of consumer goods was relegated to second place;
- (c) a production of a quantitative and highly diversified character (especially in the engineering branch), not qualitative or specialized;
- (d) very little differentiation in wages and practically no personal economic incentives for deserving individual managers, technicians, or workers;
- (e) selection of management, as well as of candidates for the universities, according to their political orthodoxy and social origins, rather than on the basis of their individual aptitude or intellectual standard;
- (f) discouragement of savings, which were regarded almost as an anti-social phenomenon;

- (g) planned transfer of workers from agriculture to industry, with the incidental aim of weakening the peasant class, regarded as basically conservative;
- (h) absolute compliance with Soviet directives in the matter of affording considerable aid to underdeveloped countries.

206. In the last months of 1963 an anti-dogmatic change came about which has lasted until today. This second phase seems to be characterized by the following features:

- (a) recognition of the need to turn to the West for supplies of industrial goods and long-term credits. Relations with the other COMECON countries (excluding U.S.S.R.) have been put on a footing of a certain degree of national freedom in taking decisions;
- (b) economic planning based on a greater regard for the actual needs of the country's economy, which in practice means a drive for production of consumer as well as other goods;
- (c) quality, not just quantity, of production, and specialization rather than diversification over a too wide range of goods;
- (d) introduction of the principle of personal incentives to obtain increased and improved production. Greater differentiation in wages according to the importance as well as the social and technical usefulness of each job;
- (e) greater weight to be attached to the individual's professional and technical capabilities in determining his career and admission to a university;
- (f) planned return to agriculture of manpower previously transferred to industry and administration;
- (e) encouragement of saving, with the implicit aim of reducing the volume of money in circulation and hence also consumption;
- (h) trend towards reduction of the excessive burden hitherto put on the balance of payments by aid to underdeveloped countries

207. Despite the new trends now emerging, certain needs and unsolved problems still persist in Czechoslovakia's economy. The main ones appear to be the following :

- (a) the modernization of many industries. This aim can be achieved chiefly through obtaining supplies and long-term financing from the West;
- (b) increased productivity of manpower, which is at present very low as compared with Western standards; this should be achieved basically by means of the new "fund for rewards" which should provide the finance needed to reward technicians and workers who have distinguished themselves by quantitative and qualitative increases of production;
- (c) re-transfer of some industrial manpower to work in agriculture. This is not easy to effect because of the process of urbanization which has taken place in Czechoslovakia, as in all the industrial countries, and which seems difficult to reverse;
- (d) elimination of stocks of unsold goods. This aim is also difficult to achieve since production is determined by planning drawn up at the beginning of each year, which therefore cannot follow the fluctuations of actual demand, as is the case in a market economy.

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208. The following consideration may be mentioned in conclusion. As we know, in every economy there may be various negative factors which prevent the attainment of a full measure of production. In Czechoslovakia the main shortcoming at present seems to be of a human rather than of a technical or financial character. The individual, in fact, finds himself, as a result of the revolution of 1948, deprived of goals towards which to work, such as the so-called bourgeois incentives. In other words, ever since the Communist coup d'état he has lacked all the subjective aims characteristic of a liberal society (savings, social position, the possibility of leaving an inheritance for his children) which act as a stimulus to personal activity and therefore become translated into a collective dynamic action in the national economic life.

209. In the so-called "Stalinist" period immediately following the coup d'état (1949-1959) such individual utilitarian stimuli of a social kind were at least partially replaced, as a determining factor towards inducing a man to work hard, by the omnipresence of a strictly coercive and rigidly punitive regime, which made it dangerous for the individual to attempt to withdraw

from the productive duties imposed on him by the socialist society. Gradually relaxing the strict regimentation of the worker from 1960 onwards in a move towards de-stalinization, the regime was not in a position to replace individual initiative (a manifestation of the vanished liberal world) or ruthless regimentation (a characteristic of a now practically outworn dogmatic Marxism) by other elements capable of catalysing and galvanising man's energy - for instance by a dynamic idealism of an ethical-mystical kind, capable of arousing enthusiasm and devotion and directed towards a collective cause believed to be progressive.

210. In short, from what has been said the conclusion may be drawn that Czechoslovak society today cannot make use, as regards the masses, of any particular human incentives - whether of an egoistic, intimidating, or idealistic nature. Hence the individual's unwillingness to participate psychologically or feel involved morally in the productive life of the country, with the result that productive life seems to lack its true motive force, made up of man's intelligence, willingness, and creative power in carrying out the duties allotted to him. As long as that gap is not filled, we may conclude, it is easy to predict that neither more rational planning, nor injection of new capital, nor greater modernization of the productive processes will be able to prevent this economy from continuing to proceed only haltingly, more or less as it does today, in the majority of its vital manifestations.

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ANNEX

RECENT DEVELOPMENTS IN ECONOMIC THINKING AND POLICIES
IN CZECHOSLOVAKIA

When the Czechoslovak Communist Party in a well-known declaration recently praised the work done by Khrushchev, it was in fact officially giving the green light to the process of economic revisionism which, in the course of the previous few months, had begun to manifest itself in the USSR and in other Eastern countries but which in Prague had still been confined to a few discussions between specialists and remained limited to their narrow circle.

2. What had been said in public previously on this matter was almost exclusively represented by a declaration made in September by President Novotny according to which a complete reorganization of the national economy would take place before the implementation of the new five-year plan (1966-70). Such a reorganization, added Mr. Novotny, should be based on a wider delegation of powers to the producing enterprises, the performance of which would then be judged, amongst other things, on the basis of the financial results obtained, that is according to their success in balancing their budget. No comment was officially made on these statements which, though interesting, were somewhat obscure. Suddenly, in the days following the fall of Khrushchev, an unexpected number of public statements were made illustrating a fundamental change in economic thinking: (a) in an interview given by Professor Sik, Director of the Institute for Economic Research in Prague, to the monthly "Nova Mysl"; (b) in an editorial which was published by the Party organ "Rude Pravo".

3. In these articles, can be found in the first place the assertion - made repeatedly and at length - on the failure of the Marxist methods of rigid planning used until now and on the need to introduce in the productive activities of the nation new operating principles very similar to those of a market economy.

4. For instance, it is stated in "Rude Pravo" that the economic methods followed since 1948 can only be applied usefully at a certain stage of development which has now been left behind by Czechoslovakia, and that in the present stage of development they do not give sufficient incentives to encourage a substantial increase in productivity or a qualitative improvement of production.

5. For his part, Professor Sik affirms, quite bluntly, that it is now indispensable to adopt economic methods entirely different from those which are employed at present, and that it is illogical to impose limitations, as certain economic and political leaders of the country would wish, to economic development and to the practical use of economic science. Marxism/Leninism must no longer be interpreted, according to Professor Sik, as a

set of immutable doctrines which are then translated into " a compulsory model of socialist economy". Furthermore, the ideological prejudice according to which socialist production cannot be influenced or regulated by market forces is another remnant of the Stalinist period.

6. This is an attitude which is completely anti-conformist and anti-dogmatic with regard to economic matters. The extent of this change in thinking is also underlined by "Rude Pravo" which, in further comments, states that "never since the nationalisations (1945-48) has the Czechoslovak economy been faced with a task of such great importance implying deep and fundamental changes in the methods adopted by it".

7. Detailed examination of the new plans reveals the following changes:

(a) Planning will be elaborated in the future after taking into account the actual data given by the various industrial, agricultural and commercial enterprises. In other words, the central planning organs (which, as is well-known, until now dictated to the smallest detail the production targets of each single producing unit) will limit themselves to giving the essential lines for the economic development of the country, while leaving to the productive organisms considerable freedom of action. Furthermore, the plan will no longer lay stress on the quantitative aspect of production but on the qualitative one, and the justification of the productive processes adopted will have to be based on their competitiveness, efficiency and suitability for the market. Whilst it will be left to the firms to act in complete freedom according to yardsticks and methods based on criteria of competitiveness and productivity, the planners in Prague will have the possibility to:

- decide on the merits of investment projects of particular importance;
- prescribe the nature of the production which must be entrusted to the major enterprises;
- fix prices and basic salaries;
- intervene when emergency situations occur which could affect the production of goods for which there is an urgent need either on the home or on the export market;
- regulate the flow of investments from the state to the various individual enterprises which will have, however, to cover their running costs and their investments by the sale of their production exactly as in the so-called capitalist economies.

- (b) As regards price policy, it will move away from its present immobility and will at long last take account of market conditions. Three categories of prices will be progressively introduced:
- fixed prices determined by the central authority and applicable to basic foodstuffs, to essential raw materials, to rents and to fuels;
 - maximum and minimum prices for certain other products (standard products) fixed by the central authority;
 - free prices which will move according to the law of supply and demand.
- (c) It is known that one the main limitations of the economic system adopted until now in Czechoslovakia has been the low productivity of labour. The new system of management and planning of the national economy will have, therefore, to favour a development of scientific and technical research in the production field and also the adoption of better welfare incentives in favour of labourers. These new demands imply a policy of credit and investment to replace obsolete equipment and introduce more advanced productive techniques. As regards the not unimportant problem of the introduction of personal incentives to produce more and better, the Press only mentions what has been stated above. It can only therefore be assumed that the solution of this important problem will be sought by enabling the various enterprises to give special grants to those managers and workers who deserve them.
- (d) As regards investments, three distinct categories are foreseen:
- investments of national interest scheduled by the plan and financed by the state budget;
 - investments in a specific industrial branch or enterprise which will be financed through bank credits granted in accordance with conditions determined by the State, or by ploughing back of profits;
 - investments made directly by the enterprise itself through the use of its profits:
- (e) The bodies responsible for the organization of production will also be affected by the deep structural modification which the new measures will bring about in the nation's economy. In particular, some of the main managerial functions carried out

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until now by the ministries will become the responsibility of the producing enterprises. Furthermore, it is foreseen that the producing units will be organized under two basic systems:

- the "combinat" which will group various enterprises specialising in the manufacture of similar articles;
- the "trust", grouping together the enterprises belonging to the same productive sector.

The difference between the two definitions is somewhat obscure; it would have been simpler to express them in terms of vertical and horizontal integration. It is possible, however, that this point may be further clarified in the future by the responsible authorities.

(f) The principles which, until now, were applied to the external trade sector will also be revised. It is admitted that there exists at the present time:

- a difference between national prices and the average of foreign prices (national prices being higher);
- the absence of incentives to reduce production and distribution costs which jeopardise the competitiveness of Czechoslovak products on world markets;
- the need to sell (practically to give away) certain Czechoslovak products at prices below cost.

In order to try and obviate such drawbacks, it is envisaged to create organizations responsible for production and for external trade whilst, in some cases, the enterprises themselves will be able to buy and sell directly in foreign markets.

(g) Internal consumption will be the subject of new arrangements inasmuch as the responsible ministries and state offices will try as far as possible to adjust supply to public demand. Furthermore, some enterprises will put their products directly on the market through their own sales organization.

Conclusions

8. From all the new directives contained in the instructions on economic policy, it is possible in conclusion to point out many original ideas for an economy which until now has been run in accordance with Marxist orthodoxy. The principles proclaimed will be submitted to the Central Committee of the Party before the end of the year, and the latter will certainly approve them(1). The real problem is, however, whether these principles are applicable or not to the present productive structure of Czechoslovakia.

(1) The Central Committee approved these proposals at its plenary meeting on 18th and 19th November, 1964.

9. It is evident that the ponderousness of the present system may act as a powerful brake on progress; this immobilism is due to human factors such as positions and capacities acquired long ago and to technical ones such as the obsolete methods of management and production dating back sixteen years.

10. It remains to be seen if and to what extent the general situation will allow the authorities to get rid of the burden of the methods employed until now; since these, even if considered by everybody as a source of error and waste, are nevertheless inspired by the basic principles of Marxist economic theory.

11. The elimination of these methods will inevitably weaken socialist beliefs and, in opening the way to changes initially of an economic nature, could easily lead to social and political upheavals. It is this fear of a possible chain reaction sparked off by the proposed process of dismantling the Marxist productive infrastructure which might lead to sharp opposition from the highest authorities in the Czechoslovak Communist Party.

12. It is perhaps because such a possibility is feared that the official organ of the Czechoslovak Communist Party has stressed, after presenting the new thinking, that "the system which is being examined will not weaken the principle of planning but, on the contrary, will make it stronger. Furthermore, it will allow a better demonstration of the superiority of socialism over capitalism. The Party will supervise the correct application of the proposed modifications and its role as leader of the nation will therefore be enhanced".

13. These are the conclusions of the Party; in this connection Western observers may add that, if political Stalinism died a few years ago in Czechoslovakia, economic Stalinism has only collapsed today and at that only in the theoretical field. One can only hope that economic theory will be quickly translated into the daily reality of the productive life of the nation because, in this way, the timid process of evolution sketched out in the course of the last few years in Prague will be at last fully completed.

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