

The Czechoslovak economy 1948-1988

The battle for economic reform

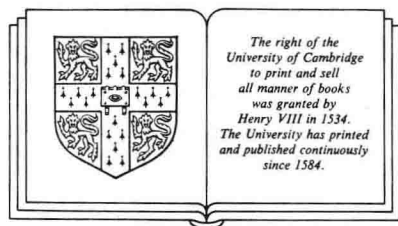
MARTIN MYANT

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Abbreviations

ČKD	Českomoravská Kolben Daněk (Prague engineering enterprise)
CMEA	Council for Mutual Economic Assistance
CP	Communist Party
CPSU	Communist Party of the Soviet Union
ČSAV	Československá akademie věd (Czechoslovak Academy of Sciences)
EEC	European Economic Community
HN	<i>Hospodářské noviny</i> (Economic Newspaper, weekly published by Communist Party of Czechoslovakia)
HSR	<i>Historická statistická ročenka</i> (Historical Statistical Yearbook)
Kčs	Koruny československé (Czechoslovak crowns)
NM	<i>Nová mysl</i> (New Thought, Communist Party monthly)
PE	<i>Politická ekonomie</i> (Political Economy, monthly of the Economics Institute of the Czechoslovak Academy of Sciences)
PH	<i>Plánované hospodářství</i> (Planned Economy, monthly of the State Planning Commission)
RP	<i>Rudé právo</i> (Red Right, daily of the Communist Party of Czechoslovakia)
SAV	Slovenská akademie vied (Slovak Academy of Sciences)
SITC	Standard International Trade Classification
SR	<i>Statistická ročenka Republiky československé</i> , subsequently <i>Statistická ročenka ČSSR</i> (Statistical Yearbook of the Czechoslovak Republic and Statistical Yearbook of the Czechoslovak Socialist Republic)

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Introduction

This book is inspired by the fresh wave of interest in economic reform, now encompassed within the even broader term 'restructuring', in the Soviet Union and Eastern Europe. Its aim is to explore the widely held belief that a serious programme for the renewal of socialism is possible only on the basis of a thorough assessment of past experience. Czechoslovakia has a special significance, partly because it was already an industrialised country in 1948 and therefore has 40 years' experience in developing an advanced socialist economy. It was also the scene of the attempt of the late 1960s to combine economic with political reform which must be judged essentially similar to Gorbachov's *perestroika*.

This, then, is not an orthodox economic history of Czechoslovakia. It gives far greater weight to particular key periods during which the economic system was at stake. It explores consistently the three interrelated themes of the development of the system, its relationship to the wider political and international climate and the performance of that system.

Performance over the whole 40 years from 1948 to 1988 must be judged disappointing but not disastrous. Figures on national income per head, which can never be more than an approximate indicator, suggest that economic growth in Czechoslovakia up to 1980 tended to be slightly slower than in neighbouring countries. The absolute level was undoubtedly much higher than the latter in the inter-war period with national income per head nearly 60% above that of Hungary and 70% above that of Poland. Czechoslovakia's economic structure was closer to that of advanced countries of the time with, according to 1930 figures, only 30% of the active population employed in agriculture and 45% in mining and manufacturing. Poland at that time had 67% in agriculture and 18% in industry while the figures for Hungary were 54% and 22% respectively. All have shown a shift towards a more

modern structure with a fall in agricultural employment. Czechoslovakia still leads the way: agriculture in 1980 employed only 13% of the active population compared with 29% in Poland and 20% in Hungary. There is, however, evidence that the gap has closed in national income per head. Figures derived from one method of calculation suggest that by 1980 Czechoslovakia was only 15% above the Hungarian level and a mere 24% ahead of Poland. These are almost certainly low estimates and the margin of error is large.

Comparisons also suggest that Czechoslovakia has grown slightly more slowly than the more successful Western European countries. In 1938 national income per head was about 75% of that of France: the gap was probably as wide in 1980. On reasonable estimates it has been overtaken by Italy, but it has done considerably better than laggards such as Britain.¹ A look at the most recent developments and their likely implications for the future suggests a slightly less inspiring picture as no obvious basis has been created for future success. The economic structure, internal system and set of international relationships created around 1950, which were the basis for that modest success, seem to have outlived their limited usefulness.

The effort to explain this, and to show the obstacles to changing what has frequently been recognised as an obsolete system, starts after the Communist victory of 1948. Considerable coverage is given to the early 1950s as a crucial period for the creation of the system. There is no doubting the close links between economic developments and the political atmosphere at the time with rampant security forces and show trials of real and imagined political opponents. It was also a crucial period for showing the limits of the power of the central authorities over economic processes. In political terms it was a repressive and centralised system, but the accompanying economic system never corresponded to the abstract notion of a 'command economy'.

A central issue for current policy debates has to be the late 1960s. In fact, one of the greatest weaknesses of the thinking behind current economic reform efforts even in the USSR is that their leading proponents are unwilling, uninterested or even forbidden from looking at Czechoslovakia's past. It becomes very clear that there were serious difficulties in 1968, some of which could be avoided if foreseen. There are also serious questions about the whole strategy pursued and the possibly exaggerated expectations which could actually be being repeated again.

The destruction of the Prague Spring brought, in economic terms, what for a time seemed to be a welcome return to stability. It was,

however, associated with a failure to confront the economy's long-term weaknesses which were brought back to the forefront of attention at the end of the 1970s. A gradual, persistent decline in competitiveness was shielded for a time by the relationship with the Soviet Union, but ultimately reappeared as the Achilles heel of the Czechoslovak economy.

The analysis of this and other weaknesses is built up by following a number of separable areas as far as possible in a chronological order. Thus investment problems persist throughout the period, but are discussed in greatest detail around the events of 1961–2, 1968 and the early 1980s, those being the periods when they related most immediately to the thinking and policy responses of the time. Similarly the issue of consumer goods shortages was given greatest attention in the late 1960s and recurs, albeit around somewhat different theories, in the 1980s. Hopefully the treatment of these questions brings more life and relevance to the theoretical discussions.

It is impossible to give a detailed and definitive conclusion on how to achieve the economic reform that could overcome the Czechoslovak economy problems. Generalisations exist about combining plan and market, but there are immense practical difficulties that will only be solved during further experience. One point of certainty, however, is that the economic system can never be separated off from political and other considerations. An economic reform cannot succeed as a purely technical matter of changing indicators or economic variables. It requires a comprehensive programme combining economics and politics and involving participation from far beyond the existing centres of power and influence.

1 The end of the Czechoslovak road

The Czechoslovak road

In February 1948 the Communist Party established an effective monopoly of power in Czechoslovakia. It promised to create a more secure, more just and generally wealthier society than would have been possible under any other political leadership. The change in political power would, it was believed, lead to the best possible economic system. Although no official sanction was given to the idea, leading activists were talking optimistically of turning Czechoslovakia into a 'shop window' of socialism that could provide an attractive example for other developed countries in the world.

There undeniably were great gains for large sections of society with the ending of the threat of unemployment, comprehensive national insurance and other changes, but this ultimate ambition was not achieved. In fact, the ruling Communist Party very quickly found itself facing major problems that it was theoretically ill-equipped to solve. Far from finding it easy to change society, it was caught up in a complex web of social conflicts and prejudices that could not be explained or confronted with the familiar concept of the class struggle.

Prior to February 1948, the CP had won 38% of the votes in contested elections and been the dominant force in a broad coalition government which had implemented revolutionary changes in political, social and economic life. The most important for the economy were the nationalisation of 61% of industry, measured by employment, the expulsion of the German minority, which had made up one-fifth of Czechoslovakia's population including the overwhelming majority in Bohemian frontier areas, and an egalitarian land reform.¹ Although there were very clear differences in enthusiasm and in the extent of change advocated by different parties, so that political life

always showed signs of dividing into a straight contest between left and right, all legal parties were verbally committed to these measures. There was a conceivable basis there for a distinct model of socialism based around a plurality of political parties and forms of ownership. The CP went less than half-way towards recognising that possibility with the notion, developed in 1946 on the basis of discussions between the Czechoslovak CP leader Klement Gottwald and Stalin, of a specific, Czechoslovak road to socialism. This was to be 'slower' than the Soviet road, avoiding violent repression and civil war, but the final aim was never redefined.

It required winning support not just from the working class, but also from small businessmen (9% of the economically active population and employing another 16%) office workers (26% of the active population) and the 20% that worked in farming. There was considerable mutual distrust between these sections of society with many workers accusing shopkeepers of black marketeering and managers of having collaborated with the Nazis: there was also a deep resentment towards remaining inequalities and privileges in the period of post-war austerity. This was matched by fears from other social groups that further revolutionary changes could only be at their expense.

To hold this alliance together, clear statements about the future were avoided whenever possible, leaving the maximum scope for compromise and pragmatism. There was, however, a continuing, largely unstated assumption that Czechoslovakia would ultimately follow the example of the Soviet Union to become a one-party state with all economic assets collectively owned. There was, then, never any guarantee that the 'specific' road would lead to a 'specific' model of socialism. Nevertheless, the longer a decisive fight for power could be pushed into the future, so the greater the chance would have been of developing new ideas.

There were elements of pluralism² in the emerging economic model, most obviously in the plurality of sectors defended by specific interest groups and different political parties. Under the prevailing conditions there was no possibility of creating a single, supreme body with full responsibility for the preparation, formulation and implementation of economic policy. In practice, the Economic Council, an advisory body to the government containing representatives of the different political parties, became the major forum for discussing economic issues. It had no executive power as nationalised enterprises were subordinated to a government minister.