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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

ECONOMIC REVIEW OF EASTERN EUROPE

CZECHOSLOVAKIA

Note by the Italian Delegation

I. INTRODUCTION

This note is intended to bring the report on the Czechoslovakian economy submitted to the Sub-Committee in December 1964(1) up to date, by illustrating the development of the chief economic sectors via a necessarily brief analysis of the plans for the years 1965 and 1966, and the trends of external trade. A special chapter has been devoted to the phenomenon of revisionism, in view of the interest and importance taken on by this movement in a larger context than that of Czech affairs.

2. By way of introduction, it should be said straight away that in Czechoslovakia, just as in the other Communist countries of Eastern Europe, the reform movements seem to progress very uncertainly along the road which should lead them to the affirmation of new theories and to their application in the concrete form of legislative and governmental measures.

3. These delays and the erratic progress made can be variously explained according to the particular circumstances of each régime, but as far as Czechoslovakia is concerned, it may be useful to recall that there is a long-standing tradition of orthodoxy amongst Communist Party officials, and particular historical and social conditions which have made it easier here than elsewhere for the orthodox line to be affirmed and to penetrate very deeply. We know that Communism here had no powerful ideological force - like Hungarian nationalism or Polish Catholicism - to struggle against in taking power. Czechoslovakia - just because it is a country composed of different ethnic groups, each influenced by different historical and cultural events - has no single authentic national tradition, at least insofar as the last four centuries are concerned, with the exception of the period between 1918 and 1938. Indeed, the Catholic church here represents only a part, albeit the largest part, of religious belief. In addition, since the Hussite revolution, she

(1) AC/89-WP/143 and AC/89-WP/143/1

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has always been tainted with the 'original sin' of being a cult imposed forcibly by a foreign power several centuries ago. In 1948, the middle classes of the social structure alone could have formed an opposition to the new régime, and at the time they were weakened by the forcible removal of the Sudeten population, and handicapped politically by the collaborationist attitude that they had adopted towards the occupation authorities.

4. Consequently, the very orthodox Marxist structure prevalent in Czechoslovakia now for eighteen years draws its strength from custom and doctrines which are deeply rooted and which, up till now, have been universally applied. This has given rise to a certain amount of sluggishness, inhibiting the achievement of any reform, which is chiefly provoked by the conservative reaction of fringe party officials, who see - in the changes recommended by the revisionists - a slow but sure limitation of their power. It is equally important to point out that this conflict between revisionists and the Party is played out against a background of utter indifference on the part of the population towards public life. This is particularly true of student youth, which, in the face of uninspiring prospects, has for some time found refuge in an agnosticism which is equally evident in the very small percentage of student Party members (4% of all students). However, this agnosticism should not be interpreted as a form of opposition to the régime: neither is revisionism very much respected in university circles, which very often tend to regard it with marked scepticism(1). The origin of the revisionist movement is therefore completely divorced from any urgent feeling common to the mass of the population or to important racial and social groups. On the contrary, it is a phenomenon which originated and which essentially developed within the Party itself.

5. The widespread awakening of interest in Western countries, easily perceptible in the economic sector, should also be emphasised in these introductory remarks. Often this tendency can also be seen in the cultural life of the country. This psychological rapprochement(2) with the West has been demonstrated in several

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- (1) It should be sufficient to recall the banners carried by students during the popular demonstration of 1st May, 1965, to prove the truth of these remarks. One sentence worth mentioning was found on them again and again: "We don't know what our future will be, but we know it will be full of official stamps." In addition, a recent study conducted by the Marxist Section of the Education Faculty at Olomouc enquiring into the political attitude of university students gave the following results: 11.4% of first year students claimed to have some political activity, 6.6% said that they had no political activity, 47% were neutral and 35% prudently refrained from answering.
- (2) The importance of this should not be exaggerated. For instance, the incident reported in "Le Monde" on 22nd May, 1966, suggesting that the United States Ambassador in Warsaw had received a public ovation after attending a Solemn Mass, is unthinkable in Czechoslovakia at the present time.

significant ways: for instance, the high standards of production reached by the capitalist countries are unstintingly recognised, translations of Western authors in popular Czech editions show a slight increase, there have been more theatrical productions of plays by non-socialist authors, more students have been sent to Western countries and more passports granted to tourists going to the West, particularly when such tourists were able to avail themselves of invitations from Western relatives and friends, thus avoiding the creation of a currency outflow. A resurgence of social studies is also evident: an example of this is the creation in Prague, several months ago, of a Sociological Institute, which publishes a review in which Western studies in this subject are reported and discussed. This fact appears even more remarkable if it is remembered that, until very recently, the Marxist-Leninist doctrine was considered to have said the last word on this subject, as on several others.

6. A greater degree of eagerness in contacts with the West can be discerned, since 1964, as far as economic relations with foreign countries are concerned. There has been a large increase in the number of missions and technicians sent to the West, and the attitude of official spokesmen on industrial countries of the West has also changed. These countries are now often referred to in conjunction with expressions such as "technical co-operation" and "exchange of opinions". On the other hand, the accusations of trade discrimination, often diffused in the past by the radio, the press and so on, especially directed towards the EEC and EFTA, have been absent for some time.

7. It is true to say that in terms of the balance of trade, relations between Prague and East and West have always followed well-known channels. The only change is comprised by a slight increase in exchanges with the USSR, on the one hand, and with the Western European countries on the other; thus it would seem that the other members of COMECON and the countries of the Third World have become less interesting to the Czechoslovakian trading organizations. Finally, as far as the United States are concerned, the traditional position of "reserve" has been maintained, but our impression is that if Congress should approve the Bill drawn up by the Johnson Administration to cover the development of East-West trade relations, the Czechoslovakian market could offer some possibilities to American exporters. Another fact worth mentioning is the adoption in 1965 of measures liberalising imports on the part of Great Britain, Sweden, Italy and France, and the signature in Prague of two technical and scientific co-operation agreements with Italy and France, whose practical importance cannot, as yet, be estimated.

8. It has been noticeable during recent months that the authorities in Prague, in spite of the limitations imposed by their economic dependence on the USSR, have been able to defend with an unprecedented vigour their national interest, both vis-à-vis Soviet Russia herself, and vis-à-vis the other countries of COMECON. It seems to be taken for granted, for instance, that President Novotny attempted, during the Prague meetings last November with an important Soviet Delegation, to improve the rather leonine clauses fixed by the secret Russo-Czech Treaty of 1945 on the exploitation of the Czechoslovakian uranium mines. The concrete result of Novotny's attempts is unknown, but the very fact that such attempts could have been made on so delicate a question as the delivery of uranium to the USSR is already symptomatic. It was in just this same frame of mind that, in January 1965, the Czechoslovakian Government did not hesitate, during the meeting of the Executive Council of COMECON held in Prague, to align itself with some of the other satellite countries to oppose the Khrushchevian idea of making COMECON a more centralised organization and one more sensitive to Soviet interests. And this was in spite of the undeniable advantages which a highly industrialised country like Czechoslovakia could have obtained from the "socialist division of work".

II. ECONOMIC REVISIONISM

9. It may be relevant to recall in this brief history of Czech revisionism the importance of Khrushchev's visit to Czechoslovakia in August 1964, and the bitter criticism which was not spared the Prague leaders for their poor economic results. In his anti-conformist statements, Khrushchev showed the Czechs how to escape from the ideological standstill which had, until then, been almost totally observed in the economic life of the country, and whose application had led to the nearly catastrophic situation of which we are all aware, without arousing the disapproval of Moscow. This prospect seemed to the leaders of the régime to have the merit of necessitating only an adaptation of doctrine, without requiring the retirement - for reasons of demonstrable incapacity - of some of the chief Czechoslovakian leaders. Thus it was that the distinguished guest's criticisms were accepted with so good a grace, and the existence of a valid and urgent justification for a change of method was admitted.

10. The fall of Mr. Khrushchev could not but cause a certain amount of disquiet in Czechoslovakia over the orientation of the policy of the new leaders in the Kremlin, especially as regards relations with the satellite countries. In view of these doubts, it seemed better to confront the Soviets with at least a doctrinal fait accompli; this was tried successfully by the younger sections of the Czechoslovakian Communist Party, who managed in October 1964 to obtain the agreement of the Central Committee to the development of a doctrinal reform movement.

11. While adopting as the guiding light of the reform the abolition (or near-abolition) of planification in its most orthodox form, the revisionists were nevertheless, for obvious tactical reasons, trying to present their programme as an ideological intra-Marxist action, and not as a step in the direction of a market economy. In fact, they were aiming rather higher, and were demanding:

- the introduction of the notion of profit (and consequently, of interest) as the only valid indication of the productivity of an enterprise;
- the free formation of prices, at least as far as consumer goods, whether perishable or not, were concerned;
- appointment of enterprise directors on technical and administrative, as opposed to solely political criteria;
- the widening of salary scales, which had been for long so restricted that the director of an enterprise and a skilled worker received more or less the same wage; etc..

12. It is easy to see how far behind them the revisionists had left all ideological restrictions: they rejected, amongst other things, the dogma of the inseparable character of politics and economics, which always obliged the latter to give way to political considerations, and they also abandoned their principle that the only valid factor of production is work. On the contrary, they openly maintained the importance of capital, of natural resources, and of the ability of individual managers as well as the value of profit, of interest and of the laws of supply and demand as a guide to economic calculation. In their initial programme, the Czech revisionists were thus trying to lead the science of economics back to its original state of being an objective doctrine, provided with its own laws, governing the running of enterprises quite independently of any political consideration.

13. The scale of the upheaval which the application of these principles to the Czechoslovakian economy would have caused is obvious: for example, the Central Authorities would have been deprived of the possibility of deciding the order of priority in the allocation of resources and in the creation of goods and services, and of establishing their value. In political and social terms therefore, the moving force of production would have moved away from the orthodox Marxist sanctuary of the Planning Committee to slip down towards the bottom rung of political power, the anonymous mass of consumers. The implications of this move did certainly not escape the principal leaders of the Party at the time when the movement was announced publicly, but the apparent approval of the Soviets and the necessity of taking action to palliate the serious economic difficulties made the Central Committee think it advisable to approve at least some of these new principles (December 1964, January 1965).

14. However, this acceptance seemed to open the flood-gates to a rising tide of criticism of the economic structure of the country, a phenomenon which caused anxiety on the part of the oldest (and most influential) leaders of the Czech Communist Party, as did also the waves of anti-conformist thought which started to stir up intellectual circles and also to infect the unions. Their increasing anxiety was manifested from March 1965 onwards by the adoption of a rigid attitude in the higher echelons of the Party towards the new economic trends. President Novotny re-affirmed, on several occasions at that time, the inviolable character of the basic dogma of Communism, while the old Stalinist Hendrick took over the chairmanship of the Ideological Committee. The Ministry of the Interior was handed over to a police colonel, and one of the oldest members of the Party, Jiri Hajek, well-known for his orthodoxy, was appointed Minister of Culture. As a result of this cooling-off in the political climate, the newspapers slowly toned down the virulence of their criticism, and the Revisionists themselves - who had the "inopportune nature" of excessive praise of the efficiency of market economy principles spelled out to them - retreated to less extreme doctrinal positions.

15. A formal distinction was consequently made between a macro-economic sector - in which the State must impose laws as a result of national needs in the fields of political and social development - and a micro-economic sector (which was only very vaguely defined) where, on the other hand, the influence of certain traditional economic principles was allowed. Even the principle of imposed planning recovered some ground in official circles with the announcement that the Five-Year Plan, from 1966-70, would be drawn up chiefly with the aid of the models and the methods already employed for previous plans. Having thus taken the reins of power - momentarily relaxed - firmly back into its own hands, the Central Committee of the Party felt itself able to take one or two cautious steps forward in the way indicated by the Revisionists, although it took the precaution of couching the few accepted reforms in vague terms and of staggering their application over a period of time.

16. The "new system for running the national economy" was thus able to come into being in September 1965. The plan was to apply it in two phases: as from 1st January, 1966, a greater degree of autonomy was to be accorded to enterprises, and incentives given to agricultural and industrial workers; the second phase, for which the starting date and the duration have not yet been decided, would include the finding of a solution to problems of investment, of price formation and the expansion of enterprises. The dilatory attitude thus adopted by the leaders of the Czech Communist Party is more understandable in the light of two factors which determine the political and economic life of Czechoslovakia today:

- (a) the composition of the political class actually in power;
- (b) the state of economic dependence on the USSR.

17. As far as the point (a) is concerned, two different and opposing elements of thought can be distinguished inside the Party; one narrowly and traditionally Stalino-Marxist, the other open to innovation, although remaining faithful to its ideological origins. These elements correspond to two generations of Czechoslovakian Communism: the first - and the oldest - is composed of people who have been devoted to the Marxist ideal since their youth, and who have suffered in prison and in concentration camps in pursuit of this ideal. President Navotny, Hendrich, and nearly all the other high placed officials of the régime come into this category. What is more, they have always based their personal and political power on Russian protection, whatever the actual tendency of Russian policy. For obvious reasons, therefore, Navotny, Hendrich and the others could not defend an economic policy which was not based on the Russian example, or at least, until approved by the USSR. The second generation of Party members (whose political power is very much more limited) is in opposition to this group; younger in composition and composed chiefly of members who became Communists after the coup d'état, they stem above all from the working classes, and have real socialist beliefs, but as they themselves have never had to fight for the realisation of their ideals, they are more ready to adapt themselves to the circumstances of the moment, and to revise their premises if necessary. Sik, Selucky and other revisionists belong in this category, as do nearly all the young intellectuals.

18. As far as economic dependence on Russia is concerned (point (b) above), it is hardly necessary to recall that Czechoslovakia is a country whose economy is essentially based on industries of transformation, and that nearly all her raw materials (oil, gas, iron, cereals, etc.) stem from the Soviet market, which in turn absorbs 40% of Czech exports. The political implications of this situation are obvious, since Moscow thus disposes of an easy means of pressure to put a stop to any unwelcome tendency on the part of Prague, should this seem necessary or opportune. Czechoslovakia, in fact, cannot find her raw materials elsewhere, for the modest competitive capacity of her manufactured products renders an increase in the volume of her exports to the selective markets of the West, beyond the quantity already exported there with difficulty (about 18% of total exports), extremely problematic.

19. Several other points should be taken into consideration if the resistance to the reform on the part of the leaders of the régime is to be more readily understood. The economic system which prevailed in Czechoslovakia had succeeded in finding a balance of its own, bearing some resemblance to that achieved by any self-sufficient economy. For example, national income was relatively small, but fairly well distributed and sufficient to ensure a living for all the inhabitants of the country. Should the contributing factors to this balance change, however, through the introduction of "liberal ideas" and by the opening of the country's frontiers, the chain reaction which would follow and which would finally through the whole economic and social system into confusion is not hard to imagine. On the one hand, industry would soon diversify its production, in order to make it more

attractive in the eyes of consumers, and on the other hand, demand would immediately rise and wages - which now correspond to a very low standard of living - would be revealed to be totally inadequate. The system could probably find a new balance corresponding to a higher standard of living for the population, after a certain time, but only after experiencing all sorts of difficulties. In this respect, the Yugoslav experiment is instructive; it has certainly been studied in Prague, but it is doubtful whether it has encouraged the most conservative Party leaders to vanquish their fears of reform.

20. What then does the future hold? In the short run, a cautious and empiric experimental development following the pattern adopted for economic reform by the Soviets in the USSR. The extreme revisionism of October 1964 has little chance of seeing its basic ideas realised rapidly unless the USSR finds it to her advantage to conduct an experiment elsewhere than on her own territory, that is, in Czechoslovakia - an improbable hypothesis, but one which cannot be totally discounted. In any case, revisionism has had the great advantage of bringing a breath of invigorating novelty into a world where production systems were quite incredibly rigid. In spite of the opposition of many established interests, it should be remembered that common sense, as well as the impossibility of continuing indefinitely to refuse to apply the most elementary economic laws, are working in favour of reform. Also, the pressure brought to bear indirectly on the Eastern countries by technological developments in the West (where they are by far the most rapid) further helps to point an alternative to the socialist economies: either they must resign themselves to a slow loss of their competitive capacity, or they must adopt reforms. The gradual passing of power into younger hands should in future favour reforming trends.

21. In view of these considerations, in addition to the Western observer's usual dose of "wishful thinking", it may be thought that in the longer term (5 to 10 years), a system may develop in which, while the means of production would remain entirely in collective ownership, market economy laws would govern the price fixing of goods and the amassing and distribution of a wage fund in a very wide spectrum.

III. THE CZECHOSLOVAKIAN ECONOMIC PLAN FOR 1966 AND SOME BUDGETARY ITEMS FOR 1965

22. The outline of the plan for 1966 was only made public last January. Some official sources say that this new plan is only the first chapter of the Five-Year Plan for 1966-1970, which has not yet been approved, but other government statements have presented it as an independent interim programme to cover the period before a definite middle-term plan is drawn up.

23. The plan for 1966 forecasts the following growth rates in the principal of economic sectors: (1965 = 100)

- national income	3.8%
- industrial production	5.5%
- agricultural production	6.6%
- investments	7.9%
- energy	8.4%
- machine industries	7.0%
- steel industry	5.0%
- consumer goods	3.3%
- public transport	2.4%

In the agricultural sector, the production of cereals, beetroot and potatoes would be particularly encouraged.

24. The plan for 1966 should also be guided by the following aims:

- the maintenance of the present rate of economic growth;
- the achievement of a balance in the production of energy, of raw materials and of manufactured goods;
- the according of priority in the use of available exchange currencies to imports and food products necessary for the population and the equipment necessary for the industrial development of the country.

25. The Czechoslovakian press has so far given no further details about the structure and the objectives of the plan for 1966. However, the deputy Prime Minister, Cernik, putting this document to the National Assembly, stated that the year 1966 would see no great changes in the structure of the plan, which will therefore remain essentially similar to its predecessor. He nevertheless recognised that one of the reasons (shortage of labour) often cited to justify the extremely slow rise in national income is insufficiently well founded. In fact, available labour would, on the whole, be sufficient to meet the needs of the national economy, if it were better distributed and if unjustified absenteeism was less frequent. In this context, Mr. Cernik stated that the national average in an enterprise was a ratio of 37 "white collar workers" for 100 labourers (from a minimum of 23, to a maximum of 48), a ratio which rose to 50 to 100 in some sectors, and 62 to 100 in the building industry. In addition, the hours of work were fulfilled only from 70% to 85% in factories.

26. As regards investment, however, the Chairman of the Plan Commission has announced the introduction of a number of new measures. In fact, in 1966 the State will continue to finance fully all projects of recognised national interest, but other

investments will be made mainly by drawing on the financial reserves of the enterprises themselves. The latter will not be allowed to approach the State Bank with a view to obtaining credits unless they can prove that their own resources have been fully utilised.

27. Following these comments on the 1966 programme, the Deputy Prime Minister made a number of remarks and gave some figures in connection with the results achieved by the 1965 Plan. Mr. Cernik started by stressing that although there had been some progress towards the stabilisation of the economy, there had been no substantial improvements in productivity or in the profit-earning capacity of the productive sectors(1).

28. In 1965, national income increased by 2.5% over the level of 1964, but only in monetary terms; taking into account the continuous currency devaluation, it seems more accurate to say that there has been no real improvement in this sector in comparison with the results of the previous three years. One has to go as far back as the years before 1961 to find a gradual increase - in real value - of the Czechoslovakian national income.

29. As regards industrial production, the Deputy Prime Minister declared that the apparent increase over 1964 was of 7.5%. He did not conceal however, that the rise in costs and prices in 1965 had offset this growth in production to a large extent.

30. In the agricultural sector, production was 3.3% below the level reached in 1964; it was almost equal to the average for the last five years. Errors in the organization of work as well as bad weather have been blamed for this stagnation.

31. With respect to consumer goods it is claimed that the Plan target has been exceeded by 3.4%; however, the demands of the population for winter clothing, underwear, woollens and furniture have not been fully met.

(1) In this respect it seems useful to quote from President Novotny's speech on New Year's Day 1966:
"It must be admitted that our hopes have only been fulfilled in part. It is true that the Plan targets for industry have been exceeded, that national income has increased, that productivity is growing, and even that, up to a certain point, the quality and the quantity of goods available on the market are likewise growing; nevertheless we have not been able to achieve basic improvements in the nation's economy. At the present time we build and produce at much too high a cost".
(Rude Pravo, 3rd January, 1966)

32. In the field of distribution, Mr. Cernik declared that the rise in production had not been followed by an increase in the goods available on the market. In 1965, this development was due to the high percentage of rejects, the value of which for the first 9 months of that year amounted to 1 billion crowns (86 billion lire).

33. The Deputy Prime Minister indicated that as investments had not been properly used, they did not yield the results which had been expected. For instance, in the mechanical engineering and technical research sectors, about 40% of the amounts invested had turned out to be completely non-productive, whereas a large number of projects in the most diverse sectors of the national economy had apparently been started without ever being finished. Another drawback: Czechoslovakian machines - in spite of the vast amounts spent on technical improvements - are in general much bulkier than those manufactured in the West; so that for an equal yield, there is nevertheless a substantial increase in production costs.

34. Savings are reported to have shown a marked increase, partly as a result of the growing confidence of the population in the value of the currency, but also because of the scarcity of available goods.

35. The difficulties which confront the Western observer as he attempts to assess the real significance of these percentages are too well known to necessitate enlarging on them once more in this study. A new proof of the inconsistency of the official statistical data is to be found, for instance, in the Statistical Yearbook for 1964 - published two months ago - which shows investments amounting to 177 million crowns and indicates a growth over 1963 of 4% in industrial production, of 2.5% in agricultural production, of 8% in the building industry, of 1.7% in productivity, of 2.6% in consumption, while national income only rose by 1,535 million crowns. The inevitable conclusion would seem to be that the methods of calculation used by the compilers of this Yearbook should be considered, to say the least, as rather curious(1).

36. Bearing in mind the foregoing facts, it seems in order to state that Deputy Prime Minister Cernik's remarks and the data given by him correspond to the impression formed by foreign observers, which is that the Czechoslovakian economy has not yet quite recovered from the 1963 recession. It is, however, correct to say that there are some indications of a return to more normal conditions in one or two sectors of the economy, where, if it is not yet possible to see a marked improvement in the quality of goods for sale, deliveries take place more regularly than in the past. This is particularly true for supplies of foodstuff: it has been the first winter since 1950

(1) The more so because "Rude Pravo" gave the following breakdown of national income for 1964: industry 64%, agriculture 12%, building 8%. foreign trade 7.6% and transport 2.7%.

when some types of fruit have always been on sale in Prague, although at a very high price. Naturally this modest improvement in the market condition is still relative. It results from a comparison of 1965 with previous years and does not imply in the least that production and living standards are drawing any nearer to the conditions prevailing in Western industrialised countries. Indeed, Czechoslovakia, suffering from slack periods which slow down productivity and a defective organization of the market, is still very far from achieving such standards.

IV. BUDGETARY FORECASTS FOR 1965 AND 1966

37. In January, the Finance Minister, Dvorak, submitted for the approval of the Czechoslovakian National Assembly the main chapters of the 1966 budget, shown hereafter, as well as the corresponding figures in the 1965 budget:

	<u>In million crowns</u>		<u>in %</u>	
	<u>1965</u>	<u>1966</u>	<u>1965</u>	<u>1966</u>
<u>RECEIPTS</u>	116,203	152,904		
of which:				
Socialist economy	97,574	132,709	84	86.8
Income tax and other taxes	14,391	15,259	12.4	10.0
Sundry items	4,238	4,936	3.6	3.2
<u>EXPENDITURES</u>	116,138	152,904		
of which:				
Socialist economy	54,810	88,858	47.2	58.1
Social, cultural and other services	48,310	50,358	41.6	32.9
National Defence	10,220	10,831	8.8	7.1
Administrative and Legal Services	2,780	2,857	2.4	1.9

38. The above figures call for some comments:

(a) Both the receipts and the expenditures earmarked for 1966 show a sharp increase over 1965 (+ 31%). In his speech to the National Assembly, Mr. Dvorak has not cast any light on this substantial increase, which looks the more puzzling as the Czechoslovakian economy is far from being in a phase of expansion and as there has been no indication of a decrease in the purchasing power of the local currency. This is why it does not seem possible, for instance, that receipts from the "socialist sector" could grow from 97 billion crowns in 1965 to over 132 billion in 1966.

(b) The tendency to explain the composition of the national budget in increasingly concise and sibylline language is becoming more marked every year. Indeed, in 1963, the budget was laid out in detail, practically following in this respect the methods in use in the West; in 1964, from an accounting viewpoint, the layout was less detailed, but figures corresponding to many budgetary chapters were provided. In 1965 only aggregate figures for receipts and expenditures (and of the main chapters for the latter) were given, to which, however, certain details were added. Lastly, for 1966, Mr. Dvorak has only furnished the data referred to above.

(c) The changes in the chapters of the budget published for 1965-66, are mainly concerned with receipts and expenditures in the "socialist sector" of the economy, the other chapters being substantially unchanged.

(d) The statements of the Minister of Finance confirm once more the Czechoslovak Authorities' policy of making known to the public only the budget estimates, while keeping silent on their implementation.

V. FOREIGN TRADE

39. Czechoslovakia is, among socialist nations, the one where the per capita share in external trade is the highest(1). The economic characteristics of the country are obviously reflected in its trade; Czechoslovakia, as we know, has a fairly large manufacturing industry, its agriculture is unable to meet the national demand and its raw material resources are insufficient for its needs.

40. On the basis of a number of tables, given at annex, on the development of trade between 1948 and 1964 (data for 1965 will become available in Prague this Autumn only), the following paragraphs give a detailed analysis of the structure of Czechoslovakia's external trade, of the geographical distribution of both imports and exports, and of the type of products exchanged. An examination of these data leads us to make a number of remarks, the first of which - regarding countries of origin and destination of the goods - is that, at the present time, the external trade of Czechoslovakia is conducted chiefly (or to within 75%) with the socialist countries, in particular with the USSR. On the other hand, exchanges with Western industrialised countries (including Japan), which in 1948 still represented almost half of the total external trade (47% of imports

(1) According to official data for 1964, the share of each Czechoslovak citizen amounts to 2,394 crowns, against 1,793 for the Hungarians, 880 for the Poles and 160 for the Soviets. In France this figure would be 2,530 and in Italy 1,800 crowns.

and 44.1% of exports), have declined steeply since that year; in 1964 their share in total imports and total exports was respectively 19.3% and 16.5%. Even trade with the developing countries, has - percentage wise - dropped substantially between 1948 and 1964, in spite of the political twist given after the 1948 coup to Czechoslovakia's trade relations with the uncommitted nations. As a matter of fact, whereas in 1948 Czechoslovakia sold to these countries 16.3% of its total exports and bought from them 13% of its imports, in 1964 these percentages had fallen to 9.7% and 8.1% respectively.

41. As regards the balance of trade with these various groups of countries, it may be noted that Czechoslovakia is traditionally a creditor of the East. For instance in 1964, the balance of trade showed a surplus with the socialist countries as a whole, amounting to 997 million crowns; this surplus, of course, could not be used - for lack of convertibility - in the other monetary zones. The same remark is also valid as regards exchanges with the developing countries with whom, in 1964, Czechoslovakia had a positive balance of trade amounting to 375 million crowns. During the same year, trade with the Common Market showed a surplus of 267 million crowns, whereas that with EFTA ended with a deficit of 177 million crowns. To these figures should be added 429 million crowns, the deficit of the trade balance with the large overseas countries (substantial purchases of wheat in Canada). As stated above, data for 1965 has not yet come to hand. However, on the basis of the available fragmentary information, it may be supposed that the situation remained unchanged during that year.

42. As regards future trends, a change in the foreign trade system of Czechoslovakia is unlikely, at least for some years. In the present conditions of production, Czechoslovakia would be unable, without difficulty, to increase substantially her purchases in the West, as she is in no position to offer (over and above a certain level which has nearly been attained) in exchange products of interest to the West. In other words, a large growth of Czechoslovak imports for the so-called capitalist countries would be checked, not by considerations of a political nature, but by the almost chronic shortage of hard currencies. This point of view is certainly shared by the Czech Authorities. As a matter of fact, one of the permanent under-Secretaries in the Ministry of External Trade, declared recently, in private, that it was possible that, in the years immediately following 1970, Czechoslovakia would carry on 65% of its total trade with the socialist countries (as against 73% now) and 35% with the rest of the world (27% now).

43. It follows that the changes envisaged in the direction of trade flows are fairly modest, and, in any case, will not take place immediately. These changes come up against the continuous expansion of trade agreements entered into with the other Eastern countries; in particular, the recent five-year agreement with the USSR provides for an increase in commercial exchanges, between 1966 and 1970, of 150% over the amounts achieved from 1961 to 1965. If, as a general

rule the anticipated growth of trade with the West is small, there is one probable exception: the purchase from the West of complete industrial plants payable in instalments. In view of the need, openly acknowledged by the Czech Authorities themselves, to modernise production methods as soon as possible, it is likely that Czechoslovakia - in order to be able to import the industrial equipment she requires - would resign herself to draw on her own currency reserves (which are apparently modest) if these purchases could not be offset by the sale of local products.

44. As regards, on the other hand, the type of goods entering into Czechoslovakia's foreign trade, the tables at annex show that the item which has grown most from 1948 to 1964 - imports as well as exports - is that of industrial equipment. During the same period the growth of trade in other categories of goods has been much less important. Czechoslovakia exports in particular:

- over 40% of her machine-tool production;
- almost half her production of tractors and lorries;
- about 60% of her motor-car production and about 2/3rd of her motorcycle and scooter production;
- more than 1/4 of her rubber tyre production;
- about 3/4 of her glass production;
- 44% of her leather and 42% of her rubber shoe production.

45. As regards trade between Czechoslovakia and the developing countries, it should be remembered that Czechoslovakia's commitments to assist Cuba and certain countries of the Third World, among them India and the UAR, impose on her economy a much heavier burden than on that of any other Eastern European country. This fact is borne out by the statistical tables concerning the COMECON which appear in report ME/10/64 of the Economic Commission for Europe:

Share in exports to the Third World - 1961

Bulgaria	2.3
Czechoslovakia	18.6
Soviet-occupied Zone	8.6
Hungary	5.0
Poland	8.1
Rumania	3.6
USSR	53.8
	<u>100.0</u>

The same Economic Commission has also given the following summary table of the credits granted to the Third World by the Eastern countries, from which it is apparent that Czechoslovakia bears a burden which is out of proportion to her economic potentialities:

In million dollars - 1955-1963

	<u>Amount</u>	<u>Percentage</u>
USSR	3,458	70.7
Czechoslovakia	797	16.2
Poland	303	6.1
Hungary	150	3.0
Rumania	126	2.5
Bulgaria	22.5	0.4
Soviet-occupied Zone	55	1.1
	<u>4,911.5</u>	<u>100.0</u>

46. In addition, Czechoslovakian exports to the developing countries and to Cuba are normally made on the following terms:

- (a) grant of long-term credits bearing an interest of about 2.5%;
- (b) determination of fixed prices on an annual basis, in particular in respect of raw materials (i.e. not submitted to seasonal fluctuations or to changes resulting from movements of world prices);
- (c) frequent acceptance by Czechoslovakia, in exchange for her products, of batches of goods or raw materials which cannot be easily processed or sold in the country;

The commodity breakdown of Czechoslovak exports to these countries in 1964 was the following: industrial equipment 50%, durable consumer goods 25%, chemicals, foodstuffs etc... 30%.

47. Although technical assistance to the developing countries does not exactly fit into this chapter, it should be noted that Czechoslovakia receives every year hundreds of young students from the Third World who have been granted scholarships by the Czechoslovak Government. As regards the sending of experts, the Secretary of COMECON declared in 1963 that out of the 7,000 specialists seconded to developing countries by Eastern countries, 633 (9% of the total) were Czechoslovaks. Deputy Prime Minister Simunek also indicated that at the end of 1964 this figure had increased to 700, excluding the experts sent to erect plants supplied by Czechoslovakian industry. In any case, the effort in favour of technical assistance seems to be much greater - in relative terms - than that accomplished by the Western industrialised countries (this has already been stressed in the case of the Eastern countries): indeed, this effort far exceeds the normal possibilities of the Czechoslovakian economy. Prague feels strongly about this problem, and we know that the Czech Authorities have often raised it, not only in the framework of the COMECON meetings, but also bilaterally with the USSR - with a view to lightening the onerous commitments already entered into vis-à-vis the developing countries. This course of action, however, has not yielded any visible results.

TABLE I
EVOLUTION OF CZECHOSLOVAKIA'S FOREIGN TRADE
FROM 1948 TO 1964

(in million crowns)

	1948	1953	1958	1960	1961	1963	1964
Total	10,328	13,483	20,667	26,964	29,303	33,277	36,033
Imports	4,906	6,330	9,772	13,072	14,570	15,554	17,488
Exports	5,422	7,153	10,895	13,892	14,733	17,723	18,545
Balance	+ 516	+ 823	+1,123	+ 820	+ 163	+2,169	+1,057
Socialist countries							
Total	4,098	10,579	14,574	19,357	20,432	24,819	26,384
Imports	1,949	4,992	6,893	9,316	10,045	11,437	12,693
Exports	2,149	5,587	7,681	10,041	10,387	13,382	13,691
Balance	+ 200	+ 595	+ 788	+ 725	+ 342	+1,945	+ 998
Other countries							
Total	6,230	2,904	6,093	7,607	8,871	8,458	9,649
Imports	2,957	1,338	2,879	3,756	4,525	4,117	4,795
Exports	3,273	1,566	3,214	3,851	4,346	4,341	4,854
Balance	+ 316	+ 228	+ 335	+ 95	- 179	+ 224	+ 59

TABLE II
EVOLUTION OF CZECHOSLOVAKIA'S
FOREIGN TRADEFROM 1948 TO 19641948 = 100

	1948	1953	1958	1960	1962	1963	1964
Total turnover	100	130	200	261	297	322	349
Imports	100	129	199	266	304	317	357
Exports	100	132	201	256	291	327	342
Socialist countries' turnover	100	258	356	472	556	605	643
Imports	100	256	354	478	566	587	651
Exports	100	260	357	467	546	623	637
Other countries' turnover	100	47	98	122	127	136	154
Imports	100	45	97	127	131	138	162
Exports	100	48	98	118	124	133	148

TABLE III
PERCENTAGE DISTRIBUTION OF CZECHOSLOVAK IMPORTS BY
GROUPS OF COUNTRIES

	1948	1953	1958	1960	1962	1963	1964
TOTAL	100	100	100	100	100	100	100
Socialist countries	39.7	78.9	70.5	71.3	74.0	73.5	72.6
Other countries	60.3	21.1	29.5	28.7	26.0	26.5	27.4
of which:							
Industrialised countries	47.3	14.9	19.5	18.9	17.6	17.2	19.3
of which:							
European countries	39.9	13.5	18.2	16.5	15.9	14.9	15.1
Developing countries	13.0	6.2	10.0	9.8	8.4	9.3	8.1
of which:							
Asiatic countries	5.5	3.3	4.5	5.3	3.6	4.6	3.9
African countries	3.7	1.6	3.0	2.5	2.8	3.0	3.0
American countries	3.8	1.3	2.5	2.0	2.0	1.7	1.2

TABLE IV
PERCENTAGE DISTRIBUTION OF CZECHOSLOVAK EXPORTS
BY GROUPS OF COUNTRIES

	1948	1953	1958	1960	1962	1963	1964
TOTAL	100	100	100	100	100	100	100
Socialist countries	39.6	78.1	70.5	72.3	74.3	75.5	73.8
Other countries	60.4	21.9	29.5	27.7	25.7	24.5	26.2
of which:							
Industrialised countries	44.1	14.9	17.0	16.6	15.3	15.3	16.5
of which:							
European countries	38.0	13.8	15.4	14.9	13.8	13.7	14.9
Developing countries	16.3	7.0	12.5	11.1	10.4	9.2	9.7
of which:							
Asiatic countries	9.3	3.3	5.9	5.2	5.5	4.7	5.3
African countries	3.2	2.0	4.2	3.0	3.0	3.1	2.9
American countries	3.8	1.7	2.4	2.9	1.9	1.4	1.5

TABLE V
EVOLUTION OF CZECHOSLOVAK IMPORTS BY CATEGORY OF
PRODUCTS

(in million Kcs)

	1948	1953	1958	1960	1962	1963	1964
Total imports	4,906	6,330	9,772	13,072	14,904	15,554	17,488
of which:							
1) Industrial equipment	335	889	1,825	2,831	3,903	3,978	4,918
2) Raw materials, chemicals and building materials	2,770	3,433	5,326	6,906	7,589	7,759	8,475
3) Breeding cattle	9	4	3	9	3	2	17
4) Foodstuff	1,639	1,908	2,281	2,885	2,763	3,226	3,415
5) Consumer goods	133	96	337	441	646	589	663

TABLE VI

EVOLUTION OF CZECHOSLOVAK EXPORTS BY CATEGORY OF PRODUCTS

(in million Kcs)

	1948	1953	1958	1960	1962	1963	1964
Total exports	5,422	7,153	10,895	13,892	15,793	17,723	18,545
of which:							
1) Industrial equipment	1,099	3,031	4,725	6,266	7,517	8,474	8,716
2) Raw materials, chemicals, building materials	2,361	2,637	3,391	4,115	4,457	4,829	5,631
3) Breeding cattle	1	1	6	11	19	16	31
4) Foodstuff	298	613	769	723	753	1,161	967
5) Consumer goods	1,663	871	2,044	2,777	3,047	3,243	3,200