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# Economic Development During the Last Year

by Jan Pleva, Prague

Czechoslovakia's system of economic control is at present passing through a period of transition. The new economic pattern is characterised by stronger economic incentives, new forms of planning and a relatively greater independence on the part of individual enterprises. Some of the new elements were introduced—gradually—on January 1, 1967: prices were newly regulated, the taxation system was changed, the directive nature of the Plan was considerably modified, and individual enterprises were given a high degree of autonomy in making decisions. It must be added, however, that these measures were not always carried out, nor was their effect always what had been expected.

Two questions follow from this: Can such piecemeal measures be successful at all? What are the elements hampering Czechoslovakia's economy?

## Growth Rate of the National Income<sup>1</sup>

In 1968, the National Income increased by 6.8 p.c. (16,000 mn crowns). The growth rate was thus roughly the same as in 1967 (6.9 p.c.), exceeding even the average growth rate in the Common Market countries, which during the period from 1965 to 1967 amounted to roughly 5.5 p.c. This result is mostly due to greater productivity and an increase in the labour force.

The output of producer goods had already risen in previous years, but 1968 was the first year in which the manufacture of consumer goods also showed a marked increase. This led to a 9 p.c. rise in personal consumption, compared with 1967. The increase was admittedly very unevenly distributed over the various branches of the consumer goods industries: Turnover in the machine,

<sup>1</sup> The method of calculating National Income in Eastern countries differs from that applied in the West. In the Eastern Bloc, National Income is understood to mean the sum total of newly created wealth within a given period. Because of these differences of method quantitative comparisons between Eastern and Western countries are pointless, but not comparisons of growth rates.

textile and shoe industries rose rapidly, and the quality of food products improved, but there was hardly any progress in the fields of housing and services.

The question arising from this brief survey is what factors were responsible for this rather favourable development — a development which was all the more satisfactory considering last year's political events.

In 1967, the possible growth in domestic product was reduced by an export surplus, from 16,000 to 12,000 mn crowns. In 1968, the situation was exactly the reverse, the increase amounting to 20,000 mn crowns. These additional 8,000 mn made possible not only the above-mentioned high growth rates in personal consumption but also the increase in investment expenditure.

Moreover, agriculture has also proved to be a positive factor. In comparison with the 1961/65 average, agricultural output in 1968 increased by 10,500 mn crowns or 20 p.c. This fact had a stabilising effect, not only on the food and consumer goods industries, but above all on the export trade because there was no longer any need for large food imports as had been the case in previous years. Food sales rose by 7 p.c. These better achievements on the part of agriculture

## Creation and Use of the Increased Gross National Income

(In 100 mn crowns at fixed prices of January 1, 1967)

	1967	1968 (provisional)
I. Total Household Consumption	12	20
1) Increase in non-productive consumption	10	14
2) Gross Increase in investments for productive purposes	1	5
3) Change in Growth of Stocks	3	1
II. Change in Net Exports	4	-4
III. Total Increase (I+II)	16	16

Source: Rudé Právo of 11. 4. 1969.

were largely due to a lessening of administrative control in this sector.

The increase in the Gross Income of the population was exceptionally large in 1968: 11.9 p.c. This was relatively and absolutely the highest growth rate ever achieved. It was primarily the result of higher pensions (old-age and others) and of wage adjustments in hitherto badly paid sectors such as public health, schools, commerce, consumer goods and food industries. The overall wage increases in industry amounted, however, to no more than 6.4 p.c. On the one hand, differences in industrial wage levels have been ironed out, on the other, differences within individual sectors have become more pronounced. At the same time, there was less inclination to save, particularly during the last quarter of 1968. Besides, inflationist tendencies became noticeable—a trend which, without a doubt, must be attributed to the rise in incomes.

### Consumer Goods in Strong Demand

The strong demand for consumer goods has led to a rise of 13.9 p.c. in retail sales. The response of the manufacturers to this increased demand has been relatively satisfactory. The greatest difficulties in adjusting themselves were experienced by the textile industry and the manufacturers of durable consumer goods—quite apart from motorcars and building materials which continue to present the greatest problems. In many cases, the range of goods on offer and their quality are also still inadequate. There is insufficient differentiation of prices according to fashion and demand, and there is a shortage of smaller enterprises providing services and specialising in exclusive goods. And the competition of imported goods is still very weak. At any rate, the supply of goods to the home market has risen by 13 p.c., 6/7 of this increase coming from internal sources and only 1/7 from imports. It is possible to say that, in spite of all its shortcomings which still persist, the Czechoslovak economy has shown an unexpected elasticity.

### Growth Rate of Investment

Investments have grown at a faster rate (9.9 p.c.) than the National Income (6.6 p.c.). This means that the rate of investment rose from 27.8 p.c. in 1967 to 28.6 p.c. in 1968. In the present market situation, the additional purchasing power created by these increased investments may trigger off inflationary tendencies, particularly as there has been no increase in the goods and services offered to counterbalance the higher incomes. Moreover, the existing system of financing investments seriously impedes any attempt to change the structure of Czechoslovakia's production.

Czechoslovakia's foreign trade deserves special attention, for the efficiency of a nation's economy

can be measured by its relation to the world economy. If one takes the year 1964 as a basis for comparison (1964 = 100), the National Income rose at a faster rate than imports. A look at the shifts that have taken place within the import sector is also instructive. Whereas during the 1956-60 period the share of raw materials in total imports was on average 53.9 p.c., this share dropped in 1968 to 46.5 p.c. By comparison, the share of machine imports rose from 19.5 p.c. in 1956-60 to 31.0 p.c. in 1968.

But the growth rate of exports also increased between 1967 and 1968—by 5.3 p.c. During that time, Czechoslovak machine exports to developing countries were especially large, increasing by no less than 17.1 p.c. Machine exports to industrial countries, on the other hand, rose by only 2.1 p.c.

### The New System Needs Further Improvements

In the course of the economic reform which has been worked out in the CSSR during the past few years, a so-called „system of economic instruments“ has been introduced. This system was to bring about an adjustment of export prices to world market levels. Too little time has admittedly passed since these reforms were introduced to permit any definite judgement as to their effectiveness. But the experiences made so far seem to justify the view that further changes to the new system are urgently needed.

In the production sector, badly needed structural changes are held up by the traditional financing practices. Any enterprise wishing to invest must first of all transfer considerable sums to the State before it can obtain by way of subsidies, allocations and the like the funds it requires for investment purposes. It is with a view to improving the new system of price-, financial and credit policies that the following proposals have been put forward:

- Individual enterprises should henceforth be allowed more freedom to make decisions for themselves; at the same time, they should be given a greater share of responsibility.
- The present system of levies and subsidies by the State should be simplified. In this connexion, a tax reform is advocated.

In spite of the political events and the changes that have occurred in the field of economic policy, Czechoslovakia's economy has made progress. But the authorities have so far failed to even up the existing economic imbalances. Their future task must therefore be to initiate further reforms with a view to increasing the efficiency of the economy. For, if the chosen course of reform were to be abandoned, the still existing structural imbalances would only become more pronounced, and that would be to no one's advantage.