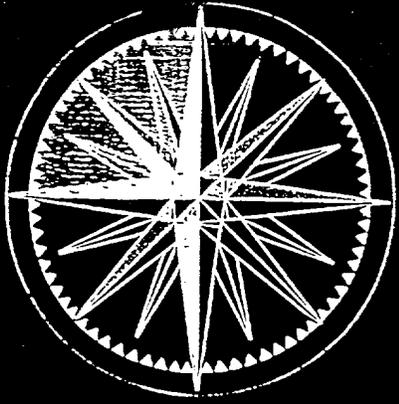


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SPECIAL REPORT

CZECHOSLOVAKIA BEGINS IMPLEMENTATION OF NEW ECONOMIC PROGRAM

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CZECHOSLOVAKIA BEGINS IMPLEMENTATION OF NEW ECONOMIC PROGRAM

Czechoslovakia's new economic program was first outlined two years ago to deal with grave economic shortcomings. It has become clear, however, that after a year of experimentation, the party has decided to retain important aspects of central control, which could jeopardize some of the more liberal facets of the reforms. Although the party has announced that many of the reforms were effective as of January 1966, as scheduled, both the recently published party theses and the plan for 1966 indicate that the actual nature and extent of the reform program will depend to some degree on economic developments during 1966, and to what extent earlier economic shortcomings are corrected. Some aspects of the program as outlined in the party theses are to be discussed at nationwide meetings in preparation for the party congress in May, particularly new roles for local organs of the government and party. It is already apparent that certain changes such as the strengthening of the "national" committees which support mainly local services and a revision of the party's functions on a local level will cause much debate and probably will create dissension.

The General Program

Faced with inefficient industry and agriculture which have caused economic stagnation since 1962, the Novotny regime at the end of 1963 outlined a new economic program designed to bring about fundamental improvements in the economy, partly by revamping the system of administration and management. The program was designed to establish more sensible criteria for economic decisions, and, in particular, to increase economic decision-making at lower levels, but without posing a threat to political leadership.

On paper the economic reform appears to be the most

liberal proposed for any bloc country, but in practice the changes to be made are no more liberal than those adopted in other East European countries. In central planning, the program calls for emphasis to be further shifted from inflexible, short-term quantitative goals to establishment of broad, long-term guidelines. A more realistic price system and a decentralization of management are to be introduced. Individual enterprises are to be allowed to determine many of their own short-range production plans, set some prices, and have more control over disposition of their earnings. Increased material incentives are stressed as the major road to higher

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living standards. However, contributions to economic growth by both individual workers and enterprises would be the basis for determining the extent of these incentives.

The Prague regime is now taking the first cautious steps to put the reform into effect throughout the country. Although extensive experiments were conducted in 1964-65 in selected enterprises in applying some of the principles of the new system, the regime has made clear that complete introduction of the new economic system will not be achieved soon, and will in fact be dependent upon the carrying out of a price reform in early 1968. The leadership has no intention of establishing a completely free market economy, and the retention of many essential elements of a command economy in itself will limit the extent of changes that can be made.

A number of central controls will continue to exist in the economy. The regime will continue to rely largely on administered prices; only a small portion (about 11 percent) of the prices are to be freely set and these only for luxury consumer goods. Labor allocations and important investments will continue to be made centrally, but the individual laborer's right to change jobs voluntarily will for the first time be legal. The industrial branch directorates are expected to exert substantial controls over their subsidiary enterprises, but the degree of control will not be uniform.

The party is devoting considerable attention to the application of scientific and technical knowledge and higher standards of efficiency in industry as a means of raising the quality and technical standards, and thus the salability, of Czechoslovak goods at home. Goods are to be improved so as to be competitive on the world market in order to bring in needed foreign currency and improve Czechoslovakia's foreign trade balance.

Scheduled Implementation in 1966

Last November the party central committee made certain organizational and personnel changes in the central organs of government to enable them better to carry out their new functions of long-range planning.

Three existing ministries of machine building and metallurgy were merged into a single Ministry of Heavy Industry. In December the staffs of existing and newly created state commissions were augmented by personnel from economic ministries and factories, as well as from the academic institutions that were prominent in the debate on economic reform. These changes had been preceded by an industrial reorganization during 1964 and 1965 in which industrial enterprises were consolidated under approximately 85 branch managements instead of the nearly 200 which existed before.

Implementation of the new program began on 1 January 1966 in all industrial, trade,

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and construction enterprises, the services and purchasing sectors, local industry, and in the motor vehicle transportation field. In such areas as agriculture and other transportation fields, where the reforms are not to be introduced until 1967, experiments will continue to be conducted over the next year.

Industrial branch managers are now to take greater responsibility for their enterprises, and profits are to be the principal measure of success or failure. To what extent the branch managers will be willing or able to exercise their new prerogatives remains to be seen. Enterprises will now be able to draw up their own production plans in which demand for their products will play a more important role, and fewer detailed plans will be imposed from above. Because many individual enterprises must pay wages from income, wages will therefore be more directly dependent upon good results. Wages in an enterprise will be subject to upper limits (a ceiling on the growth of wages) and lower limits (a guaranteed wage). A good manager with a staff of energetic workers should be able to pay wages well above the lower limits.

The goals established for the 1966 draft economic plan in general follow those set forth in the previously published economic program for 1966-70 and take into account the moderate achievements of 1965. Increases slated for national income (3.4 percent), industrial output (5.6

percent, and investment (7 percent) in 1966 are within the range of annual goals established in the 1966-70 plan. In industry the greatest increases in production are planned for power (8.8 percent), engineering (7.3 percent), and chemicals (7 percent). Attempts will be made to effect structural changes in the heavy engineering industry so as to improve the technical standards of Czechoslovak heavy engineering products.

The Role of Agriculture

Regime officials recognize that sound development of the entire economy cannot be accomplished without a more rapid growth in the rate of agricultural production. In order to compensate for poor results achieved in agriculture in 1965, especially in crop production, gross agricultural output in 1966 is slated to increase more than the annual growth rate required to meet the 1970 goal.

Although the agricultural sector is not scheduled to change over to a new system until 1967, a number of steps will be taken in the interim to promote improvement in agricultural production. Increased incentives and efforts to reduce production costs are to be adopted this year to stimulate the interest of farmers and managers, respectively, in production results. An improved management system for agriculture, including more authority for producing units, is to be introduced as another stimulant to improve performance, and steps are to be taken to

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ensure a constant level of manpower in agriculture. In 1966, moreover, the agricultural sector is slated to receive 21 percent more equipment than it did in 1965 and, along with this, certain specified measures are to be applied to overcome the perennial problem of maintenance of agricultural equipment.

Party Control

The recently published theses for the party congress to be held in May reaffirm the party's leading role over the economy, as did the official document on economic reform. The party is to be the major element guiding introduction of the program and "selling" it to the people. Regional and district committees and all basic party organizations are exhorted to put their authority behind the implementation of the new system. Under the system the local party units have been told that they are not to guide production directly or even to share responsibilities for decisions of economic managers. Their principal function is to provide managers with political support in applying economic policy. Many local party leaders object to this formula since it could lead to a serious reduction of their authority.

The "national" committees, which are governmental bodies functioning at local levels, are to have greater financial responsibilities at all levels --including regional, district,

and town. As in the past, they are mainly responsible for local services, including social welfare and cultural measures. The party theses point out that the national committees must achieve maximum self-sufficiency financially, but presumably the central party officials will watch this closely lest the national committees attempt to become too independent. Their role vis-a-vis the central organs, regional planning, and agricultural cooperatives is to be set forth in the coming months.

The party central committee has called a conference of chairmen of regional and district national committees and of national committees of major cities for the near future to delineate further the role of the national committees and how their greater responsibilities can be dovetailed with management of the economy. These changes have already led to debate and some dissension in the party and government which are likely to increase as the final formulations are prepared for the party congress.

The central committee has published the theses so that extensive discussions on them can take place at nationwide conferences to be held prior to another central committee plenary session to be held in May. At that time the draft 1966 economic plan will be re-examined, and an elaboration of Czechoslovak economic policy is to be made for approval by the party congress.

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Outlook

It is clear that the regime is committed to the reforms, but the new program constitutes such a departure from past practices that party leaders are still groping their way. Both the timing and provisions of the program therefore will be kept sufficiently flexible to avoid insofar as possible severe economic or political dislocations.

It is probably in light industry, especially in the consumer goods industry, that the reforms will have a chance to make the greatest headway for the short run. If the program as presently outlined does not succeed in overcoming Czechoslovakia's more serious economic problems in the long run, other new methods for their solution will have to be considered.

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