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THE CZECHOSLOVAK ECONOMY IN 1961: INDICATIONS
OF INCREASED STRAIN



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THE CZECHOSLOVAK ECONOMY IN 1961: INDICATIONS
OF INCREASED STRAIN

The Czechoslovak economy continued to expand rapidly in 1961, largely because of a 9-percent rise in industrial output. Underfulfillment of goals in key industrial areas and stagnation of agriculture, combined with lack of effective controls over capital investment, however, contributed to increased strain in the economy. Investment expenditures were maintained approximately at the planned level, but construction schedules for key industrial projects were not met, and the program for introducing technological improvement lagged seriously. The shortfall in national income was manifested primarily in a sharp decline in the foreign trade surplus--from US \$114 million in 1960 to US \$22 million in 1961--and possibly also in a smaller than planned increase in personal consumption.

Economic difficulties were intensified as the year progressed, and during the final 4 months a large import surplus was registered. Moreover, production difficulties have persisted into 1962, with industrial output reported to be below plan during the first quarter.

Production

National income in Czechoslovakia reportedly rose by 7 percent in 1961, somewhat below the average annual rate of 7.3 percent projected for the Third Five-Year Plan (1961-65). Gross industrial output increased by 8.9 percent, slightly less than planned for the year and well below the 12-percent increase claimed for 1960. (See the tabulation*) Production goals were virtually fulfilled or exceeded in electric power (which grew by 10.3 percent), brown coal, chemicals, light industry, and food processing. On the other hand, there were production lags in such key sectors as black coal (where output fell below the 1960 level), building materials, and, most importantly, steel. Output of steel, scheduled to rise by 10.2 percent, grew by only 4.1 percent. This sharp underfulfillment is attributable to serious lags in introducing technological advances, the plans for which were unrealistic to begin with, and production stoppages in the final 6 months of the year. The shortage of steel, although partly alleviated

* The tabulation follows on p. 5.

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by increased imports of rolled products, contributed to difficulties in machine building. Production of machinery as a whole increased by 12 percent, but output of heavy machinery fell behind plans, particularly in types for the chemical and construction industries.

The increased strain in industry in 1961 also was revealed by a lag in the growth of labor productivity, which rose by 5.1 percent compared with a planned rise of 6.5 percent. The number of blue collar workers, on the other hand, increased by 3.6 percent, 1 percent faster than expected. The major factor in below-plan results in labor productivity was the widespread delay in introducing scheduled technological innovations.

Gross agricultural production increased by 1 percent--a sharp contrast to the 7-percent increase planned for the year. Adverse weather conditions in some areas of the country reduced yields somewhat, but for the most part the shortfall in production was attributable to unrealistic planning and to chronic problems of inadequate incentives for peasants in a system that is 90 percent socialized. Farm investment was at a high level, but efforts to recruit young workers to replace overage farm workers were largely unsuccessful.

Investment and Consumption

Capital investment in Czechoslovakia increased by 8 percent (7 percent excluding capital repairs) in 1961, or essentially as planned. The distribution of investments, however, deviated from plans. Shortages of building materials and steel, lags in labor productivity, and some unscheduled reductions in the workweek caused delays in the construction of new plants or in the expansion of old plants, especially those engaged in production of chemicals, metals, and metallurgical equipment. Shortfalls in production of machinery also caused delays, but only in the centralized sphere, which is planned and controlled by the central planning authority and covers the construction of large new facilities and the radical reconstruction or expansion of existing ones. On the other hand, decentralized investment--that which is initiated by the ministries or enterprises--and private housing grew more rapidly than planned. Decentralized investment comprises more than 60 percent of the total state investment in Czechoslovakia, and an equally high proportion of decentralized investment is devoted to productive purposes.

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Personal consumption grew by more than 3 percent in 1961, possibly somewhat less than planned (an average annual growth of 5.9 percent is scheduled for 1961-65). Retail sales of food, according to official reports, expanded by almost 6 percent, but there were indications that queuing and spot food shortages were more widespread than in recent years. Nonfood sales grew by less than 2 percent. 1/

Foreign Trade

Difficulties in the Czechoslovak economy strongly affected developments in foreign trade, and Czechoslovakia's surplus on commodity trade in 1961 declined sharply relative to 1960, whereas a very large increase apparently had been planned. Exports grew by 6 percent and imports by 12 percent, resulting in a trade surplus of only US \$22 million compared with a surplus of US \$114 million in 1960. 2/ Production lags led to larger than expected imports of steel and other basic materials and agricultural products. At the same time, exports of machinery and equipment (generally about one-half of total exports) grew by only 6 percent, far below the plan for the year and the average annual growth of 16 percent attained during 1958-60. The disappointing results in exports of machinery were related to a sharp curtailment of trade with Communist China as well as to difficulties in production. Models produced for China probably could not be used domestically or sold elsewhere, at least in the short run. The small growth of domestic sales of nonfood goods probably reflects stepped up exports of industrial consumer goods in an attempt to compensate for shortfalls in exports of machinery.

Problems and Prospects

The increased strains manifested in 1961 and in the first quarter of 1962 are symptomatic of the basic problems of the Czechoslovak economy under the Five-Year Plan of 1961-65. In an effort to maintain rapid rates of growth under conditions of a limited reserve of manpower and a tendency for capital investment costs to rise per unit of increased production, great stress in planning has been placed on increasing labor productivity through technological and organizational innovations. It seems unlikely, however, that innovations can be introduced fast enough to fulfill production plans, because of ineffective state controls and inadequate incentives for workers and managers.

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Toward the end of 1961 the Novotny regime showed considerable concern over unfavorable economic developments. Nevertheless, plans for 1962 indicate that the regime will attempt to maintain rapid rates of growth. 3/ To promote the planned 9-percent increase in industrial output, tighter central controls over capital investment have been instituted. In February 1962 a State Commission for Advancement of Science and Technology was established with broad authority over problems of technological development. 4/ The new commission consolidates powers formerly dispersed among the industrial ministries, the Planning Commission, and several other governmental organs.

This organizational change may tend to speed up somewhat progress in technology. On the other hand, the manpower situation may be more stringent in 1962 than in 1961, when, because of lags in labor productivity, employment in some sectors of industry was raised to the levels originally established for 1965. 5/ The completion of carryover investment projects from 1961 probably will support a rapid expansion of output in the steel industry during 1962, but the official plan for a 12.4-percent rise in production may prove to be too ambitious.

The 1962 plan for agriculture calls for an increase in production of about 5 percent. The disappointing results of 1961 probably will force a delay in Novotny's program for introducing a fixed monetary wage system together with the abolition of private plots and payments-in-kind on collective farms. Currently the regime is promoting the introduction of partial social insurance benefits for members of collectives. 6/ Although this measure is a step in the direction of improving incentives, it is unlikely to reduce substantially the problem of peasant disinterest in production results.

Official reports for the first 3 months of 1962 indicate that the plan for industry, agriculture, construction, and transportation was still being unfulfilled. 7/ Should economic problems persist and the rate of economic growth fall below the level planned for the year, the regime may be forced, because of a shortage of foreign currency, to reduce its program for penetration of underdeveloped countries or its goals for the growth of personal consumption.

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