

**Economic history of
Czechoslovakia
(1918 - 1989)**

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A. The First Republic

B. Protectorate

C. after WW2

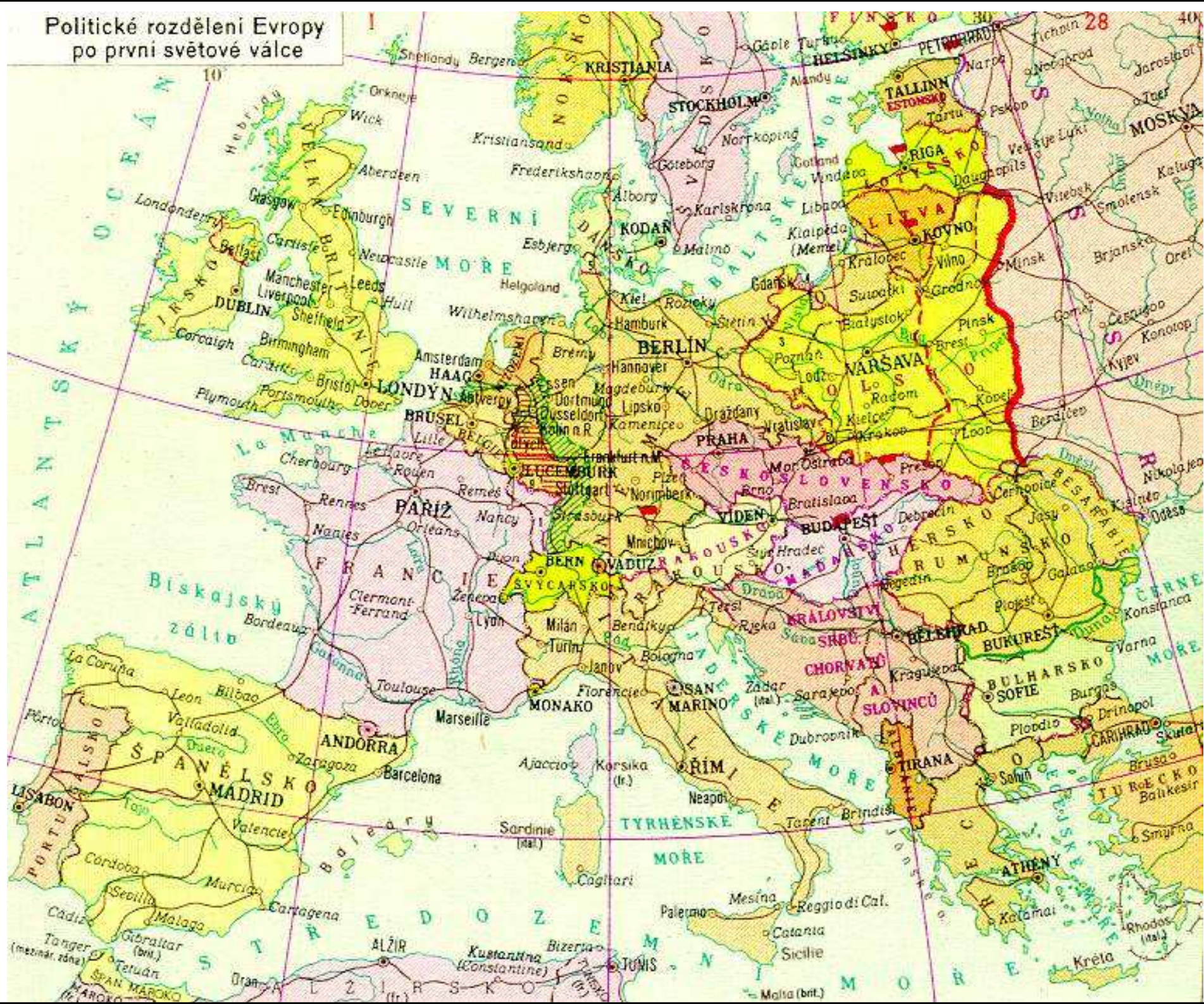
D. The Socialistic Republic (since 1960)

A. The First Republic

Creation:

- **28.10.1918 from Austro-Hungarian empire**
- T.G.Masaryk (became a president)
- Czech lands + Slovakia + Transcarpathia =
 - 21% of the land of A-H
 - 1/4 of citizens
 - 60% of industry
 - in “the Czech republic” since 1900 I > A
 - 27% of agriculture
 - BUT significant differences in the level of development among parts of Czechoslovakia
- very strong connection to France

Politické rozdělení Evropy po první světové válce



Problems after WW1

- to build a new infrastructure + bureaucracy - to replace Vienna
- existence of the war economy
- decline in production during WW1
- disconnection of economic ties
 - imports of raw materials
 - exports (especially of light industry)
- the danger of inflation (eg. Austria, Germany)
- the differences in different parts of the country
- explosive social atmosphere

Economic policy

- monetary reform 1919 - A. Rašín
 - deflationary policy \Rightarrow stable (\uparrow) currency
 - pros and cons
- 1919 - 21 decomposition of the war economy \Rightarrow renew market economy
- secure frontiers and create uniform customs area – 2/1919
- attune law

- nostrifikace – law to move the headquarter of firms from Austria to the ČSR
- social policy
 - the laws for improving situation of labour force
- land reform
- effort to narrow differences among different parts
= transfer of sources

Economic development

- **connection to world economy \Rightarrow cycles but with delay**
 - I. crisis - the peak in 1922 (later than elsewhere)
- since 1924 economic growth \Rightarrow CSR exceeded in region
- peak of economic activity in 1929

Economic development after 1929

- great depression later than in other countries
 - **long persistency - till 1936**
 - very deep
 - central bank kept for long time original exchange rate
 - high dependence on exports
- ⇒ CSR one of the most depressed countries

- government reacted
 - **↑ of state interventions**
 - even bans for opening new shops in some years
 - compulsory cartelization
 - support for export
 - devaluation of currency (2x)
 - **↑ of defense expenditures**
 - jeopardy from Germany
- 1936 - 37 economic growth
- but after 1937 again recession
 - in 1937 was not achieved the before depression level of neither production (one of few countries) nor foreign trade

Evaluation of the First republic

- **till great depression improvement and growth**
- great depression worse than in most of the other countries
- GDP per person CSR 14th in Europe
- developed industry (armament)
- **dependence on export**
- considerable flow of foreign investment
- **high level of education**
- **political stability**

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B. Protectorate - political dev.

- large German minority (1/3 of population)
 - “back to Reich”
- 30.9. 1938 **Munich agreement**
 - lost of 30% of land + 1/3 citizen and 450 000 refugees
- 15.3. 1939 **Protectorate “Čechy a Morava”**
 - Böhmen und Mähren
 - still formal Czech government
 - independent Slovak state
- Czech government in the UK
 - soldiers in the UK (RAF) and in the Soviet Union

- discrimination of Jews
- **assassination of R. Heydrich 1942**
 - Lidice razed to the ground
 - disband of Czech government
 - cementation German supremacy
 - growth of war production
- liberation by Soviet and American armies
 - May 1945

economic policy

- since spring 1939 war economy
 - take part in “Grossraumwirtschaft”
- economy centrally planned instead of market
- firms stayed mostly private but the ownership was restricted
- since 1939 fixed prices + direct conduction of wages (after end of 1942 fixed wages)
- 1939 general labour service
- since 1939 rationing
 - ⇒ black market
 - different consumers categories
 - during the war ↓ in quality and quantity
- direct managing in agriculture and foreign trade

economic results

- for whole period growing exploitation of the Czech economy
 - transfers of capital
 - germanization
 - arisation of Jewish property
 - confiscation of land
 - displaced persons in Germany
- ↑ of prices
- ↑ of employment (especially metal workers)
 - ↓ of labour productivity
- ↓ in agricultural production
- generally the war meant for Czechoslovakia high human and material losses

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C. CSR after WW2 - situation

- Government program from Košice IV/ 1945
 - National Front - restriction of number of political parties
 - economic measures too - nationalisation, ...
- president Beneš returned from the UK
 - state governed by president's (Benes) decrees
 - **displacement of Germans ...**
- political shift to the left ⇒ ↑ support of communist party ⇒ won election 1946

The first economic measures

A. confiscation of quislings' property

B. (large) nationalization

- the key industry - president's decree 10/1945
 - political consensus ^(H)
- economic reasons

C. land reform

D. monetary reform

E. two year plan (1947-8) - reconstruction of the economy

**The answer to the question:
“Did we do well to nationalize
industry?” (1947)**

	Y E S	N O	D o n ' t k n o w
a l l	6 5	1 5	2 0
b e t w e e n 1 8 - 2 9	7 6	1 0	1 4
3 0 - 4 9	6 7	1 5	1 8
m o r e t h a n 5 0	5 6	1 8	2 6
w o r k e r s	7 3	1 0	1 7
c l e r k s	7 2	1 4	1 4
p e a s a n t s	4 5	1 9	3 6
r e s t o f e m p l o y e e s	6 0	2 6	1 4

Political development

- both politics and economy under the Soviet influence
- Czechoslovakia = bridge ??
- **Marshall plan**
 - accepted ⇒ later on refused
- **1948 “February coup”** ⇒ very harsh regime
- **relaxing**
 - **after 1953** - † Stalin and Gottwald
 - after 1956 - disclosure of **personality cult**
 - but reluctantly

Economic measurements

A. completed nationalization

B. land reform ⇒ collectivization

creation of Unified farmers cooperatives

C. liquidation of small trade

D. reorientation of international trade

- retreat from demanding western markets
 - Council for Mutual Economic Assistance
- decline of competition at home
- long run dependence on raw materials from the SU

E. central governing of the economy + planning

- **1st five year plan (1949 - 53)**

F. heavy and armament industry

Changes in the sectors of economy 1948 - 60

	socialistic	small-scale production	capitalistic
till February 1948	50	25	25
after February 1948	61	25	14
1960	96	4	0

Territorial structure of trade between 1948 and 1953 (in %)

	1948	1953
socialistic countries	39,7	78,4
the rest	60,3	21,6

Results

- inflation pressures \Rightarrow monetary reform 1953
 - great depreciation of savings \Rightarrow (first) riots in Pilsen and elsewhere
 - but in the same time end of rationing
- 1950 - 55 strong economic growth
- similarly 2nd five year plan (1956 -1960)
 - strong but very extensive growth
- end of 50s - 1st attempt at reform
 - “Rozsypal reform”
 - less state and more market

Average growth rate of national income (in %)

Country	1951 - 1955	1961 - 1965	1971 - 75	1981 - 1985
Bulgaria	11,2	6,7	7,8	3,7
Czechoslovakia	8,1	1,9	5,5	1,7
Hungary	5,7	4,1	6,5	1,5
East Germany	13,1	3,4	5,4	4,4
Poland	8,6	6,2	9,8	-1,8
Rumania	14,2	9,1	11,4	4,4
Soviet Union	11,3	6,5	5,7	3,5
Sum	11,1	6,1	6,3	2,5

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D. the Czechoslovak Socialistic Republic

- 1960 new constitution ⇒ **CSSR**

3rd five year plan (1960 - 1965)

- unrealistic goals
- stagnation - disappointing economic results
- reaction
 - retreat of the reform from the end of 50s
 - five years plan ⇒ operative one year plans

Prague spring

- 2nd half of 60s = political melting ⇒ economic reform
 - 1965 - Ota Šik

4th five year plan (1966 - 1970)

- effort to increase activity of state enterprises
- changes in the economic tools used by the center
- increasing role of the market
- but August 1968 „friendly“ armies occupied country
- ⇒ return to the administrative methods of governing
- “Enlightening from the distressed development” - consolidation program

5th year plan (1970-75)

- till mid 70s successful period
- but was not achieved:
 - from extensive to intensive growth
 - nor the goals in technical development ⇒ **continuous lagging behind**
- **isolation from the world economy ⇒ impact of crises in the CSSR in 70s mild**
 - import of oil from the Soviet Union – prices = five year average ⇒ delay with changes X West

Commodity structure of import and export 1948 - 1980 (in %)

Commodity	1948	1960	1970	1980
		Im port		
Foodstuff	34,9	23	15,1	8,8
Raw materials	55,2	53,2	23,7	48,7
Goods	9,9	23,9	61,2	42,5
		E x p o r t		
Foodstuff	5,5	5,3	3,9	3
Raw materials	40,9	29,6	29,4	24,6
Goods	53,6	65,1	66,7	72,4

6th year plan (1976-80)

- **decline of economic performance**
 - declining pace of growth
- \Rightarrow next reform attempt (1980) - setback
- structure of GDP in 1980
 - Industry = 63% + Services = 30% + Agriculture = 7%

7th year plan (1981 - 1985)

- **stagnation** - average increase of GDP mere 1,7%
- long run worsening of terms of trade + lack of modern technology

*Average year growth of real
GNP and per a person (in %)*

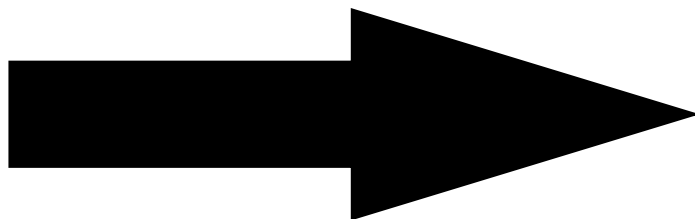
	1961 – 70	1971 – 80	1981 – 85
GNP	2,9	2,8	1,3
per a person	2,4	2,3	1

The changes

- in the 2nd half of 80s - relaxing of political situation in the SU
- ⇒ changes **unwillingly** in the CSSR
- 1986 - 87 - **program of reforms**
 - main part should have been realized after 1990
- **1989 ...**

Evaluation

- **political collapse also from economic reasons:**
 - declining pace of GDP
 - exhausting of extensive growth (ecology, ...)
 - directive governing of economy
 - **without private initiative and competition**
 - in the long run could not compete with market
 - **functionless price mechanism**
 - **orientation on industry (esp. heavy)**
 - weak connection to the world economy (orientation to the eastern markets) (H)



**lagging behind the
developed world**

Territorial structure of foreign trade

Country/ group of countries	1970	1980	1988
Centrally planned economies	53,5	53,3	64
C M E A	46,2	47	57,8
S U	23,3	25,8	32,3
developed	34,7	35,8	29,1
developing	11,8	10,9	6,9
S U M	100	100	100