

HISTORIOGRAPHICAL DISCOURSE ON THE FIRST CZECHOSLOVAK ECONOMIC REFORM

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Abstract

The work outlines the contents of the first Czechoslovak economic reform initiated at the end of the 50th of the last century (so called reform of Kurt Rozsypal) and then analyzes the historiographical discourse devoted to this problem. Authors came to the conclusion, that the interpretation of the first Czechoslovak economic reform is seen from two basic perspectives. The first one attributes a considerable degree of rationality to the reform and sees its failure in the area of unfavourable external factors (particularly the falling out with China) as well as internal factors (such as the bureaucracy of the state apparatus and the behaviour of enterprises). The second one depicts the reform as a logical manifestation of the problems of centrally planned economies where economic misbalance and irrationality are their inherent attributes. Most works admit that the first economic reform opened a scientific debate on the possibilities of applying market principles to the economy of a “socialist state”.

Key words: central planned economy, economic reform, economic thought

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Introduction

Installation of the Soviet model of strictly directive management, which was taking place on a phase-by-phase basis in the years 1949 through 1952 (the beginning and the end of this period are marked by announcement of what is referred to as the “general line of construction of socialism” and the adoption of the Soviet planning methodology, respectively), meant a dramatic change of the structure of Czechoslovak economy, which became a “blacksmith shop for the camp of socialism” producing the full range of industrial products with an emphasis on manufacture of production means and on arms production. However, in the mid-1950s, the main customers, the countries of the Council of Mutual Economic Assistance and the People’s Republic of China, which had started their industrialisation processes with Czechoslovak assistance, were starting to look for assemblies from western countries that were of a higher quality and were more technologically and technically advanced. The

Czechoslovak economy started to feel the economic misbalance, which resulted in a system crisis in Czechoslovakia, similarly like in other countries of the Soviet bloc during the first large economic shakeout.

Among the public, the criticism of the economic system was getting stronger; the political leaders had to start to defend their positions and were afraid of political turbulences caused by partial revelation of the methods of Stalinism after the 20th convention of the Communist Party of the Soviet Union and felt threatened by the Hungarian revolution that took place in autumn 1956. All this forced them to admit the need to make a correction to the economic system, which opened up the path to a “correction of the economic system”, especially since there was a similar situation in other countries of the Soviet bloc, for example, in Poland or in the Soviet Union itself. The Czechoslovak economists were looking for inspiration in these countries; particularly the concepts of Evsei Liberman, a Soviet economist, which were later used in the economic reform of the Soviet Union in the years 1964 and 1965, attracted attention. It is ostensible that we can find the tools of the economic plan defined by Liberman already in 1956 even in the Czechoslovak attempt at an economic reform in the late 1950s.

The ideological postulate of the fundamentally successful progress towards the building of the “foundations of socialism”, which could not have been contested in relation to the public, represented a complication. Therefore, the reform was based on a framework of organisational changes launched from above, which even could not have been described as a reform (the term “reform” was not legitimised in this context until the times of the Prague Spring). In the language of that period, the measures carried out in the years 1957 and 1958 were described as “betterment of the system of planned management of economy”.

1 Attempt to do the first reformative change

The decision made by the political bureau of the Central Committee of the Communist Party of Czechoslovakia (CPC) in December 1956, which set up a number of professional commissions to address the basic problems of the national economy, resulted in a fruitless bureaucratic effort to achieve a change. One special exception was the sub-commission for analysing the problems of planning, which consisted of pragmatically thinking economists and was headed by ing. Kurt Rozsypal, the vice-chairman of the State Planning Office. This economist, who had experience with corporate governance from Bata’s enterprises in Zlín, came up with a project for decentralising the planned management, involving introduction of

value-based indicators and use of the principle of financial incentives (for both employees and enterprises). A binding relation between the growth of productivity of work and the growth of average salaries was to be defined for enterprises – this was referred to as a “normative rule”. One of the key principles of the reform was the negotiation between the economic centre and the enterprises, which was supposed to rationalise the planned tasks and thereby eliminate any possible conflicts.

The spiritual father of the set of measures – described by the contemporary historiography as the first economic reform – wanted to shift the rationality of decision-making from the centre to the middle and lower links of the management apparatus. The two-tier management (the Ministry for the given industry and the enterprise) was replaced with three-tier management (the Ministry responsible for the given industry – the production economic unit as an industry-specific association of enterprises – the enterprise). At the same time, the first attempt was made to rehabilitate a number of standard economic concepts, including, first and foremost, the category of profit, previously condemned by the dogmatic and rigid political economics of the Stalinist era. The system of quantitative indicators of the performance of an industrial enterprise (both the required performance and the actual one) was reduced and interconnected with value indicators (the planned value of production agreed with customer organisations, profit). An enterprise newly acquired certain room for independent decision-making, which consisted in specifying the types of goods within the above-mentioned aggregate value of its production.

The change of management and methodology of planning was launched in April 1958. However, before it could have impacted the system as a whole in a significant manner, the political factor intervened once again in a highly negative way. In the political centre, the concern arose that the reform could ultimately result in the weakening or even loss of control over the economy. In the whirlwind of political euphoria over the successful completion of collectivisation of agriculture and formal accomplishment of the goals of the second five-year plan, the words of economists were losing their weight. The Central Committee of the CPC set new demanding goals in the third five-year plan, without taking into account the doubts of the authors of the reform about the realistic chances of achieving those goals. The reform was fragmented by a series of new measures, which resulted in an economic collapse, revocation of the third five-year plan in 1963 and subsequent search for new reformist paths.

The rigidity of the political system was reducing the manoeuvring space of the economists preparing the reform. The Rozsypal's project was only able to loosen the system of central planning in a moderate manner. It is symptomatic of those times that the creation of

that project was not accompanied by any broader public theoretical discourse. The publication of František Boreš (1957) shows effort to start discussion about “the principles for increasing the economic efficiency of management” and was more of a propaganda material – the response was negligible. Other works were of a similar nature, such as the publication of Vladimír Janza and Jiří Typolt (1958).

The low number of members in the team working on the project was also symptomatic. Some changes that were asserted were also included in the preparation of the third five-year plan. Only after the failure of that plan and after Kurt Rozsypal, the main reforming protagonist, had left the State Planning Commission, was the first chapter of Czechoslovak attempts to reform the centrally bureaucratically planned economy finally closed.

On the theoretical level, the attempt to change the management of economy raised the also became the basis of the work of a new generation of economists who tried to make a major change of the country’s economic management in a wider team of authors in the second half of the 1960s.

2 Historiographical discourse on the economic reform before 1989

The period historiography of the 1950s through 1980s in Czechoslovakia was unable to launch any major scientific discourse that would have opened the analytical perception of the problem and the benefit of the Rozsypal’s reform because of its tasks aimed at economically legitimising the political path to socialism. After all, the performance of the national economy, its failure and the production programmes of individual enterprises, were only published to a limited extent or were rather kept strategically concealed during the cold war. Planning documents were classified as state secret. This is also the reason why we have decided to focus our attention on the current discourse and to analyse the literature published before November 1989 only in rough outlines.

The characteristic examples of pre-November production are two works, which were of “fundamental” importance in their time and which basically shaped the interpretation of the reform. The first work, expressing the “economic approach”, was the textbook of economic history prepared by the pedagogues at the University of Economics in Prague. It is based on description of the official economic statistical data and tries to grasp the causes of economic misbalance as the source of reforming efforts (Průcha, et al., 1974). The second work, prepared on the premises of the Institute of Czechoslovak and International History of the

Czechoslovak Academy of Sciences, expressing a predominantly “political-ideological approach”, is the expression of the “normalisation” ideological misery of the second half of the 1980s. The changes in the system of management and planning are presented as the result of the decision of partisan panels, with the concluding statement that “the new system of management and planning” from the years 1958-59 “was in fact never fully developed”. The sources of the reform and the reasons of its fall are left unmentioned (Peša, et al., 1986). A representative overview of works respecting this interpretation “double formula” has been provided by Martin Myant (1989) and, most recently, by Václav Průcha (2009).

The works authored in western Europe before 1989 were not burdened by the political economic dogmatism and were free to criticise the planning directive system; nevertheless, their analyses are limited by the unavailability of the primary sources, i.e. they are limited by being confined to the official source data, consisting essentially of the published documents, in which the actual data and problems are merged with ideology and propaganda. However, the indubitable benefit of the literature of western origin is the contextual inclusion of the first Czechoslovak reform in the economic development of what is referred to as the “Eastern Bloc” as a whole. This literature highlights the fact that the Czechoslovak experience was inevitably reflected in the existing Soviet model and reminds that a bureaucratic system is unable to exert a greater pressure to change itself. The works note the problem of decentralisation and the modifications to the system for remunerating employees and the inability to flexibly implement the technical-technological progress in production.

The first complete works of this kind were written by economists associated with the second Czechoslovak reform of the second half of the 1960s who emigrated from Czechoslovakia after August 1968 and had extensive experience with planning at the lower and middle levels. The first and foremost authors of this kind are Jiří Kosta (1978) and Jiří Sláma (1977). Their works contain excellent analyses of the planned economy as such but they do not contain analyses of the reforms and their results. They, too, were only able to rely, in their investigation, on the officially published data on the developments in the national economy. In general, it can be said that these works methodologically follow the development of the discipline of economic history with its emphasis, typical of that period, on the category of economic growth and econometrics as such. In their interpretation, they preferred economic processes significantly cleared of political, social and cultural contexts.

A number of works can be put in the same rank with Kosta and Sláma; one of the foremost works is the clearly organised work on the economic history of Czechoslovakia by Alice Teichová (1988) or the economic history of Eastern Europe from Oxford (Clarendon

Pr., 1986). Their interpretations are based on the reformist Czechoslovak economists and their works published abroad, particularly the works by B. Komenda and C. Kožušník. All the said authors were basically supporters of Ota Šik who is considered to be the father of the second Czechoslovak economic reform. What is conspicuous in their works is their marginalization of the Rozsypal's reformist efforts in spite of the fact that Šik's reform intellectually drew on these efforts. Ota Šik himself commented on the first reform very critically in his memoirs where he wrote that Rozsypal was only zig-zagging between political directives and the economic misery in order to "make sure the wolf eats while the goat is left unharmed". He only admitted the rationality of the salary normative rules. From his participation in the reform, he allegedly learned the lesson that "an enterprise in a planned economy is not threatened by any market competition" (Šik, 1990, p. 64-65).

The work of Martin Myant, an English scholar, has a special place in the discourse on the first Czechoslovak economic reform because his work reflected the development of the discipline of economic and social history more than the previously mentioned works. The main stream of this discipline was turning away from the exclusively economic procedures and was turning attention to the political, social and cultural contexts of the economic developments. The category of economic growth was losing its exclusive position in the interpretation of the economic history under the pressure of new economic phenomena such as the oil shocks of the 1970s and the mortgage and financial crisis of a global scale in the subsequent years. To put it briefly, the development of the world's economy was turning the historical-economic interpretations back to a wider socially and economically based understanding. However, Myant's work, too, is influenced, in its interpretation, by the works of the economists who had emigrated from Czechoslovakia.

3 Contemporary historiographical discourse

A new wave of investigation into the economic reform started in the late 1990s. The problem was reminded by a scientific collection of papers from the University of Economics from the year 1998, which contained a remarkable reminiscence by Kurt Rozsypal, the key person of the first Czechoslovak reform. In this reminiscence, the author compares his approach to the economic reform with his experience with management of Bata's enterprises in Zlín, which was one of his sources of inspiration. He described the system of management of industry in early 1960s as a non-viable intermixture (a catdog) (Rozsypal, 1998).

Concurrently with the Rozsypal's reminiscence, Zdislav Šulc (also a prominent Czechoslovak economist of the 1960s – a member of Šik's reformist team) published a publication of a fundamental importance, titled *Brief History of Economic Reforms* (1998). His work expresses the critical attitude of Šik's team to the content of the first economic reform. He provides a technically fairly detailed explanation of the individual reform steps. He sees the main cause of the reform's failure in the "systemic inconsistency of the centrally planned economy" and criticises its creators for narrowed interpretation of the problem of the reform's failure associated with external economic factors, the first and foremost of which being the Soviet-Chinese conflict and the loss of the Chinese market.

In 1999, one year after the two works mentioned above, Kurt Rozsypal published the second part of his memoirs, which only indirectly argued with the interpretation of Šulc. Nevertheless, it is obviously the most detailed and systemic explanation of the separate steps of the reform. However, it is more of a technical description than a critical analysis of the problem. It explains the period-specific rationality and the limits of the proposed changes (Rozsypal, 1999).

Publication of the work by Karel Kaplan titled "Roots of the Czechoslovak Reform" has been an indisputable contribution to the discourse on reforms. In this work, K. Kaplan, a political and social historian, focused more on the political frameworks of the reform and its administrative approval processes at the partisan and governmental levels than on the economic content. His interpretation expresses understanding for the logic of the actions of the partisan panels. And while the previous explanations basically left the international context of the problem aside, with the only exception being the work by Jiří Sláma, K. Kaplan integrated it into his explanation. He concluded his earnest description of the reformist efforts by stating that "it is not possible to evaluate the correctness and the role of the 1958 type of management; "the period of its existence was so short that it was actually not implemented in full" (Kaplan, 2000, p. 270).

So far, the most extensive coverage has been brought by a treatise from the authors of this text. The treatise focused on the starting points of the reform and on an analysis of the planning mechanism and its changes. Using archive materials, it purposefully presents not only the classical view "from above", i.e. from the top of the planning apparatus (the macroeconomic view) but also the perspective "from below" (the microeconomic view). The conclusions of the study perceive the first Czechoslovak economic reform as a source of lessons learnt by the economists who were the architects of the second economic reform; nevertheless, the authors are highly sceptical about the reform's chances of success because

the reform only concentrated on modifying the existing planning system, which was to remain a centralist system in principle. Thus, it was only a reform of a centrally, bureaucratically planned economy, that is, a reform of something that cannot be reformed (Jančík & Kubů, 2006, p. 60-61).

The collective synthesis titled *Economic and Social History of Czechoslovakia* covers the problem of this reform fairly extensively. It provides a summary of the sequence and contents of the reforming steps in the spirit of the works by Kurt Rozsypal. In agreement with Kaplan, it states that the new system was not given time to be consolidated. It sees “the stability of a five-year plan” as a condition for its successful implementation; however, this condition was not met (the collapse of the third five-year plan). Also, the behaviour of individual enterprises represented the limits to the reform because this behaviour was increasing the disproportions between an effective supply of and demand for investments, and this excluded the main tools of the reform: the normative rules for financial incentives (Průcha, et al., 2009). Most recently, Otakar Turek (2010) made a contribution to the discourse, albeit a very brief one. Turek’s understanding resonates largely with that of Václav Průcha. He sees the reason for the reform’s failure in the sphere of enterprises because the individual enterprises were asserting, en masse, corrections to the normative rules when they were preparing their annual plans and the system actually collapsed under their pressure.

Conclusion

Thus, in conclusion, we can summarise that the interpretation of the first Czechoslovak economic reform is seen from two basic perspectives. The first one attributes a considerable degree of rationality to the reform and sees its failure in the area of unfavourable external factors (particularly the falling out with China) as well as internal factors (such as the bureaucracy of the state apparatus and the behaviour of enterprises). The second one depicts the reform as a logical manifestation of the problems of centrally planned economies where economic misbalance and irrationality are their inherent attributes. Most works admit that the first economic reform opened a scientific debate on the possibilities of applying market principles to the economy of a “socialist state”. The authors themselves feel that it would be scientifically desirable to carry out a comparative analysis of the Czechoslovak reform in the context of the reformist efforts in other countries of the Soviet bloc, which have been, in fact, left outside the discourse so far.

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