Czechoslovakia is on a 'Polish' course

by Angelika Raimondi

On Jan. 1 the first radical economic cure went into effect for Czechoslovakia, under the guidance of Finance Minister Vaclav Klaus and the International Monetary Fund. The measures will plunge this potentially great Central European industrial nation into chaos.

In order to continuously oversee the progress of the measures, since Jan. 1 a representative of the International Monetary Fund (IMF) has been installed at the central bank in Prague. Vaclav Klaus, a declared follower of Thatcherism and of the Chicago school of economics around Milton Friedman, will subject Czechoslovakia to the same rapacious austerity mechanism that Harvard economist Jeffrey Sachs has already carried out with his "Polish model." On Jan. 1 prices and foreign trade were greatly liberalized. Already during the very first days of the new year, prices rose by about 40-50%, while wages were either frozen or fixed at an annual raise of only 3-4%. The government set minimum and maximum prices for consumer goods. Naturally, the recently privatized state factories are calculating the maximum prices, and in order to get their hands on hard currencies, will export increasing quantities of consumer goods which are urgently needed at home.

Currently, a retired person on a pension in Czechoslovakia gets an average of 1,300-1,600 korunas (crowns), while a worker's average income is about 2,500-3,300 crowns. That will not change, whereas the cost of living will shoot upward. At an exchange rate of about 40 crowns to a U.S. dollar, that amounts to an average income of $60-80.

The legacy of over-centralization

If the former East Germany is having great difficulties in transforming itself into a modern industrial society, these problems are almost impossibly difficult in Czechoslovakia, and are for all intents and purposes insoluble if the country follows Klaus's IMF program. The degree of centralization and monopolization was nowhere greater throughout the former Comecon nations than here, and dependence on the Soviet "partner" was huge: Czechoslovakia received no less than 90% of its energy supplies and 50% of its raw materials from the U.S.S.R. During the first quarter of 1990, the Soviet Union delivered only one-third of the contracted amount of oil, and since then this amount has been reduced further still.

Czechoslovakia will also be hit especially hard by the crisis in the Persian Gulf, since Iraq had been one of its important trading partners, and Czechoslovakia has been looking toward oil imports from there in order to compensate

An economic threat to Czechoslovakia

From a guest contributer:

Amid a number of severe dangers, lingering above the fragile Czechoslovak economy, there is one of unique importance: the strike threat racket. The monopolist structure, very traditional in communist economies, has unfortunately combined with the effect of Comecon's bankruptcy to produce a result that may be highly devastating already in the first months of 1991.

With most of the business relations to former Comecon partners disrupted and given the very limited convertible currency resources, the Czechoslovak economy is much more isolated than ever before. At the same time, living standards are expected to fall and the personnel of many enterprises will be tempted to increase their salaries, and eventually to gain investment, subsidies, or other advantages through strikes. But strikes in a monopolized economy which is also forced to be self-sufficient, have quite a different meaning than in the West or even in Poland of the 1980s: There are hundreds of enterprises that could knock out the economy, and tens of those, that can do this within a few days.

The test of the government's resolution to stand up to the strike blackmail already took place in November 1990. The aluminum factory in the city of Ziar nad Hronom, monopoly supplier of aluminum products for the rest of the economy, stopped delivery until it got a government-guaranteed credit of 500 million Czechoslovak korunas—approximately $20 million. The government faced the closing of hundreds of important firms, because import possibilities were virtually nil—both for technical and economic reasons. It yielded to the pressure and gave the guarantee for credit, which from a businessman's point of view made no sense.

Unless the government and the main political force—the rightist groups of Civic Forum—prepare well for the match, 1991 may easily be one of the worst years in the economic history of Czechoslovakia.

—Dušan Mrňa, Prague

for the drastically reduced Soviet deliveries.

Czechoslovakia's entire investment goods industry has been oriented toward the not-very-demanding U.S.S.R. market. But now that the Soviet Union is no longer taking many of the goods destined for that market, entire branches of industry are collapsing. For instance, 33,000 jobs became redundant in the Slovakian furniture industry virtually overnight, because lacking the Soviet demand, these poor-quality items could not be sold anywhere else. On top of this, the antiquity of the plant and equipment is beyond belief: The average age of a machine in the current production is 15 years.

The privatization of industry is proceeding only with great problems. Large state factories have been partially transformed into joint stock companies in which the "old structures" still have the last word. Becoming a private entrepreneur is not easy: With high interest rates and heavy taxation, it is almost impossible for a normal citizen to make such a new beginning.

Bitterness is great among the people. On the one hand, there is great fear regarding developments in the Soviet Union and in the Persian Gulf, and on the other, there is a widespread feeling that the West understands nothing and has no desire to help. The resulting conflicts are already programmed in, since nationality conflicts between Czechs and Slovaks can be mobilized at any time in an atmosphere of growing economic chaos. Already in December, considerable differences erupted between the two republics. The Slovaks succeeded in putting through their demands for more responsibilities for both constituent republics and for an annual rotation between Czechs and Slovaks in the leadership of the central bank. The rapidly sinking standard of living and the burgeoning unemployment are likewise social time bombs. Observers in Prague are already pointing to strike threats which could bring the entire country's economy to its knees within a few days.

And yet, it is precisely this Central European heartland of Czechoslovakia which constitutes one of the geographic foci of the conception of the "Productive Triangle" which is based on Lyndon LaRouche's theory of physical economy. With its relatively high population density and skilled labor force, its great historic, cultural, and city-building tradition and great possibilities for infrastructural development, Czechoslovakia could within the foreseeable future become a flourishing, productive industrial nation. The life or death of this nation will therefore be determined by whether or not President Vaclav Havel reverses the catastrophic economic course of his economics minister, throws the IMF advisers out of the central bank as quickly as possible, and, instead of this, calls back to mind the traditions of successful physical economic policy of Gottfried Leibniz, Friedrich List, and Lyndon LaRouche.