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Central Intelligence Agency

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DIRECTORATE OF INTELLIGENCE

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Czechoslovakia: Pondering Reform

Summary

Recent press articles and rumors circulating in Prague point to a growing debate within the Czechoslovak Communist Party and government over whether and how much to reform the lagging economy. Much of the impetus for the debate appears to have come from Soviet leader Gorbachev's efforts to shake up and invigorate the Soviet bureaucracy in order to accelerate economic growth and increase efficiency and productivity. Although Prague's opposition to change is still strong enough to stymie major modifications of current regime economic policy in the near future, the hardliners may be coming under some pressure from Moscow and the regime's own pragmatists to become more open to public airing of economic criticism and innovative proposals. The pragmatic elements within the leadership appear emboldened by the signals of economic change from the Soviet Union and apparently have won at least small concessions on economic policy at a Party plenum earlier this month. We believe the growing debate over the relevance of Soviet-style reform for Czechoslovakia is likely to continue and may even intensify, especially if Gorbachev's drive to revamp the Soviet economy gains momentum. This could pave the way for the eventual ouster of hardliners and implementation of more pragmatic policies.

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## Background

Inconsistent performance and poor quality goods are just two of the problems that have increasingly afflicted the Czechoslovak economy in recent years and caused growing consternation within the leadership. The regime has taken no concrete action to revitalize the country's antiquated, energy-intensive industrial base, however, and its inefficient, centralized management system has acted as a brake on economic progress. Efforts to implement decentralizing reforms to improve economic performance have been stymied by hardliners who fear such measures would bring instability. Adding to Czechoslovakia's woes are an entrenched bureaucracy that clings to a system that rewards political loyalty over competence, managers who bear little responsibility for the performance of their enterprises, and an alienated labor force resistant to regime exhortations to improve productivity.

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Until recently the Czechoslovaks, closely attuned to Moscow's directives, appeared secure in the belief that the Soviets were as unattracted as they to economic innovation and would put no pressure on them to deviate from their normal do-nothing habits. Gorbachev, however, has disturbed this status quo by telling the East Europeans to do more to help the Soviets in their campaign for economic improvement. For countries like Czechoslovakia this means sending more and better products to the Soviets and improving economic efficiency. Moreover, the reports of change from Moscow are likely to be disconcerting to many in the Czechoslovak leadership. Gorbachev has begun to shake up the party and state cadre, swept out many Brezhnev cronies, prosecuted corrupt officials, and pushed through innovations in the economy intended to weaken the power of the central bureaucracy, actions which are antithetical to the Prague regime. These moves appear to have sparked a debate in Prague over economic policy and emboldened pragmatists who have long wanted to see at least limited economic innovation in Czechoslovakia.

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## The Press as a Forum

In recent months both pragmatists and hardliners within the party seem to have been using the press to air their views on the merits and dangers of Soviet reforms and their possible use in Czechoslovakia. Many articles and commentaries have focused on such problems as corruption, the need for increased economic productivity and efficiency and worker discipline. Such complaints are not new to the Czechoslovak media, but the enthusiastic discussion of recent Soviet responses to similar problems suggests that Gorbachev's actions may be giving the pragmatists hope that their arguments for some kind of economic change will succeed.

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Perhaps the clearest sign that a debate over economic policy is under way appeared in a recent editorial in the Slovak Communist Party newspaper, Bratislava Pravda, which warned "ideologues" and "economists" not to blame each other for the country's economic problems. The author sided with the pragmatists in arguing for more economic incentives to complement ideological mobilization and hinting that new, revolutionary methods were needed to resolve the economy's current problems.

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In addition, several press articles in the past few months appear to show advocates of change on the offensive. Managerial corruption and persecution of whistle-blowers have been strongly condemned, self-enrichment at the expense of the society is coming under increased fire, and calls for Soviet-style self-criticism also occur frequently. This month a leading Czechoslovak economist publicly advocated a market-oriented system with more managerial independence and phasing out subsidies to loss-making enterprises. Perhaps most ominously for opponents of reform, two high-level party officials have recently advocated cadre changes to rejuvenate the party and a Bratislava Pravda commentary has called for a "frontal onslaught" against "lovers of the old" who want to conserve the outdated ways of economic management and resist the introduction of enterprise accountability.

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Reform opponents, meanwhile, have been somewhat hamstrung in their efforts at rebuttal. To avoid angering Moscow, they have had to avoid critical references to Soviet policies, pointing instead to examples outside the Soviet Bloc and warning vaguely of the problems of reform. China provides a convenient target for criticism, as demonstrated in a recent article in the party newspaper, Rude Pravo, on protests by Chinese students against the "dangerous excesses of the extensive changes in the country's political and economic life." This treatment of the abuses of the Chinese economic experiment comes at a time when Eastern Europe is closely following developments in China. The implicit message is that the pro-reformers should look at the difficulties that reform has produced in China before foisting change on Czechoslovakia.

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### Winds of Change from Moscow

The chilly atmosphere surrounding talks in Moscow earlier this fall between Soviet party officials and leaders of nearly the entire Czechoslovak propaganda apparatus, including hardline party secretary Jan Fojtik, may reflect Soviet pressure on Prague to loosen control of the media to allow for more debate on social and economic problems. The meeting, which reportedly focused on the media's role in supporting "economic acceleration," was termed by the Soviet press as "frank and businesslike," a

diplomatic phrase denoting major differences of opinion and not used to describe talks between the Czechoslovaks and Soviets since the late 1960s. Although it is uncertain what caused the tensions, the Soviets may have prodded their guests to emulate Gorbachev's policy of opening up the Soviet media to reform advocates. A US Embassy source also reported that Fojtik was disturbed by the atmosphere of change he saw in Moscow. [redacted]

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By contrast, the Soviets appeared much more friendly during a later visit to Moscow by Milos Jakes, party secretary in charge of the economy and an advocate of limited economic innovation. Gorbachev met with Jakes, who is rumored to have carried with him a so-called "Wise Men's Report" -- a document prepared by government experts allegedly detailing Czechoslovakia's economic problems and proposing such remedies as price reforms, producer-consumer contracts, and increased responsibilities of managers for the performance of their enterprises. Jakes may have tried to score points with Gorbachev by presenting himself as a proponent of change, although the US Embassy reports that Jakes is rumored to have returned from the meeting disappointed by the Soviet leader's refusal to even talk about Czechoslovak economic issues. [redacted]

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A Central Committee plenum earlier this month was to have discussed the "Wise Men's Report," reportedly weakened by the excision of all its innovative elements, and to have pondered how much of the Gorbachev agenda to adopt as its own, according to a highly-placed US Embassy source. This source indicated that Czechoslovak leader Husak was concerned to strike the right balance between responsiveness to the Soviet example and avoidance of significant, potentially destabilizing changes. While Husak, in his remarks to the plenum, did voice some criticism of the economy and mentioned certain "experimental changes in some sectors" to be implemented next year, he avoided any implication that sweeping changes were coming soon. Husak and others in the leadership apparently have determined that the situation has not become critical enough to force them to take more determined action even though they recognize that they are out of step with Gorbachev and thus need to make some demonstration of loyalty. [redacted]

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The same perception of Moscow's displeasure with Prague may also be behind recent rumors of sweeping leadership changes. One such rumor in October predicted an imminent visit to Prague by Gorbachev to preside over a new Czechoslovak leadership. [redacted]

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Outlook

There are many reasons for the Prague leadership to initiate major adjustments in the Czechoslovak economy. The need to increase productivity and efficiency, meet Soviet goals for the CEMA 2000 program of scientific and technological modernization, and fulfill the plan for continued growth is a powerful incentive for economic innovation. The Czechoslovaks probably also feel some pressure to meet increased Soviet export obligations. [redacted]

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Ingrained caution and fears of social upheaval accompanying economic change, however, are powerful factors inclining the leadership to do nothing. Husak and the other Presidium members preside over a system whose only real attempt at major economic reform was crushed by the Warsaw Pact in 1968 and whose leadership and managerial cadre are apparently still dominated by hardliners and others reluctant to commit themselves to a reform until Soviet backing is certain. Many, indeed, probably hope that Gorbachev will fail. In addition, any move to break the social contract with the workers, for example by tying wages to output or by closing down loss-making enterprises, could result in open disaffection and sabotage through even poorer work discipline. [redacted]

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The present leadership configuration will probably have to change or, at the very least, the hardliners will have to be neutralized before the Czechoslovak economy will undergo major changes. It is unlikely that Moscow will soon push Prague to make such potentially disruptive changes or intercede forcefully enough in the Czechoslovak squabbles to silence hardliners. But even though major innovation may be unlikely in the near future, the experimental changes announced at the recent plenum and scheduled to take effect next year suggest that the pragmatists have become more successful in making themselves heard. Their success in moving the leadership to introduce economic innovations probably hinges on the success of Gorbachev's reform efforts in the Soviet Union. If his drive to revamp the Soviet economy gains momentum, the debate over economic change in Czechoslovakia probably will heat up as reform advocates, emboldened by his example, speak their minds and push for even more adjustments in the system. This may, in time, provoke a clash within the party that could lead to the ouster of the most hardline elements in the bureaucracy and improve the chances for substantive economic change. [redacted]

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