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INTELLIGENCE MEMORANDUM

CZECHOSLOVAKIA'S NEW POLICY
IN THE SOVIET BLOC

DIRECTORATE OF INTELLIGENCE
Office of Current Intelligence

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
16 December 1964

INTELLIGENCE MEMORANDUM

Czechoslovakia's New Policy
In the Soviet Bloc

SUMMARY

The former "model satellite" Czechoslovakia is embarking on a policy of reducing its longstanding subservience to the USSR. This change is especially evident in the support Prague gave Khrushchev after his ouster, in the recent publication of a draft reform economic program which includes broader use of the market mechanism, and in attempts to improve economic and political relations with the West.

The change that has come about was an outgrowth of the domestic liberalization forced on old-time Stalinist leader Novotny by dissident elements in the party, in response to longstanding political grievances and a severe economic crisis. The new Czechoslovak policies, like those already being followed by Poland, Hungary, and Rumania, are based on a realistic appraisal of national needs and desires, and reflect a further decline of Soviet influence in Eastern Europe.

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1. The Czechoslovak party is embarking on a policy of reducing its longstanding subservience to the USSR. This assertion of national interests is an inevitable outgrowth of changes in Czechoslovakia brought about by pressures from liberals in the Czech and Slovak parties and by the desire of the public for some improvement in day-to-day life.

2. The necessity to reduce Czechoslovakia's subservience to Moscow and to assume greater freedom of action in bloc affairs was bound to emerge as the old-time Stalinist party first secretary, Novotny, acceded during 1964 to pressures both inside and outside the party for a more objective, rational organization of society and for a responsive national leadership. Khrushchev's ouster gave the regime an opportunity to speed up the process, which otherwise would probably have taken place gradually.

3. Novotny's new stand was illustrated by the presidium and central committee statements supporting Khrushchev, issued in Prague after his ouster, by publication of a reform economic program just two days after the ouster, and by Novotny's refusal to attend the 7 November anniversary celebrations in Moscow. These steps have met with enthusiastic support in the central committee and greatly enhanced Novotny's position as an independent and flexible national leader.

4. Unlike Rumania, which began to assert its national interests primarily in reaction to specific bloc economic policies, Czechoslovakia is responding to internal political and economic pressures which, gaining a momentum of their own, finally confronted Novotny with the choice between abandoning his past hard-line policies or being forced out of office.

Growth of Political and Economic Pressures

5. The roots of the new policy go back to early pressures to de-Stalinize, which appeared in

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Czechoslovakia, as elsewhere in the bloc, after Stalin's death; Novotny and his party apparatus, however, successfully suppressed them until the late 1950's. At that time a movement in the party--probably centered around the then Interior Minister Rudolf Barak--sought to counter if not eliminate Novotny's hard-line leadership. Novotny purged the would-be renegade Barak in 1961, but pressures from within the party to de-Stalinize, probably abetted by Moscow, nevertheless continued to grow. Abandonment of the Third Five Year Plan (1961-1965) in mid-1962, forced by economic failures, was a serious blow to Novotny's prestige. By the 12th party congress in December 1962, liberal elements of the party central committee had gained enough influence to put through a resolution favoring at least some tentative steps toward de-Stalinization.

6. During this period Czechoslovakia's economic difficulties became the most severe in the entire Soviet bloc. Gross National Product was barely increasing. The growth of industrial production had slowed drastically, from an average yearly increase of about nine percent in 1958-60 to about two percent in 1962-63, and industrial production actually fell in 1963. Net agricultural production had shown a downward trend since the late 1950's. Capital investment declined both in 1962 and in 1963. Per capita consumption and real wages remained nearly constant.

7. The main reasons for the sharp economic slowdown were deepseated. Reserves of productive capacity in industry and transportation were exhausted, and agriculture had been milked dry of competent labor. Industries producing finished goods, which account for the great bulk of Czechoslovak exports, became increasingly obsolete because of inadequate technological progress and the high concentration of investments during most of the postwar period in industries producing basic materials. Foreign and domestic customers became less willing to accept products of low quality. In agriculture, collectivization led to an

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inefficient use of investments.

The strain in the economy was aggravated by a series of unexpected events: the military build-up occasioned by the Berlin crisis of 1961, a bad crop and the collapse of trade with Communist China in 1962, an unusually severe winter in 1962-63, and a shortage of electric power in 1963.

8. In 1962 and 1963, Czechoslovakia could not at the same time achieve a rapid rate of industrial growth, maintain the standard of living of its people, and balance its foreign payments. Unable to obtain credits from the USSR and burdened with drawings on its own credits of the order of \$50 million a year, Czechoslovakia had to balance its payments by increasing exports much faster than imports. The rise in exports and the holding down of imports took place mainly at the expense of capital investment and industrial production. The regime, seriously concerned with rising public dissatisfaction, decided to keep food supplies as stable as possible by increased food import.

The Political Crisis of 1963

9. As a result of these political and economic developments, the Czechoslovak regime in 1963 found itself in its period of greatest instability since 1948. Virtually every facet of the party's political, economic, and social policy was publicly questioned. This was inevitably accompanied by a breakdown in party discipline. The liberals began to exercise meaningful influence in party affairs, stimulated to greater efforts in part by the worsening economic situation. A further contributing factor was growing ferment among the intellectuals, reminiscent of 1955 and 1956 in Poland and Hungary.

10. The liberal movement was greatly strengthened by the bold Slovak drive to regain some degree of autonomy and to rectify past injustices against the Slovaks by Prague. By and large the demands of Czech and Slovak party liberals coincided, calling for specific changes in administrative, legal, cultural, educational, and economic procedures, for redress of past Stalinist excesses, and for the removal of Stalinists from the regime.

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11. The political and economic disarray was accompanied by increased public discontent, prompted by the poor economic situation and the breakdown in party discipline. Czech-Slovak national animosity re-emerged as a crucial problem, adding to the instability.

Novotny Capitulates

12. Novotny reluctantly and clumsily began to de-Stalinize and to liberalize economic policy. Demands on him increased, however, until he was forced to purge several leading Stalinists--mainly Slovaks unpopular in Slovakia--and he himself was in danger of being toppled in late 1963. The Soviets intervened, despatching Brezhnev to Prague to resolve what appeared to be an imminent leadership crisis in December 1963. A period of retrenchment followed, during which Novotny remained in the background while many of the liberal changes were codified and a degree of order was restored through a series of compromises favoring the liberals. The struggles within the party from then on focused on solution of domestic economic problems, as Novotny fully associated himself with plans for economic reform. By virtue of these compromises--which helped ensure Khrushchev's continued support--Novotny was able to reconsolidate his power by the summer of 1964.

13. The Czechoslovak leadership in October announced a draft program for liberalization of the economic system which goes beyond reform proposals anywhere else in the Soviet bloc. Until the latter part of 1963, Novotny had advocated tighter economic controls and blamed the partial decentralization of 1958-60 for some of the regime's economic difficulties. As early as 1962, however, his liberal critics claimed that the decentralization had failed because it had not gone far enough. By 1964 criticism had become more intense; a large number of leading Czechoslovak economists were urging replacement of the Soviet-type command economy by a form of market socialism. These economists argued that the Soviet-type system was effective in mobilizing resources, but was inefficient and inflexible in the detailed allocation of resources. An advanced economy like Czechoslovakia's, which had exhausted its reserves, could no longer function efficiently under this system.

14. With the announcement of the reforms the liberals had won a partial victory. The steps actually

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taken up to that time to improve the economy had been marginal--even by comparison with many other bloc countries--except for the abandonment of taut planning in favor of a more flexible and realistic approach. The new program, however, contains the general outlines for future reforms which reflect many of the views of the liberals, while at the same time providing for retention of whatever controls the regime may consider necessary. The program provides for:

a "scientific" approach to economic planning and management, using mathematical methods and procedures borrowed from Western corporations;

a delegation of authority over most short-range planning and current production to enterprises and trusts;

the basing of enterprise incentives on current income instead of on fulfillment of plan assignments;

increased flexibility and greater rationality of prices; and

a partial substitution of financial regulations for direct orders as instruments of state control.

Investment and foreign trade policy are to be governed by more careful evaluation of economic advantage than in the past, and less by political or ideological considerations.

Relations with the West

15. In response to liberal demands and to economic necessity, Prague for more than a year has been seeking improved relations with the West. Although the party has not always been unified on this policy, the regime has increasingly taken measures to improve its image abroad and expand contacts--political, social and cultural as well as economic--with the West. Prague has taken a number of specific measures to liberalize entry regulations, to guarantee the safety of Czech-born US citizens traveling in Czechoslovakia, and to raise the level of diplomatic relations with numerous countries. It has tried to broaden cultural-educational

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exchanges with Western Europe and the US and has generally been more cooperative in official contacts with the West.

16. Despite these positive changes, there have been and will probably continue to be some isolated lapses, probably due to the influence of regime members--particularly in the security apparatus--who remain opposed to rapprochement. The Foreign Ministry has found itself embarrassed by police actions on two recent occasions--the attack on the US Embassy in protest over US policy in the Congo, and the arrest of a US citizen on espionage charges--which have conflicted with the regime's professions of good will. Significantly, however, the regime continues to support the Foreign Ministry in its general policy toward the West.

17. In need of Western currency and desirous of more favorable trade relations with the West, the Czechs have sought realistically to settle outstanding economic differences--mainly claims issues--with Western European countries and the US. In some cases they have met with success and moved on to cultural agreements or negotiations for improved trade relations. Other steps aimed at broadening economic relations with the West include measures taken last year to attract Western tourists; the provision of some special incentives to exporters; and a greater stress on economic criteria rather than political expediency in elaborating foreign trade plans.

18. This interest in broader economic relations with the West has not yet had much practical effect. Trade with non-Communist countries in 1963 was lower than in 1961. It came to only 25 percent of total Czechoslovak trade, as compared to about 30 percent in Hungary and Rumania and about 35 percent in Poland. Steps such as those described above--and of course Western credits--may lead to some increase in the share of Western trade over the unusually low levels of recent years. Nonetheless these steps will not overcome the principal obstacle to expanded trade with the West--the low quality of most Czechoslovak manufactured goods. In sharp contrast to Rumania, Czechoslovakia can spare few raw materials and foods for export. Consequently it relies predominantly on exports of machinery and manufactured consumer goods, many of which are no longer competitive in the West.

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19. Any substantial increase in the competitiveness of Czechoslovak manufactures in the West will take sustained efforts for many years in adapting the structure of production, making planning and management more flexible, and improving marketing and servicing abroad. Changes along these lines are implicit, and in some cases explicit, in the regime's broad program for the allocation of resources and for economic reform. It is likely in particular that large Czechoslovak producers will be allowed more direct contacts with foreign customers; that bonuses in the production of goods for export will be based at least partly on earnings in foreign currency; and that the structure of domestic prices will be brought closer to the structure of prices on the world market. Even if implemented vigorously, such reforms will not necessarily cause a substantial re-orientation of Czechoslovak trade, but they are likely to increase its flexibility considerably by broadening the alternatives to trade with the bloc.

20. The regime now is seeking some sign of western support for its more independent policy toward Moscow. Novotny needs this to impress the Soviets as well as his own party. Even more importantly, he needs increased trade with the West, foreign currency and long-term credits to gain and maintain a more secure economic position. With the example of Rumanian success in mind, Prague is vigorously pursuing this goal in France, Britain and the US.

Relations with the Bloc

21. Prague's increased interest in economic relations with the West does not appear to have weakened its trade ties with the USSR. The USSR accounts for nearly 40 percent of Czechoslovak trade (as compared to about the same for Rumania and around one-third each for Poland and for Hungary). This is a higher share than a few years ago, and accounts for a large part of the materials needed by Czechoslovakia. Plans are being drafted for a substantial increase in trade with the USSR, and technical cooperation is closer than ever. Nevertheless, there is probably widespread resentment at the failure of the USSR to extend credits during the economic crisis, and there is implied criticism of the USSR in the complaints about inefficient industries, many of which were built to process Soviet raw materials or to meet Soviet specifications.

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22. Prague also has been one of the principal advocates of closer intra-bloc cooperation under CEMA and probably is disappointed with the slow progress in this direction. Like most other Eastern European countries, however, Czechoslovakia probably is unwilling to give much control over its economy to supranational bodies. As a highly developed country, it has been interested in CEMA mainly as a means of promoting its exports of manufactures, in return for which it imports needed raw materials and foods. This approach to cooperation was a major cause of the recurrent frictions with Rumania over the past several years, inasmuch as Rumania's main desire was to develop new manufacturing branches.

23. For many years, Czechoslovakia has had no real alternative to a predominant economic dependence on the Soviet bloc. The original reason was political, but with the development of the Soviet-type economic system in Czechoslovakia and of a structure of production tailored to meet bloc needs, economic reasons were added. Largely cut off from world markets, Prague came to regard exports to the bloc, many of which were of low quality, as vital for the support of its industrialization. In recent years, bloc customers have become more discriminating, and the Rumanians have even turned down Czechoslovak machinery on the ground that it did not meet world standards. Thus trends in the bloc as well as domestic difficulties and the attractiveness of Western technology have pushed Czechoslovakia toward important changes in its economic structure and its economic system.

24. Czechoslovakia now is fast approaching a degree of autonomy in the bloc comparable to Poland and Hungary, and has taken to the policy of realistic economic planning adopted by these two countries after 1956. Both of these countries and East Germany are ahead of Czechoslovakia in actual economic reform, but their programs for future reforms are clearly intended to increase the efficiency of the command economy, while the Czechoslovak program puts a great deal more stress on the use of the market mechanism.

25. The changing atmosphere in Czechoslovakia brought about changes in Prague's relations with other Eastern European countries permitting an exchange of ideas which have had further effect on Czech policy. In his efforts to demonstrate his flexibility and willingness to de-Stalinize, Novotny began some time ago

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to woo Yugoslavia and to imply a desire to emulate certain Yugoslav practices. Even though a great deal of this was purely for the sake of improving his image, closer relations did in fact develop. Now the Yugoslav system--political and economic--is being discussed in Prague as the model for changes in Czechoslovakia.

26. Similarly Czechoslovakia has drawn closer to Poland and Hungary, conscious of Budapest's recent successes in gaining popular support without sacrificing discipline or public order. Prague has scrupulously avoided expanding its relations with Rumania, however, and has refrained from any public mention of Dej's independent position within the bloc. Presumably the Czechs have been fearful of the Rumanians' boldness, but this may change now that the Czechs themselves have taken a bolder line.

27. The developments of the past two years within Czechoslovakia have not been well received by Novotny's Stalinist neighbor Ulbricht in East Germany. Nonetheless, the "new, flexible" Novotny has made no attempt to allay Ulbricht's fear, and relations between the two parties have gradually deteriorated.

28. Steadfastly loyal to the Soviet Union and a strong supporter--albeit belatedly--of Khrushchev's Chinese and Yugoslav policies, Prague has adopted the attitude that loyalty to Moscow does not preclude and must not infringe on Prague's right to make its own decisions. Emphasizing Czechoslovakia's contribution in exchanges of views with Moscow and the value of reciprocity, the joint communiqué issued after Novotny's 30 November - 4 December trip to Moscow stressed the ideas of full equality of socialist nations and "strengthened national sovereignty." In the communiqué the Czechs also subtly dissociated themselves from the full endorsement given by the Soviets to the 21st CPSU congress--which attacked "revisionism"--presumably to avoid offending the Yugoslavs.

29. Unlike Rumania, however, there is nothing expressly "anti-Soviet" in Prague's position today, and there is no de-Russification as there has been in Rumania. It is unlikely that the Czechs will engage in an anti-Soviet campaign as long as they can effectively demonstrate their decision-making freedom without one. Novotny, upon his re-election as president in November, publicly reassured the Soviets that

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Czechoslovakia would remain a member of the Warsaw Pact.

Prospects

30. Czechoslovakia apparently believes that the Russians--particularly under a new regime whose stability is far from certain--will not or cannot interfere with Prague's assertion of national self-interest.

31. Internal and foreign policies, therefore, will probably continue in the direction of liberalization and independence. In its bargaining with Moscow, Prague will probably press for some concessions from the Soviets, such as credits and generally more favorable trading terms. Czechoslovak and Soviet interests may conflict on the size and operation of the Czechoslovak aid and penetration program in developing countries, by far the largest such program conducted by any Eastern European country. Frictions over CEMA policies may arise, but there are no reasons for serious differences with the USSR unless the Soviets try to transform CEMA into a truly supranational organization--an unlikely event because of widespread opposition within Eastern Europe. Concomitantly Prague will continue its efforts to expand trade with the West.

32. Although differences over such matters probably can be amicably negotiated if Moscow takes an enlightened view of Prague's positions, Czechoslovakia nonetheless now can be expected to press harder than ever to protect its national interests. As a result, political problems are bound to arise between the two allies. Moreover, Novotny, who now has staked his political career and prestige on a program designed to serve Czechoslovakia's national interests, will be little inclined to subordinate his policies to the needs of Moscow should a conflict of interests arise.

33. In international Communist affairs the Czechs now are wedded to the rapprochement with Yugoslavia, whatever position the Soviets may take. The Sino-Soviet dispute is unlikely to become an issue with Moscow, unless the USSR changes its attitude toward China to the detriment of the Soviet bloc's rapprochement with Yugoslavia. Although

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Prague will continue to support Moscow's general foreign policy line in bloc and international councils, as time goes on it will hold out for serving its own interests. This of course does not preclude specific anti-Western steps from time to time by Czechoslovakia if Czech relations with Moscow make this tactically advisable.

34. Looked at from the viewpoint of the Soviet bloc as a whole, the new trend in Czechoslovakia demonstrates anew that the pattern of relationships between the countries of Eastern Europe and the USSR has been radically altered over the past decade. The westward flow of Soviet exploitation and control has been tempered by an eastward flow of political pressure. The vast network of Soviet agents, military, and police, and of Eastern European party leaders and functionaries who owed their first loyalties to the USSR and Stalin, has disappeared.

35. Each Eastern European leader now is free to test the limits of Soviet hegemony and to choose the course which appears to be the most promising for his own country. In all of these countries except East Germany and Bulgaria, this choice is more and more likely to reflect national and even European interests rather than those of the USSR and the bloc.

36. While these countries do not yet exercise the freedom of a Yugoslavia, a resemblance is emerging. Indeed, the entire process has an air of inevitability; first Poland moved, then Hungary, Rumania, and now Czechoslovakia, each in its own way. It would seem that Khrushchev's successors have little choice but to acquiesce as gracefully as possible in the tide of nationalism currently rising in the Western reaches of their empire.

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