Czechoslovakia

Grim prospects under free market program

by William Engdahl

Of all the Eastern European economies which appeared a year ago to have optimistic prospects for successful transformation, Czechoslovakia's seemed to take the lead. But today, the prospects appear far worse. The economic radicalism of Harvard's Prof. Jeffrey Sachs, the man who is also responsible for Poland's present economic chaos as well as the breakdown of trade among the former trade partners of Eastern Europe, including the U.S.S.R., is the main reason for the dramatic shift.

Under Finance Minister Vaclav Klaus, Czechoslovakia has embarked on a monetarist policy which was drafted for him by Western interests keen on buying the assets of the economy on the cheap. Harvard's Sachs is one of those advisers. It is no surprise, therefore, that living standards and industry are being made the victims of the radical measures. On Jan. 1, food prices increased 26%; on April 1, electricity rates rose by 80% for industry, and a similar hike for household electric power is planned for September.

Czechoslovakia's trade is overwhelmingly dependent on its traditional market in the Soviet Union, with 85% of exports sent to the U.S.S.R. in 1989. Along with other East European economies, this trade has collapsed in the past two years. Since 1989, exports to the U.S.S.R. have dropped to one-third their former level, or from $5.5 billion down to an estimated $1.8 billion in 1990.

One of the largest components of the trade has been the shift in terms for oil and gas imports. Under previous procedures of the now-defunct Council for Mutual Economic Assistance (CMEA or Comecon), Czechoslovakia, like other Eastern European economies, enjoyed significantly lower costs for imported Soviet oil. In 1990, Czechoslovakia was still able to import Soviet oil at a price equivalent of $6.50 a barrel. But as of January, it must pay world market price for its oil, more than doubling its oil import costs, all of it for the first time payable in Western hard currency, draining scarce hard currency reserves. As a result, the government has been seeking various barter schemes with the U.S.S.R., arms-for-oil deals with Iran, and other desperate maneuvers.

The Klaus 'reforms'

Living standards have fallen since the Klaus economic "reforms." For 1990, real wages are estimated to have fallen by 4%, as inflation reached almost 10%, which is nearly triple the rate of 1989. The gross output of industry fell almost 4%, while freight tonnage dropped more than 10%. The Czech currency, the crown, was devalued last October by 50%, in following the International Monetary Fund's (IMF) program of slashing imports and boosting exports. Although nominally improving the balance of payments, the benefits are more than dubious, as the program has precluded import of badly needed Western technology to make industry more productive.

Klaus calls himself a follower of Mont Pelerin radical monetarist Milton Friedman, and is pursuing a radical anti-inflation "cure" that is stifling economic growth, at the very time that it is most important to redirect the economy after more than 40 years of communist distortions. Klaus was a speaker at the closed-door Munich meeting in June 1990 of the Mont Pelerin Society, together with Friedman. On assuming office in the new government as finance minister in December 1989, Klaus's first act was to formally apply for membership in the IMF, after 35 years.

The Czech economic problems will now dramatically worsen as a result of the planned privatization of heavy industry, and despite continued favorable publicity in Western media, Vaclav Klaus was found, in an official November 1990 Public Opinion Institute poll, to be "the least trusted man in Czechoslovakia." He has repeatedly refused to divulge any long-term strategy for rebuilding the economy, other than to tell the country that his privatization plans will result in "negative consequences" for employment and production. No less reassuring for those seeking signs of genuine openness in Czechoslovakia, the government, on the advice of Klaus, voted on Dec. 10 to suppress the 1991 economic forecast published by the Ministry for Strategic Planning, entitled "The Strategy of the Czechoslovakian Economy to the Year 1992."

Stuart Lewis

Harvard punk Jeffrey Sachs: First he turned the Bolivian economy on to drugs; then he wrecked what was left of Poland when the communists got through; now he has set his sights on Czechoslovakia.