

GENERAL AGREEMENT ON
TARIFFS AND TRADE

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Notifications Pursuant to Article XVII:4(a)

Addendum

CZECHOSLOVAKIA¹

In the last notification presented by Czechoslovakia pursuant to Article XVII:4(a), circulated in document L/2593/Add.4 on 7 April 1966, reference was made to the gradual introduction of a new planning and management system of the Czechoslovak economy, the principal objective of which in the field of external economic relations is to establish closer links between Czechoslovak and foreign production and markets so as to achieve a more effective and comprehensive participation of the Czechoslovak economy as a whole in the international division of labour.

I. New Principal Measures

In order to attain these long-term objectives the following first two sets of principal measures - to be undertaken at various levels and branches of the economy - have been formulated and adopted, constituting the general framework of the economic reform:

- (i) Decision of Government of 15 July 1966 No. 63/1966 on General Conditions for the Economic Activity of Enterprises as from 1 January 1967.
- (ii) Decree of Government of 12 December 1966 No. 100/1966 on the Planned Management of the National Economy.

¹The list and description of State-trading enterprises in L/2593/Add.4 comprise the basic notification to which this notification is a supplement.

Both sets of measures relate to the Czechoslovak economy as a whole (including foreign trade) and are supplemented by changes affecting the organizational framework which group the enterprises into branch units and also seek to strengthen the vertical structure of the economy.

The first set of measures affecting the enterprises is concerned mainly with changes in tax, investment, price and wage systems. These measures represent a significant step towards greater autonomy and enlarged rights of the enterprises and also give greater scope to initiative, independent decisions and responsibility on the part of the enterprises. An attempt to give an account of the measures which have been undertaken follows:

- (i) The existing differentiated gross income tax comprising two parts - the basic tax and tax on the increase of gross income - is replaced by a uniform gross income tax in order to create conditions conducive to uniform treatment of enterprises.
- (ii) Investment undertaken and decided upon by enterprises themselves, within their own competence and possibilities and financed by their own means and by bank credits, becomes the largest and prevailing category of investment expenditure. Investment financed entirely by the State embraces only a few projects of nation-wide importance and its relative share in total investment outlays has been considerably reduced.
- (iii) The old system, under which deliveries of goods and services (both in export and import) between foreign trade and producing enterprises were carried out on the basis of wholesale prices, was abandoned. Under the new system these deliveries are carried out on the basis of prices which in principle are directly derived from prices paid or obtained by trading enterprises on foreign markets. This move, designed to provide direct impact of foreign production and marketing on internal production, aims at stimulating changes in the industrial structure adequate to lead to optimal results in foreign trade performance.
- (iv) Internal price policy is based on the three-tier price system consisting of centrally determined prices for the most important commodities such as basic raw materials and foodstuffs, prices fixed by enterprises within certain limits established by the authorities and entirely free prices. This system aims at promoting more efficient adjustment of supply to demand and stimulating balanced development among different branches of the national economy. The category of entirely free prices will be enlarged gradually and is expected to become the prevailing one in the future. The turnover tax provides a link between changes in wholesale and retail prices and reduces the gap between the two sets of prices. The rational development of prices will be stimulated by competition from imported goods as well as between domestic producing enterprises.

- (v) Wages continue to be determined through wage scales (centrally) and collective agreements. A system has been evolved which stimulates the workers' active interest not only in particular aspects of the enterprises' performance, but also in any other respect which can affect the enterprises' general results and income.

The second set of principal measures, based on Government Decree No. 100/66 on Planned Management of the National Economy, is concerned mainly with the concept and operation of plans and economic instruments and with principles for their implementation.

The balanced development of the national economy is stimulated by a system of economic plans and programmes which lay out the economic policy and formulate the aims adopted for a given period, as well as the economic instruments, measures and modes of action to be applied and undertaken for their realization. This system of plans embraces the national economic development plan (including the foreign trade plan), the State budget, the credit and foreign exchange plans, etc.

Under the new system of planning emphasis has been placed on the basic rôle of plans as comprehensive long-term concepts and schemes of structural development of the Czechoslovak economy, formulated on the basis of the latest achievements in science and technology and of prognosis of social and economic trends in the world as well as in the Czechoslovak economy. Plans have ceased to be the central instruments of State for detailed guiding of economic processes, particularly on the enterprise level. The formulation and operation of the long-term national economy development plan, which constitutes the rational framework and outline of State economic policy, is based on a combination of mandatory targets, indicators of informative nature and long-term economic instruments. This plan is submitted by the Government to the National Assembly for approval to become law.

Centrally planned mandatory targets are reduced to exceptional cases (major centrally financed investment projects, research and development activity, defence needs). The decisive majority of plan indicators is of an informative nature. These indicators are regarded as devices for achieving flexible exchange of basic economic information between the centre and the enterprises.

The new system of economic management gives due recognition to the rôle to be played by long-term and operative economic instruments as criteria for economic decision-making, as impetus to economic initiative and efficiency and as devices for self-regulating of economic processes at the enterprise level.

The long-term economic instruments comprise the gross income tax or the profit tax, the capital charge (tax on fixed assets), the tax on stocks, the stabilization tax and the depreciation charge.

The main operative economic instruments are the turnover tax, the wage and salary scales, additional taxes and tax deductions, contributions, allocations for different funds, operation and investment credits, internal credits in the form of foreign currency, interest, penalties, fines, etc.

A considerable degree of decentralization of economic decision-making, the introduction of economic instruments and a new concept of planning and price policy not only strengthen and emphasize the criteria of economic efficiency but also open the door to the functioning of the market mechanism in the whole Czechoslovak economy. This market mechanism - the importance of which will be gradually strengthened by the contemplated prevailing rôle to be given to the category of entirely free prices, resulting from the interaction of supply and demand - at present provides one source of criteria for economic decision-making, for regulating economic processes at the enterprise level and for evaluating the economic efficiency of production. The market and the plan are recognized as two interrelated parts and sources of economic management which influence each other. Thus the proper operation of the market mechanism becomes an indispensable prerequisite for a smooth and efficient development of the Czechoslovak economy.

II. New Measures and External Economic Relations

The above-mentioned sets of principal measures relating to the Czechoslovak economy as a whole also apply to foreign trade. By implication, foreign trade planning is based on and aims at thorough research of the long-term tendencies prevailing in the world economy and world markets, particularly in the fields of the development of demand, long-term price trends, etc. Long-term projections and studies, the rôle of which has been greatly emphasized, are supplemented by operative research on individual markets.

In the transitional period directive targets in foreign trade will be retained in a limited number of cases in order to safeguard the Czechoslovak external financial position and balance of payments.

Due to its dependence on foreign trade the Czechoslovak economy is exposed to a considerable extent to the influence of changes in world production and markets. Moreover, tendencies and trends in world production and trade will to a steadily increasing extent play an active and instrumental rôle in Czechoslovakia's internal economy, mainly through the gradual process of placing increasing reliance on economic instruments.

Since world market prices are considered as an objective criterion of the economic efficiency of Czechoslovakia's participation in the international division of labour, their influence on Czechoslovak production will be intensified mainly through a long-term process of attaining an economically

justified relation between the levels of domestic and foreign prices. The new domestic wholesale prices effective from 1 January 1967 and other price adjustment measures of temporary character represent necessary prerequisites for carrying out this convergency process, which will for all practical purposes begin with further changes in wholesale prices which are contemplated.

Changes are also proceeding in the organizational set-up of foreign trade. The scope of the direct foreign trade activities of producing enterprises has been enlarged where this proved to be advantageous in view of technical, market and efficiency considerations, and certain further changes - to be implemented in the foreseeable future - have been envisaged. All actual and contemplated changes in the Czechoslovak system of economic planning and management aim at establishing a more appropriate balance between centralized and decentralized decisions in order to give greater scope to the initiative and responsibility of enterprises whilst preserving those general guiding functions - which increasingly take the form of indirect policy measures - that are deemed necessary for a well-balanced development of the economy.

