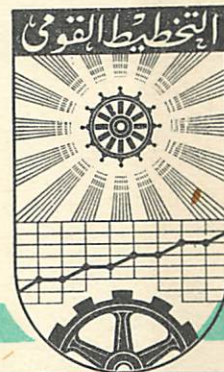


UNITED ARAB REPUBLIC

THE INSTITUTE OF NATIONAL PLANNING



Memo. No. 1101

The Experience of Socialist Countries (Especially of Czechoslovakia) with Monetary Planning from the Aspect of Savings

BY
Prof. Ing. Petrivalsky

May 1975

The Experience of Socialist Countries (Especially of Czechoslovakia) with Monetary Planning from the Aspect of Savings

Brief summary of lectures which was read by George Petřivalský, Prague School of Economics, in Cairo, at the Institute of Planning, 1975.

I. Preliminary remarks

It is useful to mention the following aspects:

1. All the socialist countries have gained a lot of experience in monetary planning and to a certain degree in planning of savings. At the same account there are some specific features of the development in monetary sphere and especially of savings. This is also the case of Czechoslovakia.
2. Czechoslovakia, as well as all the other socialist countries, could utilize the soviet experience even in this field. On the other hand, Czechoslovakia as the most developed socialist country was able to contribute to the common theory of socialist countries in this field.
3. One might hesitate about the special Czechoslovak experience in monetary planning and in savings. It is therefore necessary to stress the contribution of Czechoslovakia from two aspects:
 - a) Czechoslovakia is the first socialist country in which the so called complex monetary planning was put in practice

- b) Czechoslovakia represents a very interesting country to analyze the propensity to save, the development of savings, the allocation of these savings and so on.

In all socialist countries the tendency towards monetary stability prevailed. But it does not mean that in the long run, especially in the transit period, any inflationary influences have appeared.

There I beg to present for discussion following problems:

1. Creation and redistribution of voluntary savings or inflationary issue of money?
2. Selected problems of monetary planning in Czechoslovakia.
3. Analyses of the personal savings in Czechoslovakia.
4. Savings in the Broader Sense and the Role of the Plan

II. Creation and redistribution of voluntary savings or inflationary issue of money?

1. I will try to prove that the socialist countries tend to reach equilibrium in creation and redistribution of savings.

On the other hand it can be revealed that in the transit period there were special conditions which influenced the inflationary issue of money.

It was easy to understand this problem if we study both sides separately. Later we shall see that it is necessary to study this problem together.

2. Let us begin with a simple case of issueing inflationary paper money in Soviet Russia in the period from 1917 to 1924:

- a) The VIth Congress of Communist party of USSR refused in the year 1917 the policy of issuing inflationary paper money.
- b) After revolution there were no other financial resources to meet all the economic needs and war expenses. It was not possible to acquire the financial resources from abroad, through the state budget and in the framework of banking system. The policy of issuing inflationary paper money was the possibility of the last resort.
- c) The inflation was a specific method of redistribution of national income for financing defence and civil war.
- d) The inflation tended to hyperinflation, as can be deviced from the following table:

	1918		1919		1920		1921		1922		1923	
	M	P	M	P	M	P	M	P	M	P	M	P
average increase of in %	6,9	20,0	11,4	25,0	14,7	17,0	25,1	26,0	48,4	43,0	48,3	57,0

M = increase of money supply

P = increase of prices

- e) The redistributive effect of inflation was at that time twofold.
- f) At the end of the examined period the shortcomings of this system prevailed, therefore it was necessary to remove this system.
- g) The system of issuing inflationary paper money was replaced by so called classic system under which the issued banknotes were backed by gold and bills of exchange. More details can be mentioned in this respect.

h) Hence I derive the common idea: The socialist economy can reach monetary equilibrium in the planned way, but it happened that extraordinary noneconomic causes impacted inflation. (Later I will try to prove it , and to show the different forms and instruments, by which we reach this equilibrium.)

3. Let us analyze another case from USSR. We must introduce the following facts: In the year 1921 the so called NEP was introduced. The economic development of USSR was successful, especially after monetary reform which was carried out in the years 1922 - 1924. The planning process of different flows was deepened. The new financial (budgetary) and banking system was established.

At the first glance, it could seem that this development brought sufficient financial resources from the state budget and banking system. It is true, that this system enabled to accumulate huge financial resources for the - let us say- ordinary economic growth. The political and economic causes induced the soviet government to undertake special measures to accelerate the industrialization.

Hence a contradiction between the so called accelerated industrialization and the monetary stability emerged. We could also mention an important discussion at that times in USSR. Some economists advocated the priority of monetary stability, other the priority of the accelerated industrialization. The soviet government solved this controversy in favour of the accelerated industrialization.

These measures had positive results from the aspect of reconstruction of heavy industry and from other aspects. On the other hand they influenced the living standard of population and the stability of rouble. The purchasing power of rouble declined in 1932

in comparison with 1928 to 40 %. Some features of barter appeared in USSR again.

This situation was only temporary. The positive economic growth enabled to acquire huge financial surpluses in the state budget. The soviet government undertook special measures to overcome the monetary shortcomings (utilization of financial surpluses of the state budget, measures against high kolchoz prices on the free market, reduction of issue of currency, system of prices was unified, and so on). These measures were successful, the contradiction between accelerated industrialization and monetary stability was overcome.

4. If we compare the situation in USSR in the period 1917 - 1924 with the situation in the first half of thirties in a very narrow sense (savings and issue of inflationary money) then it is obvious that

- the issue of inflationary paper money in the period 1917 - 1924 was inevitable because of noneconomic purposes and was the only possible financial resource to finance civil war and defence of the young socialist state
- the issue of inflationary paper money in the first half of thirties was additional financial resource to basic financial needs (state budget, own financial resources of enterprises and bank credits) to secure the most important economic aim - accelerated industrialization.

5. More complicated case of Czechoslovakia can be analyzed. In the common sense we can apply the same issue: Czechoslovakia as the socialist country has got objective circumstances and planning instruments to reach the monetary equilibrium and to remove the inflation

from the economic life. On the other hand the monetary development of Czechoslovakia involved some causes which influenced some monetary disturbances. We focus the monetary development of Czechoslovakia in the period 1945 - 1953.

After the World War II, Czechoslovakia was induced to realize monetary reform because of damage which had been injured by fascist occupation. The monetary reform absorbed the surplus of money in circulation. In the process of the reform the old cash money were exchanged for new Czechoslovak crowns in the ration 1 : 1 up to 500 crowns. All the other items (both cash and savings in saving banks) were allocated on a special so called frozen accounts. Disponibility with this frozen accounts was limited.

The further economic development (during the two-year-plan and the first five-year-plan) was successful from the aspect of economic growth, removal of unemployment, increase of standard of living, structural changes of economy, and so on.

At the same time Czechoslovakia applied the soviet experience in economic planning.

In spite of this positive changes and results a certain surplus of money supply appeared within the period 1945 - 1953.

The main cause of this monetary disturbances was the withdrawals from the frozen accounts for personal as well as enterprises' needs. Some other causes can be mentioned: excessive growth of bank credit, deficits in the state budget in the period 1945 - 1948, some disproportions in the relation between the productivity of labour and wages and others (bad harvest 1947).

Therefore it was necessary to undertake the second monetary reform in the year 1953. The main causes of monetary disturbances originated in the period 1945 - 1948, in which the different sectors existed (socialist, capitalist and small producers).

Also some other useful conclusions can be drawn up. First of all it is necessary to stress, that special monetary planning methods must be involved into the complex of social economic planning. The planning of material flow, as well as of labour power, prices, incomes and expenditures of state budget are the most important circumstances for monetary planning, but they are not sufficient to reach monetary equilibrium, special forms of monetary planning in the close connection with the planning of money income and its redistribution must be applied.

Selected problems and experience of socialist countries especially of Czechoslovakia are the main subject of explanation of the following part.

III. Selected problems of monetary planning in Czechoslovakia

1. Monetary planning performs the basic instrument to reach domestic and foreign monetary stability in socialist countries. Monetary planning can fulfil this task only as an inherent part of social economic planning, the planning of material flows, of labour force, prices, export and import, financial flows and other involved.

2. In the narrow sense the monetary planning in Czechoslovakia has been represented by four plans:

a) cash plan

- b) credit plan
- c) foreign exchange plan
- d) complex monetary plan

3. Cash planning predominated because of the importance of cash flow for the inhabitants. In the past nearly the whole volume of money incomes and expenditures were realized through cash flows. Therefore the socialist state has such an attention to the planning of

- the volume and structure of cash income of inhabitants
- the volume and structure of cash outlay of inhabitants
- the difference (surplus/deficit) between the above magnitudes.

In spite of the fact that the incomes and expenditures realized in prevailing part in cash, two different plans have been engaged in planning incomes and expenditures of inhabitants:

- a) Balance-sheet of the population's money incomes and expenditures
- c) Cash plan.

The mentioned balance-sheet deals with the following equation:

$$Y = E_g + E_s + E_f + \Delta S + \Delta M$$

where

Y = money income of population in the planned volume and structure

E_g = expenditures for purchases of goods (so called buying fund)

E_s = payments for services

E_f = financial payments

ΔS = Increase of personal savings in saving banks

ΔM = increase of cash in the hands of population

The balance-sheet includes both cash and non-cash incomes and

expenditures of inhabitants. It has different functions, for example it seems for planning of retail-trade turnover (supply of goods in retail-trade organizations). It is derived especially from different parts of the social macroeconomic plan.

But this balance-sheet is not a direct instrument for the cash flow planning, it does not reflect the immediate relationship between the State Bank, as the bank of issue and organization, institution which withdraws the cash for their payments to the population. Secondly, the share of non-cash flows has been increasing, therefore separate cash plan has been exercised.

Let us demonstrate and analyze the cash plan of the State Bank of Czechoslovakia for the year 1972.

The State Bank of Czechoslovakia - the cash plan for 1972

Item	Crowns (in billion)
Takings in retail trade and public catering	156,7
Takings of enterprises rendering services	27,3
Deposits on accounts of the Unified Agricultural Cooperatives	1,4
Other receipts	14,1
Sub-total	199,5
Deposits of the population	25,9
Transfers among the population through the post offices	5,5
Receipts in all	230,9
Increment in money in circulation	1,1
Total (total turnover in cash)	232,0
Wages and remuneration for labour performed	125,8
Purchases of agricultural produce	2,5
Payments out of accounts of the Unified Agricultural Cooperatives	13,6
Pensions, subsidies and compensations under insurance	44,1
Other payments	18,8
Sub-total	204,8
Drawings from the deposits of the population	22,1
Transfers among the population through the mediation of post offices	5,1
Expenditures in all	232,0
Decrease in the money in circulation	-
Total	232,0 220,5

Different problems of cash planning can be mentioned (if necessary) but I focus my ideas to one phenomenon only: The increase of cash was planned 1,1 billion of Czechoslovak crowns. The total receipts are planned 230,9 billions of crowns, total expenditures 232,0 billions of crowns. The relation between total amount of receipts or expenditures is very positive indeed. All the experts in this field have known very well, that this relation is important to reach equilibrium. In the last part we shall examine these relation deeply.

4. The main task of the credit plan of the State Bank of Czechoslovakia has been the optimal allocation of the credit fund. The credit fund consists of different "free" financial resources, first of all different savings (deposits).

The relation between credit fund and its allocation can be demonstrated as the case of aggregate credit plan.

The aggregate credit plan for 1974 was drawn up in this form:

Aggregate credit plan for 1974

<u>Assets</u>	<u>Resources</u>
1. Investment credit	1. The resources of enterprises
2. Operational credit	2. The resources of inhabitants
3. Credits to banking system	3. The resources of budgetary and other institutions
4. Consumer credits	4. The resources from abroad
5. Loans to the state budget	5. The resources of banking system
6. Other credits	6. Other
Total	Total

We can discuss different problems (different methods of compiling the credit plan, the conspectus of different resources and other). Let us mention three very important facts:

- a) The most important resource has become the resource of inhabitants.

This part we shall examine more deeply in the following part (chapter), which is devoted to the problems of propensity to save.

- b) For a long time operational credit was the dominant asset.

- c) During several last years the investment credit had increased very rapidly. Different causes had influenced this development, the structural changes in credit fund must be mentioned. The increase of the share of personal savings, especially the increase of long term savings of inhabitants has enabled the rapid growth of investment credit.

I was not able to verify all the aspects of this problem under socialism, but I guess there has been a specific economic law under socialism, which can be characterized in this way: The higher is the share of personal savings in the credit fund and the higher is the share of long term personal savings in the total amount of personal savings, the higher must be the share of investment credit. This relation must be regarded as long term tendency and at the same time as hypothesis. Different arguments can be performed.

5. A great attention must be paid to the foreign exchange relations. All the basic relations to foreign countries have been planned in foreign exchange plan.

Let us mention briefly the structure of the foreign exchange plan of Czechoslovakia. Foreign exchange plan consists of two parts:

the trade balance, and the balance of payments.

The balance of trade includes export, import and the difference. The balance of payment includes the difference of trade balance and balance of payment resources and assets (bank operations, governmental long term credits, changes of claims and liabilities from export and import and other.

These relations can be expressed briefly in symbols:

$$E - I = D_t$$

E = export

I = import

D_t = difference of foreign trade balance.

If $E > I$,

then $D_p = R - A + D_t$

D_p = difference of balance of payment (surplus)

R = resources of the balance of payments

A = assets of the balance of payments.

All the items of the foreign exchange plan are planned and planning has played different role which could be interesting to discuss (the role of this plan from the aspect of material flow, terms of trade, credit policy, the role of IEMC and IIB in Moscow, and other). In the narrow sense the foreign exchange plan plays the most important role in the process of planning foreign exchange equilibrium.

6. In Czechoslovakia since 1969 has been drawn up so called monetary plan. Different causes impacted the introduction of this plan. In a quite common sense we could say that this plan prefers the complex monetary planning: Cash plan, credit plan and foreign exchange

plan became partial plans of the complex monetary plan.

In this respect we should take into account:

Czechoslovakia has been ^{an} exporting and importing country. Therefore it has been necessary to analyze and plan both these spheres simultaneously.

The rapid increase of the living standard has influenced the huge increase of personal savings. As we have already mentioned, the substantial part of income and expenditures of inhabitants have got the form of cash. On the other hand there has been an extend of non-cash payments and non-cash balances, especially of inhabitants. It has therefore appeared useful to analyze and plan cash and non-cash balances together.

Bank credit is regarded not only as a special form of financial resource, but also as an instrument of creation of money.

All these together represent in the common sense the basic purposes for complex monetary planning.

The structure of monetary plan is shown in the following table.

Monetary plan of Czechoslovakia

I. Domestic assets:

A Short-term credits

- a) enterprises and organizations
- b) inhabitants
- c) others

B Long-term credits

- a) enterprises, organizations
and National Committees
- b) inhabitants
- c) others

II. Foreign assets

A Short-term claims

B Long-term claims

III. Credit reserve

I. Domestic resources:

A Short-term

- a) enterprises and organizations
- b) inhabitants
- c) others

B Long-term

- a) enterprises, organizations
and National Committees
- b) inhabitants
- c) state budget
- d) others

II. Foreign liabilities

A Short-term liabilities

B Long-term liabilities

If we study the structure of domestic resources, then we could recognize that the savings and cash reserves of inhabitants represent more than 50 % of this resources. That is why we analyze the development of money reserves of inhabitants so carefully.

IV. Analyses of the Personal Savings in Czechoslovakia

1. There has not been any doubt that the increase of the living standard in Czechoslovakia has represented the basic economic factor of the increase of personal savings. In the first approximation we can derive highly simplified conclusion: The higher is the growth of the living standard the higher is the increase of personal savings.

The increase of the living standard can be reached in different forms. There has been three basic forms of the increase of the living standard, which has been applied in Czechoslovakia and in other socialist countries: the increase of money income, the reduction of retail prices and increase of social consumption. Some other forms have been also applied (increase of consumer credit, natural consumption and others). The relations between these different forms have changed, but the increase of money income has predominated.

Furthermore, during last several years the social policy in Czechoslovakia has been focused on the stability of the retail prices. That is why we can analyse the relation between standard of living and increase of personal saving basically as the global relation between the development of money income and increase of personal savings at constant retail prices. The increase of social consumption can be regarded as one of the factors, which has influenced the propensity to save.

Briefly: $Y \cdot \alpha = \Delta S$ ($P_t = P_{t-1}$)

where Y represents money income of inhabitants
 α represents propensity to save
 ΔS shows the increase of personal savings
 P equals to retail prices
 t represents time

2. From this equation we can derive two basic relations:

- a) The higher is the increase of money income of inhabitants at the given amount of propensity to save, the higher is the increase of personal savings.
 - b) The higher is the propensity to save at the given amount of income of inhabitants, the higher is the increase of personal savings.
- Of course, both these tendencies can exist.

3. In practice of socialist Czechoslovakia both tendencies can be found:

- a) The increase of money income has been permanent in spite of small variations of the percentage of increase of this income.
- b) In spite of some fluctuations of the propensity to save the tendency towards increase of this propensity to save prevailed.

4. When we examine these tendencies another problem arises. We can analyse the propensity to save in narrow or broader sense (as deposits or deposits plus cash). Furthermore we can compare these items with money income or with income disposable (in this case we deduct the taxation). We can draw our attention to average or incremental items. The propensity to save can be therefore analysed as

$\Delta S/Y$ which represents the relation between the increase of deposited personal savings and money income of inhabitants

$\Delta S/Y_d$ which represents the relation between the increase of deposited personal savings and disposable money income of inhabitants

$(\Delta S + \Delta C)/Y_d$ which represents the relation between the deposited personal savings plus the increase of savings in cash and disposable money income of inhabitants

$(\Delta S + \Delta C)/Y_d$ which represents the relation between the increase of deposited personal savings plus increase of savings in cash and the increase of disposable money income

5. The following table brings all necessary data for calculation - in different forms - the propensity to save in Czechoslovakia during the period 1955 - 1973 (see page 19).

6. The money income of inhabitants has grown very rapidly in Czechoslovakia. The total amount of money income in 1955 was 95 514 mil. Kčs, in 1973 was 269 326 mil. Kčs. The increase was 178,2 %. The same tendency has appeared in the development of disposable income: in 1955 it amounted 86 023 mil. Kčs, in 1973 239 320 mil. Kčs. The rapid growth of money income as well as of disposable income has been the basic factor of the growth of personal savings in Czechoslovakia.

In the column no 7, 8, 9 we can study the absolute amount of the increase of cash and deposited personal savings and the development of both these items together. The increase of deposited savings has been more stabilized than the increase of cash savings because of the character of cash savings as well as of some other factors (including political international affairs). In spite of these fluctuations it is quite obvious that the tendency of the increasing raise of personal saving has prevailed!

Propensity to save in Czechoslovakia 1955 - 1973

Year	Total money income Y	Taxation T	Disposable income Y_d			Increase of savings and cash			Different forms of propensity to save			
			Total volume	Increase	Index	Cash ΔC	Savings ΔS	Cash plus savings $\Delta C + \Delta S$	$\Delta S/Y$	$\Delta S/Y_d$	$(\Delta C + \Delta S)/Y_d$	$(\Delta C + \Delta S)/\Delta Y_d$
1	2	3	4	5	6	7	8	9	10	11	12	13
1955	95 514	9 491	86 023	5 404	100,00	658	1 675	2 333	1,75	1,95	2,71	43,17
1956	102 310	10 260	92 050	6 027	107,00	719	2 526	3 245	2,47	2,74	3,53	53,74
1957	108 527	10 495	98 032	5 982	114,00	1 134	3 158	3 024	2,91	3,22	3,08	50,55
1958	110 030	10 695	99 335	1 303	117,70	354	2 711	3 065	2,46	2,73	3,09	235,23
1959	115 067	10 962	104 105	4 770	121,00	451	2 773	3 224	2,41	2,66	3,10	67,59
1960	121 050	11 532	109 519	5 413	127,30	800	2 261	1 461	1,87	2,07	1,33	26,99
1961	128 402	12 113	116 289	6 771	135,20	1 434	2 815	4 249	2,19	2,42	3,65	62,75
1962	132 032	12 522	119 510	3 221	138,90	62	2 636	2 698	2,00	2,20	2,26	83,76
1963	135 419	12 669	122 750	3 240	142,70	71	2 540	2 611	1,88	2,08	2,13	80,59
1964	143 349	13 700	129 649	6 899	150,70	654	3 691	4 345	2,57	2,85	3,35	62,98
1965	152 912	14 770	138 142	8 493	160,60	487	4 614	5 101	3,02	3,34	3,69	60,06
1966	161 570	15 880	145 690	7 548	169,40	1 356	3 902	5 258	2,42	2,68	3,63	69,66
1967	173 648	17 318	156 330	10 640	181,70	1 280	5 637	6 917	3,25	3,61	4,42	65,01
1968	194 333	20 429	173 904	17 574	208,30	2 870	3 938	6 808	2,03	2,26	3,91	38,74
1969	216 480	24 237	192 243	18 339	223,50	831	4 962	5 793	2,28	2,58	3,01	31,59
1970	226 358	25 391	200 967	8 724	233,60	671	9 645	10 316	4,26	2,70	2,89	118,25
1971	238 766	26 739	212 027	11 060	246,50	1 567	10 369	11 936	4,34	2,69	3,09	107,92
1972	253 024	28 317	224 707	12 680	261,20	1 826	11 805	13 631	4,67	5,25	6,07	107,50
1973	269 326	30 006	239 320	14 613	278,20	2 270	13 168	15 438	4,89	5,50	6,45	105,52

The increase of cash savings in 1955 was 658 mil Kčs, the increase of deposited savings 1 675 mil. Kčs, all together 2 333 mil. Kčs whereas in 1973 it was 2 270 mil. Kčs, 13 168 mil. Kčs and 15 438 mil. Kčs.

The different forms of the propensity to save can be derived from the following figures:

Year	$\Delta S/Y$	$\Delta S/Y_d$	$(\Delta S + \Delta C)/Y_d$	$(\Delta S + \Delta C)/\Delta Y_d$
1955	1,75	1,95	2,71	43,17
1964	2,57	2,85	3,35	62,98
1973	4,89	5,50	6,45	105,52

It can be easily seen that the propensity to save has increased regardless the form we prefer.

7. The proceeding analysis enables us to explain the increase of personal savings both from the aspect of money income (Y) and from the aspect of the development of propensity to save. We had already found that

$$Y \cdot s = \Delta S$$

If we limit our explanation to the deposited savings only and if we prefer the formula $\Delta S/Y_d$, the following relations can be derived:

Year	Y_d	$\Delta S/Y_d$	ΔS
1955	86 023	1,95	1 675
1964	143 349	2,85	3 691
1973	269 326	5,50	13 168

The increase of deposited personal savings in Czechoslovakia has been the result of the increase of disposable money income of inhabitants as well as of increase of the propensity to save.

8. Different causes have been responsible for some fluctuations. Especially during so-called Czechoslovak crisis some substantial fluctuations existed. Domestic political affairs and different economic causes (including the negative steps towards abolition of the leading role of the macroeconomic planning) led to the inflationary increase of money income of inhabitants. In spite of this rapid and inflationary growth of money income we can see decline of the propensity to save as well as a certain decline in the absolute amount of the increase of savings.

On the other hand in the process of political and economic consolidation the increase of money income was reduced and in spite of this fact the propensity to save increased very rapidly. The renewal of the confidence of inhabitants into the stabilized economic relations enabled to increase the propensity to save approximately twice in comparison with the crisis period.

9. The increases of cash and deposited personal savings represented at the end of 1973 together bill of Kčs. And this last amount represents the most important financial resource among the domestic free financial resources, which are redistributed by the banking system for different financial needs.

10. The rapid growth of personal savings in Czechoslovakia was associated with some structural changes. Some statistical data are available to show the shift of the structure of personal savings in favour of higher items. This fact is very important from the aspect

of allocation of personal savings.

At the same time the changes of structure of personal savings has reflected also the changes in the structure of consumption of inhabitants. On the other hand the changes in the structure of personal savings include to a certain degree a very useful information about the future consumption, especially of durable goods of higher prices. Different aspects of these relations can be discussed.

11. Every expert in this field has known very well that many other aspects of personal savings are related, for example the problem of influence of interest rate, consumer credit and other.

V. Savings in the Broader Sense and the Role of the Plan

1. In the part IV. I tried to analyze the personal savings as the most important part of domestic savings. In the broader sense other savings, which have had the form of different bank deposits. In accordance with the structure of the aggregate credit plan (see page 11) other sources than savings of population can be mentioned:

- the resources of enterprises
- the resources of budgetary and other institutions
- the resources of banking system
- other

Similar items can be shown in relation to monetary plan of Czechoslovakia (see page 15).

If necessary, further information are available.

2. Let us focus our attention to another aspect of savings. At Any account the total amount of savings (S) represents a special

fund which is redistributed through the bank credit (C). Hence we can write

$$S \rightarrow C,$$

where S = different forms of savings
 C = bank credit

and the symbol \rightarrow denies the implication.

Under certain circumstances we could also add that bank credit is a form of financing the investment in the sphere of fixed and current assets. In this case and with many simplifications we could write

$$C = I$$

where C = bank credit
 I = investment financed through bank credit

"Nothing can be invested if anything has been saved" was the slogan many years ago in Czechoslovakia.

3. The socialist countries have overcome practically and theoretically the shortcomings of the mentioned theory.

At the first glance it seems that the mentioned theory can be neglected by the opposite implication:

$$C \rightarrow S$$

To a certain degree it is true that bank credit (C) has been the instrument of redistribution of the given savings (S), briefly

$$S \rightarrow C.$$

On the other hand the bank credit (C) has been an important instrument of issue of money (M) and in this relation we can write

$$C \rightarrow M$$

But this is not the most important aspect of the examined relation under socialism. Let us admit that there has always been twofold

relation between savings and bank credit, which can be demonstrated simply like this:

$$S \rightleftharpoons C$$

The developed capitalistic countries have solved this problem in the framework of relations between these two factors. The experience of socialist countries has revealed the final role of the planned changes in the material sphere. The basic relation can be therefore demonstrated in this way:

Planned changes in the material sphere. \longrightarrow $(S \rightleftharpoons C)$

The contradiction between savings and bank credit can not be solved in the framework of correlation of these items. It is necessary to take into account the possibilities of planning the material changes. If the society is capable to fulfil the planned targets then it is capable to create new savings in different forms and to redistribute them through bank credit.

The leading role of the macroeconomic plan predominates especially from the aspect of material flows. But it does not mean that the monetary planning has any influence on the material flows.

Different aspects of this problem can be also discussed.

Several basic ideas can be derived from the analysis:

1. The socialist economy is capable to remove inflation and to reach monetary equilibrium.
2. During transit period there were special circumstances which influenced the origin of inflationary gap.

Inflationary gap can appear even under socialism, especially if the priority of planning was not utilized.

3. Complex monetary planning has been the most important instrument to reach monetary equilibrium in Czechoslovakia, of course in close connection with the planning of material flows, prices, income and its redistribution and other.
4. Personal savings of inhabitants represent the most important part of domestic savings in Czechoslovakia.
5. The huge increase of personal savings in Czechoslovakia has been caused by the rapid increase of money income of inhabitants and the increasing propensity to save.
6. The creation of savings has been always limited. The problem can not be solved by the issue of inflationary money in the long run. The socialist economy proved the leading role of macroeconomic plan in this field also. The fulfilment of the planned targets has been at the same account the basic contribution to the creation of new savings which are necessary to finance new investment through bank credit.