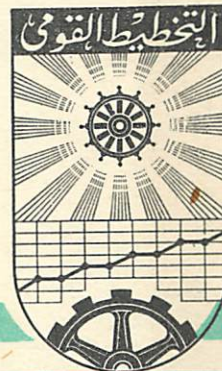


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The Experience of Socialist Countries (Especially of Czechoslovakia) with Monetary Planning from the Aspect of Savings

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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 issuing 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 derived 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 reforms 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 ratio 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. Availability 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