

## CZECHOSLOVAKIA : ANNUAL REVIEW FOR 1982

*Her Majesty's Ambassador at Prague to the  
Secretary of State for Foreign and Commonwealth Affairs*

## SUMMARY

The régime had a slightly better year than they probably expected, though the man in the street was slightly worse off. The advent of Andropov in Moscow will have implications in Prague and Bratislava but it is premature to make precise forecasts (paragraph 1).

2. The leadership remained nervous, and distrustful of their own people. Tendency for regimentation of the citizen to increase. Heightened tension with the Roman Catholic Church. Pressure kept up on political dissidents, but major show trials avoided (paragraphs 2-4).

3. Economic performance varied between sectors, but there was no crisis. Some of the modernisation and re-structuring strategy may be working (paragraphs 5 and 6).

4. The scheme for management reform encountered forces of inertia. But at high level the authorities indicated increased awareness that more attention should be paid to foreign and domestic customers' requirements and that traditional seller's market attitudes will not do. A change of emphasis in the Kremlin would strengthen the hand of those in Czechoslovakia who are pressing for greater flexibility (paragraphs 7-10).

5. A summit meeting of the Council for Mutual Economic Assistance (CMEA) offers advantages to the Czechoslovaks. It would be logical for them to press for greater multilateralism within the bloc (paragraph 11).

6. The existing pattern of relations with non-Communist countries showed no fundamental change. Relations with the US worsened; with Austria they improved (paragraph 12).

7. A relatively good year for British interests, which were helped by a settlement of the claims and gold problems and useful Ministerial visits in both directions. Reasonable if unspectacular prospects of increasing the British market share. Potential fund of goodwill towards Britain on the part of ordinary people (as illustrated over the Falklands). We need to work on this as an investment for the future (paragraphs 13 and 14).



8. Looking ahead for a decade, there is still a possibility that economic renewal could eventually lead to a happier country. Conversely, if standards drift further downhill there is potential for trouble. The Czechoslovaks are a long-suffering people, but there are limits to the extent that their rulers can take subservience for granted (paragraph 15).

(Confidential)  
Sir,

Prague,  
4 January, 1983.

From the régime's point of view the year could have been worse. Despite the evil omens of last winter there was no economic crisis, and the people, recognising where power lay, remained morosely compliant. But President and Party General Secretary Husák has no cause to be complacent. Only very little progress has been made in solving the underlying structural problems of the Czechoslovak economy. Real living standards of the people have, if anything, slightly receded from what they were two years ago. For all the assurances emanating from the Kremlin about continuity of policy after Brezhnev, there is already some evidence of a possible change of style and emphasis. This could have its implications for the balance between conservative old-style theorists and new style pragmatists over which Husák has presided for the past 12 years. All this makes it as difficult for the President to forecast the future with confidence as it does for me.

#### Internal political

2. The leadership continued to demonstrate during the year that they do not trust their own people. They still remember 1968 only too clearly. Travel to the West remained closely regulated and restricted. Officialness by uniformed police visibly increased. At the end of the year the authorities tightened the law about registration of changes of residence and added to the details which citizens have to give about themselves. This was dressed up as a measure to facilitate the computerisation of social service benefits and as thus being in the best interests of the ordinary man, but no one was fooled. The dreaded explosion in Poland did not happen, but even under Jaruzelski much goes on there which appears totally heretical to the orthodox minds of the Czech and Slovak Party hierarchy, who seem to have little comprehension at the best of times of the facts of life just over their northern border.

3. This deep-lying sense of insecurity underlay a row between the régime and the Roman Catholic Church which lasted most of the year. In March the Vatican indicated that participation in the state sponsored clerical "peace" movement "Pacem in Terris" was incompatible with the vocation of a priest, and did so when Cardinal Tomášek was leading an official visit to the Pope by a delegation of Czechoslovak bishops that included "Pacem in Terris" men. The reaction was a flow of propaganda about "political clericalism" with attacks on the "underground Church", the Church in Poland and even on the Pope himself. Just before Christmas the Cardinal came under public attack. So long as the Roman Catholic Church is perceived by the régime as the one form of human association in the country which is not under the Communist Party's unchallenged supremacy, the underlying causes of tension remain. I see little prospect of the long overdue accommodation with the Vatican needed to fill the nine vacant sees (out of 14), nominate a credible successor to the 82-year-old Tomášek or open the doors of the seminaries to more candidates for the priesthood.



### The economy

5. Party pronouncements have given prominence throughout the year to the economy and policies for improving it. The statistics so far available on the economy's performance in 1982 suggest that, while in no way brilliant, there was a slight improvement on 1980 and 1981. Modest growth was registered in productivity and in total production. The construction industry did badly, as usual, and open cast brown coal mining again failed to come up to scratch, but the harvest was respectable (albeit below the ambitious plan target), and only 20 per cent of industrial concerns are said to have failed to reach their targets. Energy saving is now a high priority in Czechoslovakia, which comes third only to the USA and Canada in its *per capita* consumption, mostly because of the appetite of obsolescent industry. Here there was some modest success. Indebtedness to the West, already modest, was reduced. The 1982 balance of hard currency trade was in Czechoslovakia's favour, owing to a reduction of 13.5 per cent in the value of imports from capitalist countries.

6. Taking a longer view, it is early to judge how the strategy of industrial re-structuring is faring. In our touring during the year, however, members of the Embassy have found evidence of actual reduction of raw steel production and increased resources for the electronics industry. We know of investment plans, particularly in energy-intensive sectors, that have been deferred because of relatively low priority and of others that will be realised because renewal or replacement of existing plant will lead to greater productivity. All this is consistent with declared policies.

### Management reform

7. At the same time we have encountered evidence of the difficulties encountered by proponents of the scheme for adjusting the economic modalities, known for short as the "Set of Measures". This can fairly be characterised as a scheme for reforming the economic mechanism by stealth which the pragmatists have managed to sell to the Party establishment. It is supposed to reward initiative and success and penalise inefficiency, to promote material and manpower savings and encourage sensitivity by management to market requirements. Because competition in the Western sense does not exist the scheme is based on central planning of the classical Communist pattern, but with potentially significant modifications.



8. [REDACTED]

The heads of the big industrial trusts that live in the world of international markets seem to this Embassy to have grasped what the scheme is all about. But in light industry and at middle levels of management there appears to be a tendency to see the stick of resource rationing rather than the carrot of higher earnings. It was complicated enough anyway to run a Czechoslovak factory by the previous rules of the game. It is not easy for old dogs—which many of them are—to learn new tricks. Nor is it easy for workers long used to an egalitarian pay system to accept that those who produce marketable goods on modernised production lines should be paid more than others. Many of these ageing managers and older workers are the backbone and power base (Soviet troops excepted) of the Party establishment.

9. Another related psychological problem faces the modernisers. Czechoslovak industry has for far too long lived in the atmosphere of a seller's market. The Party now tells it to concentrate on the needs of the export customer and even, sometimes, on improving supplies to the home market. Market research into the wishes of the Czechoslovak consumer is not yet Party doctrine, but the modernisers may have it up their sleeves for a future stage.

10. It is natural to be sceptical about the chances of success of the management reform. However, we should wish it well. This is the kind of evolution which Her Majesty's Government wish to see in Eastern Europe. Furthermore a more prosperous Czechoslovakia would be better for British exports. The scheme did not encounter Soviet opposition, even under Brezhnev. But if, as now seems conceivable, Andropov brings some fresh air into the ordering of the Soviet economy, the hand of the "pragmatists" in Prague and Bratislava will be that much strengthened against the forces of inertia with which they contend.

#### **CMEA summit in 1983?**

11. The Czechoslovaks are pressing for a summit meeting of the Council for Mutual Economic Assistance (CMEA). Unlike political and military meetings of the Warsaw Pact, where Soviet propositions are given ritual endorsement, the evidence suggests that in CMEA the individual countries fight their corners. At the eventual summit the Czechoslovaks are likely to press for a stop to the trend whereby terms of trade (raw materials prices, especially oil, against manufactured goods prices) increasingly favour the Russians. It would also be entirely logical for them to campaign for the slogans on industrial co-operation to be turned into reality. Rationalisation and co-production deals are in the Czechoslovaks' interests; they stand to get the high value-added share of the work while pruning the excessive number of items they now (uneconomically) produce themselves. In this connection they should also press for flexible multilateral monetary clearing arrangements within CMEA instead of the present rigid bilateralism, and for a progressive and binding programme for the alignment of wholesale prices in CMEA countries. Since innovation is a primary objective in their re-structuring strategy it would also follow that they should press for their CMEA customers, especially the Soviet Union, to move upwards from their present conservative specifications which have a stultifying effect on Czechoslovak industry. When presenting these desiderata the Czechoslovaks will argue that they are the necessary response to the recession in the West, capitalist "discrimination" against




CMEA countries, and so on. This line of talk need not put us off. Even if the Czechoslovaks only partially succeed in their objectives their economy will be better conditioned in the longer term for the West to trade with.

### Foreign affairs

12. On all major international issues the Czechoslovak régime continued in 1982 to follow the Soviet line with monotonous precision, sometimes with strident exaggeration. They continued to spend a good deal of time in cultivating Third World countries. Some of this was political posturing and some of it had a practical trade-promotional purpose, but no consistent pattern of priorities was discernible. Relations with the US should have improved after the gold/claims settlement was implemented in February, but they plumbed the depths during the year with almost hysterical public denunciations of US policies, accompanied by some serious provocations against US Embassy staff which drew American measures of retaliation. No major problem arose with Bonn, and Austria was treated with particular consideration so as to ensure a State visit by Husák in November. This went well, although the émigré dissidents came close to wrecking it. Mitterrand's France and Papandreou's Greece were wooed as Left-wing Western states but neither offered much response. Relations with other Western industrialised countries and Japan remained dull.

### Relations with Britain

13. British-Czechoslovak relations had a relatively good year. We, too, settled the long outstanding complex of claims/gold problems in February. Successful visits during the autumn by the Lord Privy Seal, the Minister for Trade and a senior Government Whip (the last coming for the Brno Fair) were followed by a visit to the UK by the Minister for Heavy Engineering. The latter returned with plenty of ideas for follow-up with British industry. British exporters continue at least to hold their own against Western competitors in a difficult market and, provided we and they keep up the pressure, there are reasonable prospects of their increasing their market share even if no spectacular deals are in prospect. Our cultural programme continued on an even keel at the pre-existing level. It is high time, however, to raise the profile of our cultural effort and this the newly-arrived Cultural Attaché intends to do, with the assurance of support from the British Council.





[REDACTED]

16. Copies of this despatch go to Her Majesty's Representatives at Moscow and at other East European posts and at Vienna, Bonn, the Holy See and NATO.

I am Sir

Yours faithfully

J. R. RICH.

[REDACTED]