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EUROPEAN UNION



MINISTRY OF EDUCATION,
YOUTH AND SPORTS



OP Education
for Competitiveness



UNIVERSITY
OF DEFENCE

INVESTMENTS IN EDUCATION DEVELOPMENT

Course: World Economy

Contents

Contents

The aim of the lecture is to describe the position of the Czech Republic in the European Union. Text is an overview of information resources for students (including links to official sources and supplement materials (green box)).

Content:

- 1) introduction – history of the central planned economy
- 2) description of liberalization of the economy
- 3) development of chosen economic variables

“After the Second World War, major changes were made in the Czechoslovakian economy, resulting from big social changes and the consequent establishment of socialism. All economic objects were nationalised. Agriculture was collectivised by force and collective farms were founded. The state’s economy became centralised and it was operated according to the national economic plan. The basic economic rule was to follow the so-called five-year plan, which determined the coming Czech economic years. The Czechoslovakian economy began to orientate towards the East and heavy industry, which required a lot of raw materials and energy. Specialisation in heavy industry resulted in extensive ecological damage throughout the country”.¹

The position of the economy of the Czech Republic in the European market in the 1990s was influenced by processes in the 1990s. The transition from a centrally planned economy to a market economy, carrying with them the transformation processes and liberalization of the economy is one of the key moments in the long term forming the contemporary form of the national economy.

A comparison of the current indicators in selected countries

<http://www.revuepolitika.cz/clanky/355/ceskoslovenska-ekonomika-v-letech-1918-1938>

The post-war development of the Czechoslovak economy was influenced by the non-participation of the Czechoslovak economy with the Marshall plan

CEP: No 61/2007 "the Marshall plan-sixty years after"

<http://cepin.cz/cze/kniha.php?ID=82>

Robert Holman: the transformation of the Czech economy

<http://cepin.cz/cze/kniha.php?ID=65>

<http://www.loc.gov/exhibits/marshall/marsh-exhibition.html>

¹ <http://www.czech.cz/en/Business/Economic-facts/Development-of-Czech-economy>

In the speech Marshall outlined the problem: *“Europe’s requirements are so much greater than her present ability to pay that she must have substantial additional help or face economic, social, and political deterioration of a very grave character.”* He then suggested a solution: *that the European nations themselves set up a program for the reconstruction of Europe, with United States assistance. The significance of Marshall’s plan was immediately recognized. On June 13, British Foreign Secretary Ernest Bevin (1891–1951) predicted that his address “will rank as one of the greatest speeches in world history.”*²

The centrally planned economy has been characterized by the absence of functional markets and, in particular, the absence of prices. The prices of goods and services have been set officially, not on the market. The current market economy is characterized by a high number of private firms, traders, business. In the centrally planned economy was officially forbidden activities as a business. Between the two characteristic features of centrally planned economies include the centralization of economic decision-making and planning of tangible indicators of production.

The Prague Spring

How, where and why (Šikova reform)

<http://www.google.cz/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CCsQFjAA&url=http%3A%2F%2Fwww.vse.cz%2Fpolek%2Fdownload.php%3Fjnl%3Daop%26pdf%3D227.pdf&ei=BMB8UoqdlJHTsgb2tIDIDg&usg=AFQjCNGiNaxSfMR3SZ5LvvBcKdGF2S0FSQ&bvm=bv.56146854,d.Yms>

Transform a type centrally planned economy to a market economy was based on the events of November 1989.

- <http://www.youtube.com/watch?v=01r2INhKZoc>

The transition from a centrally planned economy to a market economy: process of the deregulation

- the liberal approach

² <http://www.loc.gov/exhibits/marshall/marsh-exhibition.html>

- institutional access.

The transformation of the Czechoslovak economy was divided into two phases. The first phase consisted in the implementation of the liberalisation of the markets and stabilize the economy. The second in the privatisation and restructuring of enterprises.

- Shock strategy (immediate liberalisation) – Czechoslovakia, Poland
- The strategy of gradualism (without a large decrease in the transformation of the economy, divided into a longer time) - Hungary

Privatisation – a choice between rapid vs. slow privatization (pros and cons).

- Fast – recovery - the pre-privatisation agony,
- Slow - argument of the appropriate owner
- The privatization of small vs. large privatization
- Voucher privatization vs. employee shares (discriminatory method)

“The essence of the voucher privatization was the sale of voucher books (CZK 1,000), for which the citizens get coupons, which could acquire shares of the company listed in the large privatization. The advantage of the chosen forms of privatization was its speed (two of the privatisation waves) and the fact that the new owners were not as a rule by the privatisation-debt. The disadvantage of the voucher privatization was, in particular, the dispersal of the owners, which, however, could prevent the existence of the privatisation funds, inappropriate choice of the owner, and the argument that privatization of the enterprises had no capital.

The newly established Czech Republic continued their economic transformation in the form of privatisation, which proved to be very complicated, with various effects on particular sectors of the country. The privatisation consisted of three basic processes, known as the restitution, and small and big coupon privatisation. Some companies were directly sold to foreign investors, such as the Škoda Auto Company. Within the restitution process, companies and land was returned into the hands of the original owners. As for coupon privatisation, state enterprises became joint-stock companies and major parts of them were sold to shareholders. We cannot omit the fact that the

coupon privatisation did not create conditions for establishing effective ownership relations. There was no law that would clearly set the ethical boundaries of privatisation, so the Czech economy saw the beginning of a recession in the second half of the 90s. Aiming to stimulate the economy, in the following years the Czech Republic offered significant investment incentives and benefits to foreign investors.

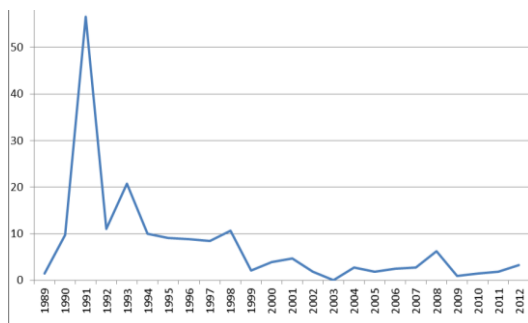
Lessons From East Europe's Voucher Privatization

<http://cog.kent.edu/lib/Ellerman5.htm>

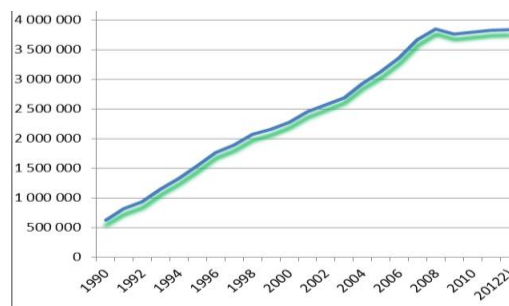
On 1 May 2004, the Czech Republic became a member of the European Union. From the economic point of view, it led to the overall improvement of the position of the Czech Republic on the international market as well as to new possibilities that would strengthen the Czech economy, such as the inflow of foreign investments, access to EU structural funds to develop various fields and regions, or the possibility for Czech citizens to move to other EU member states to work. All limits restricting trade were removed. Today, the Czech Republic is one of the most developed industrial economies in Central and Eastern Europe. Czech industry is focused on metallurgy, engineering, car industry, electronic industry, chemistry, food and beverages processing, and production of glass, medicaments, textile and paper. Industry makes up 41% of the gross domestic product (GDP). The largest part of the country's GDP comes from the service sector (55%). The agricultural sector only contributes 5%, which is quite a low percentage. The main agricultural products include wheat, barley, sugar cane, potatoes, fruit and hops. The most significant farm animals bred in the country are cattle, pigs and fowl. The most important trade partners of the Czech Republic are Germany (31.9%), Slovakia, Poland, France, Austria, Italy, the Netherlands, Russia, Great Britain, China and the USA".³

³ <http://www.czech.cz/en/Business/Economic-facts/Development-of-Czech-economy>

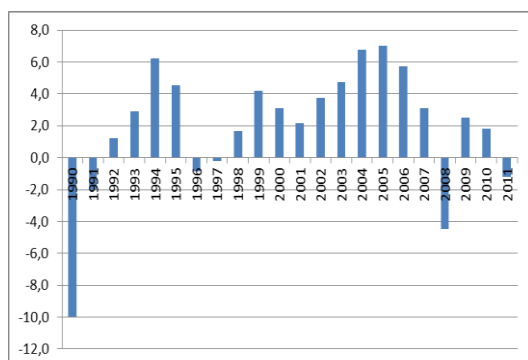
Development of chosen economic variables⁴



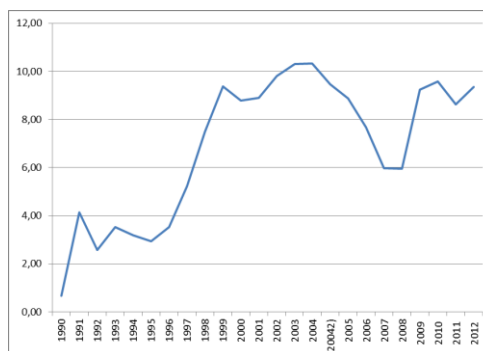
The evolution of the inflation rate in the Czech Republic since 1989



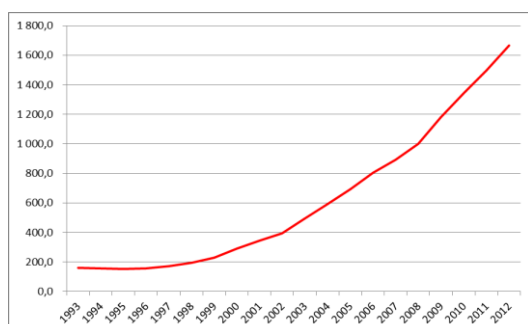
Gross domestic product (current prices, mln. CZK)



GDP growth (constant prices)



Unemployment in the Czech Republic



The national debt in the Czech Republic

⁴ <http://www.czso.cz/csu/redakce.nsf/i/statistiky>

HOLMAN, Robert. Transformace české ekonomiky: v komparaci s dalšími zeměmi střední Evropy. Vyd. 1. Praha: CEP - Centrum pro ekonomiku a politiku, 2000, 106 s. ISBN 80-902795-6-2.

Development of Czech economy. [online]. 2014 [cit. 2014-11-11]. Dostupné z: <http://www.czech.cz/en/Business/Economic-facts/Development-of-Czech-economy>

For European Recovery: The Fiftieth Anniversary of the Marshall Plan. [online]. 2014 [cit. 2014-11-11]. Dostupné z <http://www.loc.gov/exhibits/marshall/marsh-exhibition.html>