



## FUNCTIONING OF THE QUASI-LABOR MARKET UNDER SOCIALISM: CLASH BETWEEN IDEOLOGY AND REALITY

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### Abstract

Based on the interviews with that time managers, the paper aims to find out whether ideology affected the dealing with labor force in the last two decades of the socialist regime in Czechoslovakia. Technically, the labor market was balanced and characterized by zero unemployment and low and highly equalized wages. However, actually, there was a permanent imbalance with the lasting dominance of demand over supply and overemployment. Increasing wages was, due to ideological and formal settings of the system nearly impossible, and thus the economic agents tried to find alternative “solutions” to this imbalance. This situation led to low motivation of the labor force and consequently to low productivity. The positive side was represented by relatively good relationships among the employees. We demonstrate on the interviews that in the clash between ideology and the market forces, the former was stronger and in fact prevented efficient functioning of the labor market.

### Keywords

Labor Market, Balance, Shortage Economy, Motivation, Czechoslovakia

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### I. Introduction

Between 1948 and 1989, Czechoslovakia was a part of the Eastern Bloc, or the so-called socialist camp. As such, the country had to accept the Soviet way of managing the economy, vaguely based on Marx-Lenin’s ideology. One of the principal ideas of the ideology was the value of work (surplus value) and the closely related concept of ownership. In consequence, socialism was expected to be a new, better society, in which the labor force would be fairly rewarded (Mandel, 1973). This better society was expected to be class-less and Marx supposed that the dictatorship of the proletariat was the necessary stage before the creation of such a society (Draper, 1987). During this stage, according to

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Neveselý, “the socialist state – the dictatorship of the proletariat – promotes the aims and interests of the working class, their allies, at the expense of the defeated bourgeoisie and their allies” (Neveselý, 1977, pp. 40–41).

All parts of the labor market (supply, demand and achieving of equilibrium) were affected by the ideology as well as practice of the socialist regime. Due to this fact, the organization of the labor force is usually described as deformed or quasi labor market (e.g. Šulc, 2004). The system was supposed to provide jobs for everybody and, due to the careful central planning, to achieve equilibrium on all markets. It was also expected to be greatly motivating for the workers without putting emphasis on the need for material rewards and in consequence to be more productive than the capitalist system. Other important points were the elimination of capitalist exploitation and various forms of discrimination on the labor market. Curbing competition contributed to the development of cooperative workplace environments. The aim of this contribution is to determine how the ideology affected the functioning of the labor market, i.e., how the labor market really worked during the last two decades of socialist Czechoslovakia.

As the main source for this paper, we used the outputs of our unique research based on the interviews with the Czechoslovak socialist managers from the 1970s and 1980s. Nearly eighty interviews have been conducted. They were realized with people from a variety of branches (agriculture, textile manufacturing, heavy engineering, construction and transport, energy and steel industry, mining, etc.). Almost all respondents had held positions that allowed them access to the planning process, including human resource planning and they had power to manage the labor force. The collection and analysis of the interviews were based on the oral history methodological approach. These outputs were complemented with a number of theoretical publications.

First of all, the paper deals with the formal settings of this very specific labor market. The next section concentrates on its real functioning and imbalances (the predominance of demand over supply) created by the central planning system. Subsequently, it refers to the effort to solve these imbalances on macroeconomic, as well as microeconomic, levels. Then the paper heads towards the consequences of the settings of the deformed labor market that was fully demonstrated in the workers’ motivation and labor productivity. Attention is also paid to personal relationships at the workplace. The last section concludes.

## **II. Formal Settings of the Specific Socialist Labor Market**

First of all, the analysis should focus on the formal settings of the deformed labor market, as they delimited the behaviour of all economic subjects that interacted on the market. These are the non-existence of unemployment, the labor force balance, the central setting of the wages and their levelling.

### **The Ideological Inadmissibility of Unemployment and the Labor Force Balance**

One of the key pillars of the communist ideology was the promise of the Party to eradicate unemployment (Kalinová, 2012). It was based on the Marxist theory. Marx thought that the labor force in capitalism was exploited by the owners of the capital. This allowed

the capitalist to keep the worker's surplus value, i.e., "the difference between the value produced by the worker and the value of his own labor-power" (Mandel, 1973, p. 24).

The solution to these problems was believed to be found in building a socialist, respectively communist system. These theories were further developed by Lenin. In practice, the ideas were supposed to be implemented in centrally planned economies – including Czechoslovakia after 1948. Zero unemployment was supposed to be the major achievement with respect to capitalist economies and unemployment was in consequence ideologically inadmissible. It thus became part of the political discourse and communist propaganda from the very beginning of the socialist era. Despite a certain loosening in the 1960s, the right to work was still the building block of the ideology and unemployment therefore continued to be unacceptable. In the 1980s, when the regime was already losing ground, this law became even more important (Kalinová, 2012).

### **The Balance on the Quasi-Labor Market**

The central plan determined all aspects of the economy. Formally, the pivotal question is whether the organization of labor meets the requirements to be considered a market. Most authors (e.g. Šulc, 2004) believe that the organization of labor can be seen as a specific market. This view fits in general the view about the functioning of the centrally planned economy that is often described as quasi, specific, deformed or at minimum a system with certain market features (e.g. Kabele, 2005; Mlčoch, 1990; Možný, 1991).<sup>3</sup>

In the labor market, the central plan provided the demand side that met with more or less free supply of labor force provided by households. In practice there were three participants – the state, companies and households (Šulc, 2004) – see 2.1. Nearly all economic aspects in the centrally planned system were planned and the labor market was not an exception. The centre designed a plan for the exact number of labor force resources which would be available, as well as the demand of companies for them. Because of the planning, the demand for labor was supposed to equal its supply, as can be seen Table 1.

### **Tariff Wages and Wage Levelling**

The centrally planned character of the economy was also reflected in wage policy. In addition to decisions regarding the allocation of workforce, the centre also had a monopoly on determining the main part of the worker's wages. Šulc (2004) even thinks that the wages were set below their reproductive value. This was due to the fact that a large part of them was financed from the state budget (costs of education, social benefits, subsidised prices of goods, etc.) and did not therefore enter the labor force price and thus even in the calculations of the enterprises. Moreover, as the wages were decided in advance, they were not the result of the market forces (*ibid*).

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<sup>3</sup> For practical reasons we use in the following text the term "labor market" as a synonym to "specific/deformed/quasi-labor market".

**Table 1: Balance of Labor Force Resources and Their Distribution (Average Numbers)**

Indicator	1980	1986	1988
	Czechoslovak	Socialist	Republic
<b>A. Labor Force Resource (I. + II. + III. – IV. + V.)</b>	<b>9,375,172</b>	<b>9,519,694</b>	<b>9,656,588</b>
I. Population in productive age	8,708,756	8,762,635	8,882,691
II. Working in productive age	652,732	723,4	741,433
III. Working commuters	x	x	X
IV. Workers leaving	–612	–1,058	–936
V. Foreign nationals working in the CSSR	14,296	34,717	33,4
<b>B. Division of labor resources (I. + II. + III. + IV. + V. + VI.)</b>	<b>9,375,172</b>	<b>9,519,694</b>	<b>9,656,588</b>
I. Workers with the only or full-time job	7,225,952	7,485,663	7,544,658
II. Women on maternity and other maternity leave	379,79	349,808	358,436
III. Pupils and students in productive age in schools	552,463	429,449	445,205
Universities	143,954	135,864	136,005
colleges and vocational schools	219,691	165,176	168,836
high schools	116,188	102,642	105,856
primary schools	60,085	4,192	7,902
schools for young people requiring special care	12,545	21,575	26,606
IV. Pupils of secondary vocational schools in productive age	356,893	285,782	295,248
V. Population unable to work in productive age	274,229	266,344	267,003
VI. Other working age population incl. unplanned components	585,845	702,648	746,038

Source: *Federální statistický úřad (1989)*

Wages in the socialist era consisted of three components. The principal one was the tariff wage. This was completed with supplementary charges (for example for overtime or working at night) and motivational components determined on the basis of the results of an individual and/or the working team. Tariff wages were set by the centre, which emphasized the result of the sector, the enterprise and the work of the collective, and this mitigated the significance of an individual's performance and results (Havelková, 2009). The collective results depended on the plan fulfilment, as it was one of the few possibilities how to increase earnings and ensure employees' satisfaction: "It was clear that when the economic plan is met somehow (...) people get a pay" (Designer and leading worker in

construction <ID031><sup>4</sup>). Not meeting the plan objective could have serious consequences on the payment of these bonuses (Lipovská, Coufalová and Žídek 2018).

According to a former director of an engineering company (<ID006>), the tariff wages were limited, and their growth was also centrally set. Everything was subject to the so-called functional schemes in which every worker was categorized. It was precisely defined what each function's job description was and how it should be classified.

Večerník (1992) states that the 1959–1988 period was characterized by remarkable wage stability. In a sociological survey focusing on a period between 1970 and 1988, however, he concludes that, despite the stability, the gap between wages in services and in sectors such as industry, construction and transport had increased, reflecting the surviving interest of the regime to keep workers on its side. It also follows from the above mentioned that the managers did not have the possibility to influence the amount of these wages. Therefore, their manoeuvring space was limited to the payment of bonuses from the reward fund (Operating deputy in transport <ID009>).

There were some possibilities how to improve one's wage. One of them were improvement proposals. These were based on proposals made by employees with a view to saving material, improving performance, quality, etc. For example, in an engineering company, once approved and implemented, such proposals could result in a one-off reward at the amount of three times the wage and a subsequent percentage increase over several years (Planner <ID007>). Other possibilities consisted in a good collective performance in the Brigade of Socialist Work, for which the participants could get, for example, a travel permit to one of the affiliated countries. However, the reward of the Brigade did not always go to the most efficient team of workers. It was often awarded to another group that the centre wanted to motivate (Head of the technical department in an engineering company <ID020>).

Therefore, in general, employees were rewarded or punished only for good or poor collective results, as meeting the plan depended on the work of the whole group, as well as the results of the competition in the Brigades of Socialist Work. The performance rewards were mostly the same or very similar for all employees and were independent of whether they were a top worker or a low-performance worker (Planner in engineering <ID007>).

In addition, since the 1970s, workers were sometimes deployed in a kind of informal economy. This led to an increase in their working hours, as well as to an increase in their income. This was particularly true for construction workers and those working in communal services, not so much for workers in other industries (Kalinová, 2012). According to the respondents, the so-called *associated production* also increased in the period under review. These were centres where products others than those usually manufactured by the company, were fabricated, and whose business was not official and therefore not included in the central plan. This way of production offered the company, and hence its employees, the opportunity to benefit financially.

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<sup>4</sup> We provide the identification number of the respondents (ID) from our research in order to preserve their anonymity.

Another important point related to the wage policy during the period under consideration, were the very small differences in wages across the population. Gros and Steinherr (2004) report, that the Gini coefficient for Czechoslovakia reached in 1986 the value of 19.7, which was the lowest coefficient of all Eastern Bloc countries (and probably all over the world).

Indeed, manual workers could earn the same or even higher wage than the managers of the company. Our respondents stated that for example, in agriculture: “A good tractor driver often earned more money than the head of the cooperative” (Factory manager <ID010>). The same was true for engineering: “Differences in wages were relatively small. Well, it was not really the director who earned the biggest money. Usually, these were prominent workers. And service workers, who could travel abroad.” (Economic planner <ID008>), or transport (Operating deputy in transport <ID009>). The average wages can be seen in Table 2.

**Table 2: Wages of Workers by Main Occupation Groups in 1984**

Job groups	Avg. wage	Wage relation
Workers processors	3086	100
Agriculture workers	3170	102.7
Workers in mining, metallurgy and power engineering	4174	135.2
Construction workers	3177	102.9
Operational and service workers	2564	83.7
Technicians	3708	108.5
Management and administration staff	3116	104.2
Education, culture and health workers	3011	97.5
Workers of science, research and development	4052	131.3

Source: Kalinová (2012)

The table shows that the low-qualified labor force earned relatively high incomes. Workers in the mining, metallurgy and energy industries earned an average of 30% higher income than a skilled workforce in health or education. The main reason for the relatively low salaries of health professionals and teachers was the fact that the regime assumed that their low income would be compensated by the inner satisfaction of their work (Havelková, 2009). Employees' wages did not reflect the differences in qualifications needed to practice the profession. This was mainly the result of different working conditions, which were the main cause of higher wages in the mining industry than of workers in science and research (Kalinová, 2012). “My brother was an ordinary worker and I worked in high management, but he earned twice as much as I did. Workers were a real power. And miners too, you know.” said a respondent from an engineering company (Foreman <ID015>). As far as education and salary evaluation were concerned, in 1984 qualified workers and those with higher secondary education earned 24% more, labor force with secondary education 20%, and university graduates 56% more than people with basic education (Průcha, 1988). In

the period under consideration, the wages did not change much in real terms. Hiršl (1992) indicates that during the 1980s, wage growth was 3.9%, equivalent to 0.47% per year.

As regards women's wage valuation, Jechová (2012) mentions that there was a relatively lower wage differentiation among women than among men and that women were generally lower in earnings. According to Večerník (1992), the differences between men and women wages were stable during the whole period. Women earned on average 35% less than men, often even when they had the same education and qualifications. In many cases, this inequality stemmed from the fact that men more often performed more physically demanding tasks, worked in three-shift operations, and attend work trips to remote departments. However, in some enterprises, for example Vagónka Studénka (an engineering company), women performed the same hard work as men, whose salary was, however, 1,000 crowns higher. It was a direct consequence of a belief that a man is the breadwinner of the family, and a woman's income is just a supplement to the family budget. According to the foreman from an engineering company:

They (women) were paid three to five crowns per hour and when they needed to use the bathroom, they had to ring a bell and ask a pardon (. . .) real hard labor it was, real. And they would work shifts, night shifts too. You can't compare this, really (<ID015>).

Moreover, almost all leading positions were held by men. Women did not even have access to them in the sectors where they dominated, even if they had sufficient qualifications (Jechová, 2012). Indeed, for this reason, there were only two women among our eighty respondents.

The regime officially declared equality between men and women. The 1960 Constitution (no. 100/1960 Coll.) proclaimed that men and women had the same status in family, work, and public life. Nevertheless, the reality differed greatly from these declarations and despite the fact that the regime proclaimed equality between the sexes, this equality was far from achieved despite the liquidation of capitalist relations. Thus, a system was created that, on the one hand, prevented wage differentials between professions, on the other, tolerated unjustified differences in wages between men and women. This wage policy was not based on labor productivity.

### **III. The Real Functioning of the Labor Market**

This section deals with the supply and the demand sides of the labor market in practice. Then it moves to the labor market imbalance.

#### **The Labor Supply and Demand**

The labor supply side during the whole socialist period was characterized by general duty to work, which went hand in hand with the right to work. The key law was the 1960 Constitution (no. 100/1960 Coll.), which introduced the constitutional right to work, as well as the duty to work for common good. The general work obligation was typical for almost the whole analysed period. This obligation, however, had already been introduced in 1945 due to economic shortcomings after the Second World War. Up to a three-month prison

sentence could be imposed for avoiding work. In the case of systematic avoidance of work, which was referred to as parasitism and was considered a criminal offense, a person could be sentenced even to two years (Havelková, 2009). For this reason, repeated absenteeism was reported to the police, as our interviews reveal:

When suddenly someone stopped going to work, then, like three months later he was listed and fired. And the police were informed about that. The personnel office and everything, it was so interconnected. You know, going to work was, in fact, compulsory. (Leader of Associated Brigades in an enterprise in the metallurgical industry <ID027>)

Employment was compulsory for everybody, which forced corporate executives to employ even very problematic workers whose intention was not to work. A head of the technical department in an engineering company <ID020> pointed out that in the market economy these workers would probably not belong among the economically active population. Even when a person was sentenced to imprisonment, the company was obliged to accept him back once released. According to a planner from an engineering company <ID007>, this was related mainly to the unskilled labor force:

A number of people were employed there, you know, such characters (. . .) in spring and summer, he would more or less go to work, sometimes failed to do so. And in autumn he would do something so that he could spend the winter in jail. It was a kind of routine. But I knew a hundred percent he would be back like February 15 or March 30 or so. They always did. And we got so used to it to the point that (. . .) we almost did not mind it. Twenty-eight Romani people (. . .) and they would even cause trouble, didn't they (laughter) (. . .) we just had to employ them, it was unthinkable that someone would be without a job.

As referred to the demand side, in the socialist period all economic activity depended on the decision of the centre, which decided on the planned output volume. This was predetermined by the labor force requested by the companies. Then followed negotiations relating to the number of resources allocated, as businesses typically required more resources than what the central authorities assigned to them. From the very beginning, labor recruitment was not governed by the law of supply and demand, but by regulations from the centre. According to Šulc (2004), the planning authority was involved in both, the formation of the labor supply, as well as the demand for it, and the centre also decided on the distribution of disposable manpower.

One of the typical features of the system was the obligation to employ graduates of universities, apprentices and selected professionals. Companies were ordered how many graduates would take over the plan, as youth unemployment was politically inadmissible. In a number of cases, the company had to accept unskilled workers just because the centre decided to do so (Havelková, 2009).

### **Market Imbalances**

From the above-mentioned characteristics of labor supply and demand, as well as from the general characteristics of the centrally planned economy, serious consequences emerged for the Czechoslovak labor market. Although everything was carefully formally planned

and balanced, in practice, it turned out that equilibrium was not the same as balance. The most serious imbalance was one associated, on the one hand, with the excess of demand over supply, and on the other hand, with the over-employment of the labor force (in the meaning of hoarding of unused labor). Achieving balance was influenced by two contradictory, though mutually interrelated aspects, based on the reality of the centrally planned character of the economy. The lack of the labor force was primarily the result of extensive growth and the planned nature of the economy. The whole period of socialism was characterized by emphasis on the extensive growth of the economy. This meant that in order to increase production, more sources had to be incorporated (Adam, 1995). This type of economic growth, of course, also significantly influenced the labor market, which was, as well as the rest of the economy, characterized by the excess of demand over supply (Mlčoch, 1990). This omnipresent scarcity was the result of the central planning.

Kalinová (2012) notes that the lack of manpower was evident since the early 1950s when, as a result of the so-called “steel concept”, massive movements of male labor, from light to heavy industry and between regions occurred. It was just one of the manifestations of the shortage economy, which resulted from the incongruence between the planned demand and supply and the effective ones. The fact that the centre decisions were the main determinants of the distribution of the disposable manpower, together with the planning of the investment in the long run, led to a faster job creation than an increase in the available workforce. Šulc (2004) writes that the number of unused jobs increased by 150–200 thousand during each five-year period. In the fifth five-year period, investment activity created 62% more new vacancies than it did in the labor force increment.

However, the excessive demand for labor was not (and could not be) reflected in their corresponding price increases, but in the declining efficiency. Companies were not motivated to focus on the technical development, because the costs of labor were very low, which shifted the boundary of effective labor and technology substitution. The labor shortage was thought to be overcome by growth in investment activity of an extensive nature. However, this resulted in even faster job creation and further boosted the growth of excess of demand for labor over its supply (*ibid*).

According to Šulc (2004), there was an information asymmetry between the centre and the companies. The main task of the company was to meet the plan. The planned targets were set primarily by the centre. However, the officials were not able to assess whether the company was producing at the limit of its production capacities. As a result, these capacities were judged only on the bases of the company’s previous performance. The new plan objectives were set at the same level as the previous ones, or even a few percentage points above, which made the companies demand even more labor force. Hence, they were not interested in revealing their real production capacities. For the same reason, they tried to hoard as many resources as possible, in order to assure a smooth plan fulfilment. This was a consequence of unstable delivery of raw materials and components necessary for the production (Křížek, 1983; Mlčoch, 1990). Companies therefore tried to create sufficient reserves of inputs, including the workforce, without needing it, in order to ensure that they had enough resources to meet the plan (Malý and Herc, 1988). This imbalance was also

reflected in the labor market and the lack of the workforce was visible in all sectors of the economic activity, as can be seen from the following excerpts:

Look, personnel policy (laughter) (. . .) was that employment was compulsory, right, someone, everyone had to have this employment stamp in their papers, so, in a way, the labor market had no vacant labor force (laughter). (Head of the Sales Department in Investment Engineering <ID050>)

The suppression of market mechanisms, together with the ideological unsuitability of unemployment, had serious consequences for the labor market balance. Šulc (2004) writes that "There was a general uncertainty of companies linked to the available job offer as well as to the requirements of the centre. The accumulation of workforce led to further deepening of the excess demand for labor and the so-called over-employment. This term refers to the situation when companies hoard labor force without needing it. There is no real use for this manpower and when it is laid off, no negative impact on productivity happens. It points to the perversity of the system, where businesses did not have enough workforce but at the same time they did not dismiss workers that they did not need to prevent problems with their possible future lack. For example, Pelešová (2002) estimates that in Czechoslovakia there were about half a million overemployed individuals at that time and according to Komárek et al. (1990), up to 20% of labor force was overemployed.

#### **IV. The "Solution" to the Imbalance**

In a market-based economy, the imbalance on the market (excessive demand) would be solved by adapting wage rates. However, this was not possible, as they were set centrally and there was a general effort to level them. The regime sought to solve the permanent imbalance by maximizing job offer, for example by involving women in the work process. Companies, in turn, sought to attract the workforce from other businesses, for example by offering accommodation possibilities, which, as well as the workforce, were scarce.

##### **"Solution" to the Imbalance on the Macro Level**

The centre was well aware of these imbalances in the labor market. For example, on March 28, 1979, the federal government's prime minister, Lubomír Štrougal, declared: "There is a shortage of labor (. . .) and the structure of labor is not optimally deployed" (Poslanecká sněmovna Parlamentu České republiky [PSP], 1990)

For this reason, the central authorities tried to increase labor supply in all possible ways. Zeman et al. (1990) write that the rate of labor participation in the 1980s (49%) was very similar to that in the other countries of the bloc, but significantly higher than in Western European countries (EC on average 31.7%), which was the consequence of the considerable high women participation in the labor market. Women were forced and lured back to jobs. However, it was particularly difficult to involve some groups of women in the working process, especially those with small children. For this reason, crèches and nurseries were established, as well as facilities of corporate meals, company laundries, family recreation, and summer children's camps. In spite of the regime's endeavours, however, the possibility of shorter-term work still lagged behind (Jechová, 2012). According to Průcha (1988), in

Czechoslovakia, women participation reached 71.5% which contrasts with the 47.3% for West Germany, 41.2% for Belgium, 27.6% for Netherlands and 52.3% for France) and after 1970, women represented about 45–46% of the total labor force (*ibid*).

In addition, an average Czechoslovak employee worked 43.5 hours per week, which greatly exceeded the averages of Austria (34), Sweden (35.6), Finland (40.4), Norway (31), or West Germany (41.6). Likewise, holiday days were fewer for the Czechoslovak Socialist Republic (15–20 days) even in comparison with other countries of the Eastern Bloc (GDR 18–24 days, Hungary 15–24 days) (Zeman et al., 1990). Typical was also the high proportion of working retirees. According to Štrougal (PSP, 1990), they represented more than 800 thousand in 1979 and Pilátová (PSP, 1990) said it was more than 10% of the working population.

### **The “Solution” on the Level of Companies**

Šulc (2004) states that there were three ways in which companies competed to influence the supply. First, it was a drop in labor intensity. This was mainly the case of the highly demanding work (for example, miners). For standard work, this was not possible because the centre controlled the standards. In consequence, the demand for standardized work was permanently unsatisfied, as well as the supply of the non-normative one. There was therefore room for the use of acquaintances or bribes. Secondly, there was a drop in or circumvention of qualification requirements, which led to the wiping out of the differences between skilled and unskilled work and was mainly applied to management activities. And last but not least, the practice of creating fictitious employment conditions or additional part time jobs appeared, especially in a situation where a company could not raise salaries and thus offered the employee a secondary employment. However, the employee did not actually do this work, or, in other cases, he could work for a negligible fraction of the agreed working time. Often, this also involved overtime that existed only on paper but was not really worked.

On the other hand, the fact that the wage rates were set by the centre and the enterprises had an exact budget of wage funds, the egalitarian ideology and the scarcity of the economy at that time forced the companies to compete for labor force. As has been already mentioned, wages did not reflect the cost of labor and thus did not fulfil their function typical for the market economy and companies had to find other ways how to attract the workforce:

That means, they would haggle about someone, like, I don't know, agronomists or livestock specialist at a regional level. A free company flat was offered, for example, better conditions, better pay (. . .) So he would leave one firm to join another and the director of the firm he was dumping would go to complain to the local Communist Party branch about me using unfair employment policy, as he could not offer the man a free company flat and that I was thus using unfair personnel policy. (Factory manager in agriculture <ID010>)

This also illustrates another typical way how to attract skilled labor which lay in housing policy, as there was a general shortage of flats and very long waiting times were associated with them. The vast majority of respondents replied that their companies offered accommodation facilities to potential workers. For example, an interviewee from

an engineering company (Leading designer <ID003>) stated that the company proposed to specific workers the possibility to live in corporate flats. These were flats that the city had allocated to the company. Housing policy was in fact very widespread (e.g. Chief executive of the gramophone industry <ID047>; Leading designer in engineering company <ID003>; or Factory manager in agriculture <ID010>).

Last but not least, according to one of the interviewees (Head of the technical department from an engineering company <ID020>) in selected cases, there existed a possibility for wage motivation, for example, promoting to a higher wage category if possible. However, due to the central management of wage rates, the room for attracting labor force through offers of higher salaries was very small. This respondent also stated that the recruitment of new employees took place mainly through personal ties:

They came to my house and simply lobbied. Indeed, it was a common practice, then, to lobby and persuade people on a personal level (. . .) come on, join us, you will be given more money, better work conditions, it is also closer to where you live, we have many amenities, catering and what have you, just better than they give you here.

Another solution was employment of apprentices. Some workers signed apprenticeship agreements during their training. On the basis of this, the apprentices were provided with a job after finishing the training, during which they received pocket money from the company. Their commitment to the company was for at least ten years. Otherwise, they had to pay a contractual penalty (Production dispatcher in engineering, <ID053>). Alternatively, companies selected college students. A respondent from the building industry company (Sectional construction manager <ID023>) worked regularly with a university which sent the most skilful students to him for a trial period. Also, Vagónka Studénka, whose representatives in the late 70s and 80s frequently visited universities, offered a number of scholarships in order to attract qualified labor force (Leading designer in engineering company <ID003>).

## **V. Consequences of the Communist Ideology in Practice**

The fact that the wages were generally low and flattened and there were negligible possibilities to reward good work was attributed to the motivation of workers. Distortion in this area resulted in a lack of productivity, compared to Western countries. The positive consequence of the absence of unemployment and the levelling of wages was their impact on interpersonal relationships at the workplace.

### **Motivation**

In theory, the labor force and generally all people were supposed to be highly motivated. The theorists of the system expected the creation of a “new socialist person” who would work hard for the better future of everybody without personal demand for material reward (Gregory and Stuart, 2014). This new person should be honest, comradely, heroic and idealistically working to build socialism. He or she was expected to replace *Homo economicus* that is motivated by material reward. But this new socialist person was considered to be imperfect prior to the establishment of the communist stage

of development. In socialism, there were still allowed some material incentives and interactions between performance and reward (Hába, 1988). In reality, however, this attempt completely failed, and the socialist system led to a perverse distortion of the workers' motivation.

Due to the labor force shortage and the emphasis on full employment, companies hardly ever dismissed employees. In principle, a job dismissal could only come as a result of a gross violation of labor discipline:

Well, when someone caused trouble, maybe had drinking issues or something, or didn't go to work, it could lead to giving them a sack, but that was just in very rare cases. Mostly, they would be just demoted to a lesser, less important post. Right, posts that were more exposed and important, you wouldn't find such people in. When someone was, excuse the term, a drunkard, then, he was fired. (Production leader in sheet metal rolling mills <ID035>)

Indeed, according to our respondents, the most common problem at that time was alcohol in the working place (e. g. Operating deputy in transport <ID009>; Production leader in the chemical industry <ID029>; or Production leader in sheet metal rolling mill, <ID035>). The vast majority of them, however, said that the job dismissal occurred only rarely. A more frequent way how to punish staff was to shift him or her to another job or to take away a personal benefit. A typical solution to such a situation is illustrated by the following snippet of the interview with a production leader in chemical industry <ID029>:

If a shift foreman has a suspicion, a person had to take an alcohol-detection test and when positive, he was forced to leave the work site. As punishment, there were some sanctions, money cut and when it repeated, he was fired. But making someone redundant was, by the then-laws a difficult thing to do. That's because everyone was legally entitled to have a job or, if I remember correctly, the law said everyone had to be employed.

As has been previously stated, there was also a problem with absenteeism. In this sense, child benefits played a positive role as the threat of their removal was a way of forcing workers to come to work every day: "All that was necessary was just one-day absenteeism and the child benefit was cut. And believe me, the benefit was more than the person actually earned." (Director in a waterworks company <ID002>).

The emphasis on job stability was only with minor changes characteristic for the whole period of socialism. Kalinová (2012) states that due to the frequent confusion of the right to work with the right to a particular job, fluctuation was generally considered undesirable. However, for example, as a result of the events of 1968 and the massive support of reforms by the working class, companies and schools were allowed to lay off workers and students for political reasons (Kalinová, 2012). Nevertheless, in general, it was extremely difficult to dismiss workers:

I fired just this one and only man (laughter) (. . .) it was possible to fire a person that committed a crime, I mean an intentional crime. And this man, he was rascal, an outcast and he did break the law on purpose. And still I had a lot of difficulty wanting to fire him. All the explanations and reports, as to how many disciplinary meetings took place, and such. It was really tough (Planner from an engineering company <ID007>).

The impossibility of losing a job could not act in consequence as a motivating means to increase the efficiency of employees. Another aspect to be considered is the emphasis on wage levelling as it also led to the suppression of employees' motivation. Besides the fact that wages did not serve as positive motivation, they neither served as a deterrent for low-performing workers.

Of course, when someone wasn't up to it or lagged behind with work, but otherwise was no trouble, his wages were not cut, he would still get paid the same, but when there was some pay rise, he would not get an extra hundred crowns, maybe just an extra fifty. Because his work was not good, not that he would boycott it or something, simply couldn't cope, these cases happened, but the man wasn't fired (Leading designer in engineering company <ID003>).

If there were discrepancies in the amount of rewards, then most of these were differences according to the decision-making level when senior executives had higher plan remuneration than regular staff. Almost all respondents said that they had little opportunity to motivate their subordinates and that the whole system was not motivating. It is necessary to add the fact that exceeding the plan by too large a percentage meant a penalty in the form of a stricter plan for the next year (Šulc, 2004). However, companies operating in a scarce economy and struggling for every additional resource were very worried about this. These twisted motivations must have necessarily led to system inefficiencies.

In theory, from the ideological point of view, the regime relied heavily on the socialist morals of workers. "In this respect, the theory oscillated between the inexperienced trust in working people and the feeling that workers need to be brought up and forced" (Havelková, 2009). Motivation in this sense had a form of public honors, recognition and honorary titles such as "Hero of Labor" or "Order of Building Socialism".

Over time, Czechoslovak political leaders became aware of the need to motivate workers in a different way, as the lack of motivation was evident. They therefore tried to improve employees' motivation by adopting the so-called "chozrascot" system. Its elements were meant to link the employees' work performance with their remuneration and directly improve their involvement in the company's results. However, the labor morale was still very low (Mlčoch, 1990).

To sum it up, the 1980s were characterized by a conflict between Western access to human resources and the approach applied in the Czechoslovak Socialist Republic. While in advanced market economies, due to modernization and its associated structural changes, the importance of labor force flexibility was emphasized, stability in employment was still appreciated in Czechoslovakia, in keeping with the requirement for social security (Kalinová, 2012). Wage levelling created by the centrally planned economy wiped out the differences between well and badly-working people. It was based on political and social influences at the expense of economic ones. Wages were not determined on the basis of differences in qualifications, complexity and job responsibilities (Šulc, 2004). An employee of the Prognostic Institute of the Czech Republic <ID034> said that:

It was all interconnected. Another principle that failed to come to practice was Lenin's slogan – catch up and overtake, meaning in productivity. And yet another was that in socialism, wage level was to depend on labor efficiency. That is a principle that was in fact never met, as the

wages were assigned based on categories and tables. And it was the white-collars who decided which table was the right one to use and which one wasn't. All this depended on the pressure from interest groups, production units, etc. For instance, miners and steelworkers whined and whined until they got wages higher than in other industries. But in a way, it was a white-collar decision, technocratic and not something the economy would have generated naturally.

This system was therefore totally inflexible and the labor market was full of distortions and, according to Šulc (2004):

A society governed for a long time by principles of central planning and allocation creates gradually a demoralizing atmosphere of escape from productive, efficient work to demand for “secure places”, where you work little and get a lot of money. The ideal of a “successful person” measured by accumulation of material possessions, originally created by the bourgeois society, in socialism got a new dimension. (128)

## **Productivity**

Weak motivation, limited management capabilities and the accumulation of labor force contributed to the weak productivity of the Czechoslovak socialist economy.

Lenin and other theorists of the system had expected that capitalism would be defeated by high labor productivity of the socialist regime. For example, Lenin pointed out that: *“Productivity of labor is the most important thing for the victory of the new social system (. . .) Capitalism can and will be utterly vanquished by socialism creating a new and much higher productivity of labor.”* (Lenin, 1972). Moreover, an increase in workers' productive capacity was necessary to reach the communist stage of development (Gregory and Stuart, 2014).

The regime therefore knew that the productivity was a key factor of growth and development and for this reason it was also carefully planned. Table 3 shows the results of the findings provided by Soukup and Žídek (in publishing process), who show the key planned indicators, their real values and shares of extensive and intensive components of economic growth.

The table shows that plan indicators always reached substantially higher values than the real ones. From the point of view of the individual components of economic growth, it is clear that an extensive component prevailed over the whole period. Only in the last phase of socialism did the component of the intensity predominate, which might indicate, among other things, exhaustion of the possibilities of extensive economic growth.

In general, according to Šulc (2004), companies in the centrally planned economy were characterized by “lack of interest in technical progress, efforts to fabricate production as long as possible, efforts to reduce the number of R&D workers who appear to be unproductive in the face of plan indicators, the effort to replace the increasing labor productivity of other raw materials, materials and artificial cooperation etc.” (p. 115). As has been previously stated, the price of labor was lower than its reproductive value, and acted, therefore, as an anti-motivating factor against technical developments. It also contributed to excessive labor demand, which led to its shortage (Šulc, 2004).

**Table 3: Planned and Real Growth of Selected Indicators and the Shares of Extensive and Intensive Economic Growth**

Growth rates (%)	1971–75	1976–80	1981–85	1986–90	Average
GDP	4.94	2.81	0.93	1.91	2.65
GDP plan	5	5	1.5–2.1	3.2	
Labor	0.48	0.74	0.52	–0.21	0.39
Labor productivity	4.44	2.06	0.40	2.13	2.26
Labor prod. Plan	4.75	4.55	1.4–2	2.9	
Capital	9.69	1.98	–3.02	1.81	2.61
TFP	–0.41	1.41	2.55	1.33	1.22
Shares (%)*					
Extensivity	65.96	58.89	51.18	47.63	56.44
Intensity	34.04	41.11	48.82	52.37	43.56

\* the overall shares are computed from absolute values.

Source: Soukup and Židek (unpublished)

Šulc also writes that there was a productivity indicator among the global planned ones, which were for example, output, wages and profitability indicators. Labor productivity was defined simply as gross production divided by the number of workers. However, its real value could have been influenced, for example, by changes in prices. There were, therefore, negotiations between companies and the centre on product prices. In the case of companies, there was an interest in as high prices as possible, as they generated greater profit. This also meant a larger source of additional corporate income and, above all, higher production and labor productivity and easier fulfilment of the planned indicators relevant to wage and salary formation.

This system, therefore, did not motivate companies to introduce more effective techniques of production. The goal of meeting the plan was crucial and hence it was necessary to fill the indicators in any way:

For instance, emphasis on productivity and dismissal of employees were things impossible to negotiate (...) there was a political need not to lower employment figures, or, in fact, employment cuts were not included in the plan, nor was lowering of fixed expenses by doing away with inefficient companies. (Production leader in the chemical industry <ID029>)

On the other hand, bankruptcy sanctions did not exist in the centrally planned economy, and the resources were allocated to the companies by the centre. Subsequently, it did not force their management to operate efficiently (Šulc, 2004). This was also corroborated by our respondents:

And that was not the case, so companies did badly, mainly on account of lack of direct competition and contact with the customers, as well as on a number of regulations preventing the companies from removing inefficient production and competing for a better position on the

market. Everything was screened and hidden in the central plan, so in fact, there was no risk of bankruptcy for individual companies, as the whole economy was orchestrated in a different way (Production leader in the chemical industry <ID029>).

In consequence of the distorted motivations, along with the lack of access to advanced foreign technology, the Czechoslovak economy got into the slow lane behind advanced Western nations (Mikula, Coufalová and Žídek, 2017). This was a consequence of a very low labor productivity, as was corroborated by our respondent from the Prognostic Institute of the Czech Republic (<ID034>):

Those structural imperfections were there, for sure, and they went hand in hand with, on the one hand, quantitative and extensive indicators that showed we were beating the advanced economies, but on the other hand, we lagged behind in labor productivity.

In the 1980s there was a plausible depletion of resource which led to the stagnation of the Czechoslovak economy (Adam, 1995). It also created an excessive material and energetic burden for the production, as well as for the environment. The lagging behind the developed economies can be seen from Table 4.

**Table 4: Labor Productivity (Value Added method, USD) in Industry in CSSR and Selected Developed Capitalist Countries in 1985**

Branch (ISIC classification)	CSSR thous. \$	CSSR level (respective countries = 1)				
		Small countries (a)		Large countries (b)		
		Of which: Austria		Of which: FRG	USA	
Food industry	10.3	<b>0.22</b>	0.2	<b>0.24</b>	0.14	0.24
Textile industry	7.3	<b>0.28</b>	0.33	<b>0.32</b>	0.17	0.27
Clothing manufacture	3.9	<b>0.23</b>	0.28	<b>0.23</b>	0.17	0.18
Leather manufacture	4.8	<b>0.18</b>	0.24	<b>0.2</b>	0.18	0.16
Shoe manufacture	6.0	<b>0.3</b>	0.4	<b>0.34</b>	0.27	0.27
Wood products manufacture	8.9	<b>0.25</b>	0.37	<b>0.33</b>	0.28	0.24
Furniture production	4.8	<b>0.15</b>	0.15	<b>0.19</b>	0.14	0.16
Paper production	12.6	<b>0.27</b>	0.32	<b>0.3</b>	0.32	0.22
Printing industry	7.0	<b>0.19</b>	0.22	<b>0.19</b>	0.18	0.17
Light industry	7.6	<b>0.21</b>	0.24	<b>0.24</b>	0.17	0.19
Chemical and rubber industry	17.9	<b>0.35</b>	0.5	<b>0.31</b>	0.34	0.22
Metallurgy	14.2	<b>0.37</b>	0.53	<b>0.3</b>	0.27	0.25
Non-metal materials procession (c)	10.1	<b>0.3</b>	0.29	<b>0.28</b>	0.27	0.2

*Continued on next page*

Branch (ISIC classification)	CSSR thous. \$	CSSR level (respective countries = 1)				
		Small countries (a)		Large countries (b)		
		Of which: Austria		Of which: FRG USA		
Metalworking industry	7.3	<b>0.23</b>	0.25	<b>0.23</b>	0.3	0.18
Mechanical engineering	10.6	<b>0.28</b>	0.38	<b>0.25</b>	0.28	0.19
Vehicle manufacture	14.4	<b>0.45</b>	0.34	<b>0.37</b>	0.32	0.27
Electric machinery manufacture	10.1	<b>0.29</b>	0.33	<b>0.24</b>	0.24	0.22
Machine production	9.3	<b>0.26</b>	0.42	<b>0.23</b>	0.2	0.29
Heavy industry	12.0	<b>0.32</b>	0.38	<b>0.28</b>	0.28	0.22
Manufacturing industry	10.5	<b>0.28</b>	0.33	<b>0.27</b>	0.25	0.21
Energy industry	25.3	<b>0.22</b>	0.31	<b>0.52</b>	0.26	0.48
Mining	10.3	<b>0.05</b>	0.3	<b>0.11</b>	0.3	0.11
<b>Sum</b>	10.9	<b>0.25</b>	0.31	<b>0.26</b>	0.25	0.21

a) Belgium, Denmark, Finland, Norway, Austria, Sweden

b) France, Italy, Japan, FRG, USA, Great Britain

c) Glass, porcelain and ceramic production

Source: Zeman (1990)

### Cooperative, Non-Competitive Environment

Not all aspects of socialist society, however, were negative, especially concerning workplace relationships. In theory, these may have been cooperative because the competition (on all levels and forms) was felt as an alien aspect in the society. The functioning of the society was supposed to be based on principles of cooperation among people for better future of the community (Bottomore, 1990; Hába, 1988). Only a special cooperative “socialist competition” was supposed to exist (Hába, 1988).

It seems that this point is the only one that was achieved also in practice, which was corroborated by our respondents. All of them spontaneously<sup>5</sup> positively evaluated interpersonal relationships at the workplace. These resulted from collective labor valuation and wage levelling, which largely prevented the envy among workers, or the Brigades of Socialist Work. The cause of the positive effect of these Brigades was that they strengthened the collective. It was not about competing individuals, but about competing groups, which forced its participants to pull together. Positive influence in this direction was also played by the trade unions. In this respect, their influence was particularly important in taking care of the non-professional activities of the workers. They organized recreational stays

<sup>5</sup> Respondents were given room for free appreciation of the positives and negatives of that time. Among the former, completely prevailed the very good interpersonal relationships in the workplace.

in which all the employees of any position took part as well as summer camps for their children. All of these activities were assessed positively by the respondents:

What was important and interesting for me (...) were the relationships among people. That people really pulled together within their level, for instance department level. And there were these Brigades, where people kind of shared their lives and belonged, all the way up to the highest spheres. No problem, I, for instance, experienced several times a visit by Minister Saul, or his Deputy, Tibor Kurta, who would come, discuss a few things, what goes, what does not and then there was a kind of party and these informal settings helped to make a lot of things possible. A head of waterworks came to congratulate our director on his birthday and he says: “Boy you do have a nice new company car, how did you come to it? A part of central planning?” And he replies, out of fun: “I got it as a gift.” Anyway, these interpersonal relationships really impressed me back then (...) the atmosphere was a kind of egalitarian, well not really, but we all knew (...) we all had families to feed, the conditions are such and such, we know how to have fun, we have ways to have fun, it was all sort of collegial. All the way up to the top management. They could have sharp elbows, they did. Like: “I need this and that from you...” I witnessed a few pretty sharp discussions, but they would finally shake hands, maybe out of the protocol, but they did. Let’s fix it and go play cards. And you would have four directors of four big companies sitting in the meeting room and playing cards for small coins and drinking wine (Head of the Project Manager’s Office in Metallurgy <ID066>).

Therefore, in this sense, socialism was successful. It was however a consequence of wage levelling rather than the question of ideals. Nevertheless, even with regard to workplace relationships, the system was not perfect. The influence of the Communist Party and the possibility of career advancement for co-operation with the party acted in the opposite direction, for example by motivating individuals to report colleagues or acquaintances for activities not approved by the communist ideology (among all, the Assistant to the Director in engineering <ID0043>). The overall atmosphere was damaged by the presence and activities of the Secret police as well (Vilfmek, 2012).

## VI. Conclusion

The paper proved the conflicts between the formal settings and practice of the labor market in socialist Czechoslovakia. Socialism promised to provide jobs for everybody. The elimination of unemployment was supposed to be one of its greatest achievements and it was expected to be reached by scientific central planning of the whole economic system and careful distribution of the labor force. The plan supposed equilibrium on all markets and the labor market was not an exception. Formally, the system really balanced all the markets including labor market. Our research based on interviews clearly demonstrated that the reality was remote from the theoretical and formal functioning. The socialist planners and managers had to deal with several contradictions and imbalances on the labor market that were foremost caused by equal wages and high degree of levelling. The first contradiction was between excessive demand over supply. The “market solution” in the form of wage increase was not, for political reasons, possible. Indeed, the vast majority of our respondents, regardless of the sector in which they had worked, said that one of

their major problems was permanent lack of workers. This permanent shortage of the labor force was due to it handled by government attempts at increasing labor supply and at company level by using non-wage tools like offer of housing for labor recruitment. Another consequence of equal wages and high level of egalitarianism was generally low level of motivation of the workers. Theorists of socialism expected the creation of new socialist people, but these people never appeared in practice. The level of motivation was consequently indirectly affecting the labor force productivity which was fully demonstrated in the overall state of the economy. These settings of the labor market thus contributed to the lasting lagging of socialist Czechoslovakia behind the developed economies.

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