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## CURRENT SUPPORT BRIEF

CURRENT EAST GERMAN ECONOMIC SITUATION

OFFICE OF RESEARCH AND REPORTS

CENTRAL INTELLIGENCE AGENCY

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CURRENT EAST GERMAN ECONOMIC SITUATION

As the time approaches when the East Germans must decide on an economic plan for 1962, the regime continues to face unresolved questions of economic policy and uncertainty in its foreign economic relations. The economy did not do too badly in 1961, although the performance was not up to plan. The problems faced were somewhat aggravated by the Berlin crisis, but are basically those that would have occurred regardless of any special outside factors. The general uncertainty created by the Berlin situation has affected planning more than it has affected the industrial growth of the economy. The reports on planning for 1962 indicate indecision about whether to follow Ulbricht's line and plan a higher rate of growth for 1962 than was planned for 1961 or whether to adopt a plan closer to the actual rate of growth in 1961.

Industrial production in 1961 is claimed to have increased by 6.2 percent over that in 1960 (in 1960, the claimed rate of growth was 8.3 percent).<sup>\*</sup> The situation in industry has not worsened since 13 August and even appears to have improved somewhat--the value of output in October, the last month for which detailed statistics are available, reached the highest level of the year, breaking the usual pattern of a drop in production at the beginning of each quarter. The basic materials industries in general kept close to the annual plan figures throughout the year. In other respects, the economic situation is not satisfactory. Although detailed information has been scarce and slow in coming, the main weaknesses are clear from the constant flow of party officials' criticism which concentrated on the investment goods industries, construction, and agriculture. These sectors have been sources of difficulty for the past two years and will continue to be so in 1962.

The economic performance in 1961 was expected by the "realists" in the East German regime, who recognize that there are basic factors preventing the rapid economic growth envisioned by Ulbricht. These factors are shortages of manpower--which affect especially the metal-working industry and construction--and the lack of reserves of unused capacity in most industrial branches. The East Germans are no longer suffering a loss of labor through emigration, but even with the border closed, they can expect a continuing loss (about 0.7 percent per year through 1965) simply as a result of the age structure of the population. The lack of reserve capacity has become increasingly clear in 1960 and 1961.

With the general lag in the production of investment goods and in construction, the industrial investment program is being directed mainly to the basic materials industries, such as chemicals and metallurgy, because of their importance in East Germany's exports to the USSR and because of the effort to reduce dependence on West Germany for certain chemicals and high quality steel products. In 1961 the regime directed investments mainly to certain priority projects in those industries and achieved favorable results. Installation of steel mill equipment appears to be progressing according to original plans, although this was not true a year ago. Output in both metallurgy and chemicals increased last year as rapidly as projected in the annual plan--or even slightly more rapidly.

\* These rates are based on official gross production figures and would be somewhat lower if adjustments were made for double counting and the exclusion of handicrafts production.

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Although economic growth in 1961 reflects the basic limitations, the situation has been aggravated by the forced collectivization of 1960 and by political measures relating to the Berlin crisis. These include the closing of the Berlin sector border in August 1961 and the attempt to make the East German economy independent of Western imports. The closing of the sector border involved specific costs in transportation, arising out of the need to bypass West Berlin, as well as the tangible advantage of preventing further losses of labor. Some cost, not easily assessed, has been incurred in the effort to reduce East German dependence on interzonal trade and to find substitutes at home or in the Bloc for materials previously imported from the West. Still harder to assess is the effect of popular attitudes. The growing bitterness and resentment of the population are evident, but there does not seem to have been any marked deterioration in work habits or discipline.

The effects of the low level of popular morale are most apparent in agriculture and construction, as was the case even before the border was closed. Construction workers, accustomed to a five-day week, are now being forced to work a six-day week in order to reduce the lag in the construction program. The farm population is generally dissatisfied and regime efforts to instill a "collective" spirit have been unsuccessful.

At present the most serious problems in the East German economy are in agriculture. Mismanagement, peasant disaffection brought on by collectivization, and bad weather combined in 1961 to cause considerable crop losses and a continuing fodder shortage. Production of both grain and potatoes was lower than in 1960, possibly by as much as 10-15 percent. The fodder shortage and the poor care given to collectively-held livestock have led to some reduction in the weight of slaughter animals, and East German officials are predicting some decline in animal numbers in 1962.

The main aim of East German agricultural policy in 1962 will be to improve efficiency on the collective farms. The regime will have to concentrate on improving the administration of collectives and may have to raise and revise prices in order to give the farmers some incentive to increase output. Attempts to consolidate existing collectives into larger units and to transform the simple loose collectives into fully socialized farms were not pushed in 1961, and the regime had to overlook the expansion of private plots and herds at the expense of the collectives. Any crackdown would cut too deeply into production, but new half-way measures may be attempted this year to restrict private plots and herds.

In the absence of detailed data on food production and imports there is no clear basis for a final estimate of the trend in food consumption in 1961. However, the available information clearly shows no decline in food supplies to the population--in fact, there probably was a slight increase. West German calculations of 1961 food price increases in East Germany applied to the claimed increase in retail food sales, indicate a rise of 3 percent in urban food consumption in the GDR. Supplies of particular commodities, especially potatoes and butter, were spotty throughout 1961, however, and the situation will probably become worse in early 1962 as a result of the poor harvest. Informal rationing of these same foodstuffs has been in effect since last summer. The same was true in 1960, but the shortages appear to be more widespread at present. Although the shortages are caused partly by a poor distribution system and overtaxed transport facilities, an increase in imports in 1962 will be necessary to maintain present consumption levels.

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The supply of other consumer goods continues to improve, although, as in the case of foodstuffs, local shortages are common because of the inefficiency of the distribution system and the reluctance of the regime to establish prices that would balance supply and demand. Such shortages have existed for years, but have become more widespread in the past two years because consumer incomes have risen rapidly while prices have remained relatively stable. The regime recognizes the disparity between the supply of goods and purchasing power and is trying to meet the problem. A campaign to keep wage increases from outrunning productivity apparently is making headway, and price increases were enacted last fall for some consumer goods. More general price increases are planned for 1962. Indications are now that consumption will continue to increase moderately in 1962, but only if the regime can continue to increase imports. The tighter control over the populace afforded the regime with the closing of the border gives it more latitude than heretofore in making decisions on the growth of personal consumption.

While the 13 August action allowed the regime to be more positive in its control of the populace, it did nothing to clarify the problems in planning for 1962. For the better part of 1961 the regime was expecting the Berlin crisis to come to a head by the end of the year. The East Germans assumed that there would be either a West German or an all-NATO embargo in 1962 after the signing of a peace treaty with the USSR at the end of 1961. Thus, in the summer of 1961, there were two plans, one for each possibility--first the former and then the latter contingency having been considered the more likely. However, in October when Khrushchev abandoned the 1961 treaty deadline, the assumption of an embargo was dropped and a new look at the plan had to be taken.

Alternative plans for 1962 apparently have been circulated within the State Planning commission (SPC) and among top party officials. Late in the summer of 1961, a rate of industrial growth as low as 5.3 percent was being discussed within the SPC. In October, at an economic conference of the SED Central Committee, Karl Mewis, chairman of the SPC, implied that the 1962 plan would schedule a higher rate of growth than that planned for 1961, so that "beginning with 1963 we shall again reach the targets of the Seven Year Plan" (an average annual rate of 9.4 percent for industry). The most recent information, however, indicates that the industrial growth rate set for 1962 will be between 6.5 and 7 percent somewhat lower than the 7.2 percent planned for 1961. This projection came from a long-time SED planning official, Gerhard Schuerer, who was reporting to an intra-governmental group, and it may well have Soviet support. The USSR has participated in almost every step of the planning process this year, and thus the nature of the final 1962 plan will involve close, and probably prolonged, consultations in Moscow.

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Sources:

1. IWE-Sonderdienst, 29 Nov 61. U.
2. [REDACTED]
3. Neues Deutschland, 14 Oct and 7 Dec 61.
4. [REDACTED]

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