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ECONOMIC INTELLIGENCE REPORT

**TRENDS IN ECONOMIC MANAGEMENT
IN EAST GERMANY
1945-57**



CIA/RR 134

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CONTENTS

	<u>Page</u>
Summary and Conclusions	1
I. General Background	3
A. Limitations on National Autonomy	3
B. Effects of Satellite Status on Economic Conditions and Policies	4
1. Difficult Postwar Recovery	5
2. Economic Adjustment to the Soviet Pattern	5
3. Tendencies of the Regime	6
II. Evolution of the Economic and Administrative Structure . .	6
A. Under Soviet Occupation	7
B. Under the East German Government	8
III. Administrative Revision: First Phase, 1952-55	11
A. Economic Growing Pains	12
B. Administrative Response	13
1. Strengthening the Central Economic Control Structure	13
a. Experimentation with Supraministerial Systems .	13
b. Consolidation of the Ministerial Structure . .	14
2. Dividing Planning Responsibility	14
3. Increasing Powers of Key Ministries	16
4. Tightening Economic Control over Local Organs of the State	17
C. Situation at the End of the Soviet Occupation	18
IV. Administrative Revision: Second Phase, 1955 - Mid-1957 . .	19
A. Policies of the 25th Plenum of the Party Central Committee	19
B. Initial Attempts at Implementation	19
1. Structural Reorganization	19

S-E-C-R-E-T

	<u>Page</u>
2. Simplification of the Planning Procedure	20
3. Expansion of Powers of Ministers and Enterprise Managers	22
C. Impact of Soviet De-Stalinization on Implementation	24
1. Additional Reorganization of the Top Control Structure	25
2. Postponement of Reforms Relating to Enterprises and Local Organs	26
D. Cautious Resumption of Implementation After the Polish and Hungarian Uprisings of 1956	27
1. Legislation on the Local Organs (January 1957)	28
a. Status and Functions of the Local Organs	28
b. Economic Importance of the Local Organs	32
c. Probable Effects of the Legislation	38
2. Further Changes in Planning and Control	40
a. Establishment of the Economic Council (April 1957)	40
b. Widened Participation and Coordination in Planning	42
3. Recent Measures Affecting Operations of Individual Enterprises	44
E. Situation in Mid-1957	45
V. Prospective Reforms	49
A. Genesis of the Reorganization Proposals of the 32d Party Plenum	49
B. Evolving Reorganization Plan	50
1. Proposed Structure and Functions of Ministries	51
2. Proposed Structure and Functions of Industrial Administrations	52
3. Proposed Structure and Functions of District and County Economic Commissions	53
4. Signs of Impending Reorientation	53

S-E-C-R-E-T

	<u>Page</u>
C. Prospects of the Reorganization Program	54

Appendixes

Appendix A. Glossary of Terms	57
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50X1

Charts

	<u>Following Page</u>
Figure 1. East Germany: Stages in the Evolution of the Economic Control Structure, 1945-52	8
Figure 2. East Germany: Major Stages in the Evolution of the Economic Control Structure, 1953-54	14
Figure 3. East Germany: Economic Control Structure as of 1 February 1956	14
Figure 4. East Germany: Legal Structure of the Central Governmental Organs, 1957	28
Figure 5. East Germany: Legal Structure of the State Organs in the District, 1957	28
Figure 6. East Germany: Legal Structure of the State Organs in the County, 1957	28
Figure 7. East Germany: Legal Structure of the State Organs in the Municipality, 1957	28
Figure 8. East Germany: Economic Control Structure as of 1 July 1957	40
Figure 9. East Germany: Proposed Organizational Models for Ministries	52
Figure 10. East Germany: Proposed Organizational Model for Industrial Administrations	52

- v -

S-E-C-R-E-T

CIA/RR 134
(ORR Project 41.1975)

S-E-C-R-E-T

TRENDS IN ECONOMIC MANAGEMENT IN EAST GERMANY*
1945-57

Summary and Conclusions

The assumption by the East German government of exclusive ownership and management of all important economic enterprises under the principle of administrative centralism and inseparability of political and economic decision-making has raised so many problems that the economic sector has had to be reorganized again and again and still has not attained its final form.

Indiscriminate centralism characterized the early development of economic administration in the government of East Germany (German Democratic Republic -- GDR). To insure strong central control of the economy, the ministries and state secretariats took over routine as well as policymaking functions; and by 1952, both enterprise management and the existing local governments had been largely divested of discretionary authority. As the routine responsibilities of the ministries increased, however, so did their size and number, and the resultant fragmentation of authority within the top control structure made interministerial coordination extremely difficult. To cope with this problem, the regime has been experimenting since 1952 with various systems of supraministerial coordination, and in 1953-54 it consolidated the ministries in broad economic sectors such as industry, machine building, and transport. Greater flexibility in the exercise of economic authority was expected from these changes. In spite of these structural innovations, top policymakers continued to be overburdened with administrative detail, and the system provided little encouragement to local initiative, largely because of the regime's refusal to relinquish central control over even routine functions.

To achieve a more definite separation of policymaking and operational functions, the 25th Plenum of the Central Committee of the Communist Party of East Germany recommended in October 1955 that policy determination be concentrated in the Council of Ministers, that ministerial authority in operational matters be expanded, and that routine operational functions be transferred to enterprises and local government agencies. Although implementation of some of the recommendations was begun immediately, the de-Stalinization campaign in the USSR strengthened the government's reluctance to weaken central control by transferring functions to enterprise managements and local organs. Consequently, measures to implement these recommendations

* The estimates and conclusions contained in this report represent the best judgment of ORR as of 1 February 1958.

S-E-C-R-E-T

S-E-C-R-E-T

were not initiated until well after the uprisings in Poland and Hungary in 1956. Legislation enacted in January 1957 was intended to clarify the functions of the agencies at the local levels and to enlarge the role of the 14 districts and 216 counties in formulating and executing plans for local development within the framework of the national plan. The power of the top echelon to make final decisions in all important matters, however, was carefully preserved.

Central economic control was tightened in April 1957 by the creation of an Economic Council to oversee economic policy formulation and planning functions. This council is composed of the six most influential economic leaders of the Presidium of the Council of Ministers, and, for all practical purposes, it exercises the full economic authority of the Council of Ministers and its Presidium.

The regime announced in July 1957 its intention to undertake additional administrative changes such as the merger of the Economic Council and the State Planning Commission, the abolition of the economic ministries and transfer of their planning and coordination functions to the State Planning Commission, the establishment of associations of peoples owned or state-owned enterprises in key areas of production to take over the operational supervision now performed by the main administrations of the ministries, and the establishment of economic councils in the districts to oversee the local economy and to be directly subordinate to the all-powerful State Planning Commission as well as to the district assemblies and councils.

The steps taken or planned in the present stage of the continual efforts to improve the structure and operational methods of the economic administration and to simplify the planning process are by no means intended to abolish or even to weaken central direction by the top government. On the contrary, the continuing need for economic and political centralism is stressed in all official pronouncements and nongovernment comments. A principal objective of the transfer of some functions to lower levels of the central administration is to stimulate initiative and efficiency by creating the illusion in the minds of members of lower governmental echelons, enterprise directors, and the rank and file that they now have an important voice in decision-making by a genuinely democratic process.

Because much of the reorganization remains to be implemented, only a tentative appraisal of its prospects is now possible. Within the framework of the economic and political system of the GDR, which is immutably based upon "socialist centralism" and government ownership of economic enterprises, the present organizational changes, by and large, appear to be sound; but some aspects of the revised system seem to be of doubtful usefulness. The success of the reorganization, apart from the additional changes now being planned, will

S-E-C-R-E-T

largely depend upon the response of the population and the extent to which enterprises and lower echelons of government will be allowed, in practice, to exercise initiative and freedom of action. Published reports of discussions in plants and organizations and numerous other publications on the subject make it appear that members of local assemblies, managers, and workers are eager to make full use of the new setup to play a larger role in the management of the economy. A goodly amount of skepticism is, nevertheless, apparent in their attitude -- a skepticism which appears well founded.

In spite of the democratic facade of the present system and in spite of the seeming introduction of some local self-government, independent local action of any importance will remain impossible. Consequently, it appears unlikely that the recent revisions in the state or national administration will stimulate the initiative, efficiency, and voluntary cooperation that the East German leaders desire. Whatever improvements are brought about in this aspect of the problem would be largely confined to local economies -- that is, economic activities of lesser importance. The planned further reduction of the size of the top administrative structure, however, should make the national government structure a more flexible and effective instrument of control and should increase the general efficiency of the system to some extent.

I. General Background.

A. Limitations on National Autonomy.

The freedom of choice of the GDR* in economic affairs is circumscribed. The regime won and has maintained power with the support of the USSR. As a loyal Satellite, it is committed not only to a Communist economic system with central planning and public ownership of the means of production but also to a highly centralized bureaucracy, preferential development of heavy industry, and many of the other specific policies and methods associated with the development of a planned economy in the USSR. The GDR may consider only those solutions to economic problems that fall within this permissible frame of reference.

* The term GDR (German Democratic Republic -- Deutsche Demokratische Republik) in this report refers to East Germany from the termination of the Soviet military occupation in 1949 to the present.

S-E-C-R-E-T

S-E-C-R-E-T

Conflicts between mandatory policies of the Soviet type and national self-interest exist at many points. The rapid development of heavy industry, for example, has frustrated the popular demand for more consumer goods and in some instances has led to an inefficient use of available resources. Attempts to coordinate and integrate the economies of the Soviet Bloc have been contrary to national interest insofar as they tend to prevent the GDR from exploiting its competitive industrial advantage within the Bloc. Likewise, reorientation of trade from the world market to the Bloc market has been contrary to the national interest in buying and selling on the most advantageous terms. The regime tends to resolve these conflicts of interest in favor of commitments to the USSR and the Bloc.

Subservience alone, however, has not really disposed of the underlying dilemma. Failure to make at least minimum provision for national needs is potentially as dangerous as failure to meet commitments to the Soviet Bloc. If the regime goes too far in sacrificing public welfare, it invites popular unrest that may lead to Soviet disfavor as well as possible loss of control. The consequences of neglecting commitments to the Bloc are equally dire because the present leaders of the GDR remain in power largely at the tolerance of the USSR. Consequently, the regime works within rather narrow tolerances in attempting to balance off Soviet demands against national aspirations, and it must in the final analysis attempt to satisfy both.

B. Effects of Satellite Status on Economic Conditions and Policies.

The compromises made by the GDR in attempting to satisfy these conflicting demands have resulted from the interplay of a variety of factors. Basic among these have been the nature of Soviet policies and control in the area and the local regime's limited success in exercising authority in its own right.

East Germany experienced the humiliation of being occupied territory. Although it has been wrenched from its traditional political, economic, and social moorings, the population is inclined by language, cultural heritage, and national tradition to cling to the idea of a reunified Germany. Moreover, the visible Soviet might upon which the GDR depends to hold this German nationalism in check is a constant reminder of foreign domination and the subservient character of the local regime. The latter therefore has had relatively little success in winning acceptance by the population or in creating a sense of national identity apart from Germany as a whole.

- 4 -

S-E-C-R-E-T

S-E-C-R-E-T

1. Difficult Postwar Recovery.

The Soviet Zone of Germany experienced a difficult economic recovery after World War II, for the policy of the occupation authorities until approximately 1948 was to exploit it for the benefit of the USSR. The industrial capacity of the Soviet Zone reportedly was reduced to 50 percent of the 1936 level by war damage and by Soviet dismantling of enterprises, of which the latter accounted for 35 percent. 1/* The USSR also transferred to Soviet management and ownership about 200 of the most important industrial enterprises, which became the Soviet joint stock companies (Sowjetische Aktiengesellschaften -- SAG's)** and took war booty, spent captured Reichsmarks, printed occupation currency, and charged occupation costs to the local regime. 2/

Even after the USSR established the GDR and shifted to a policy of Sovietization rather than naked exploitation, it continued to take substantial amounts of goods and services from the economy. In 1950, for example, the USSR took goods and services amounting to 17 percent of the gross national product (GNP) of the GDR. 3/ In 1953, reparations and requisitions by the occupation authorities still absorbed 12 percent of the GNP. Moreover, when reparations were at last terminated in January 1954 the GDR undertook substantial financial obligations in connection with the return of the remaining SAG's except SAG Wismuth. 4/ Thus Soviet exploitation has been a major retarding influence in the postwar economic recovery and development of East Germany -- one over which the local regime had little control.

2. Economic Adjustment to the Soviet Pattern.

The transformation of East Germany into a planned economy also brought major adjustments in its industry and trade relationships. Processing and finishing industries and agriculture were predominant in the economy before World War II. The area depended on the well-developed heavy industry of western Germany for heavy machinery, iron, steel, bearings, and rubber products, for which it exchanged agricultural products (largely grain, potatoes, and sugar); optics; precision instruments; printing and textile machinery; textiles; and lignite. 5/ Under Soviet influence, however, East Germany has given priority to the rapid development of heavy industry and has reoriented its trade to the Soviet Bloc, which accounted for 75 percent of the total in 1951-52 and 76.7 percent in 1956. 6/

****** See Appendix A.

50X1

S-E-C-R-E-T

S-E-C-R-E-T

These changes in economic orientation were abrupt and consequently caused dislocations and stress. Plan targets for industrial development, for example, consistently have been based on sharp increases in economic productivity and reductions in costs that were difficult if not impossible to achieve. East Germany, like the other European Satellites, is not self-sufficient in all of the resources required for heavy industry. Although rich in brown coal and potash, its iron ore reserves are low grade and difficult to smelt, and domestic output of hard coal has not been sufficient to meet industrial demand since the end of World War II. 7/ East Germany also lacks ferroalloying metals and all ferroalloys except ferrosilicon, ferromanganese, and ferrochromium; and it has no domestic reserves of bauxite. 8/ These and other scarce resources required by heavy industry must be imported. Moreover, they must be acquired largely within the Soviet Bloc because East Germany has neglected the traditional export industries that formerly enabled it to trade with western Germany and the world market on favorable terms. The resource deficiencies of the other Satellites are similar to those of East Germany, however, so its economic fortunes depend mainly on the ability and willingness of the USSR to supply crucial raw materials. 9/ Dependence on the Bloc market also has certain other disadvantages. Trade with the more highly developed Satellites is basically somewhat unsatisfactory because they too are engaged in programs of rapid industrialization, and their requirements tend to duplicate rather than complement those of East Germany. On the other hand, the latter is expected as one of the more highly industrialized members of the Bloc to support the developmental programs of the more backward Satellites and consequently tends to give more than it receives in economic benefit. Thus the East German economy has become increasingly vulnerable to dislocations within the insulated Bloc system but has gained few compensating advantages.

3. Tendencies of the Regime.

The East German regime has thus developed under difficult circumstances and has had little opportunity for flexibility in dealing with either the USSR or its public. It depends on the former for survival and largely lacks the confidence and support of the latter. The leaders of the GDR are convinced quite correctly that the latent hostility of the population is held in check only by alert control and visible symbols of Soviet might. Their behavior is conservative, therefore, because they feel too insecure to risk innovations requiring relaxation of central control.

II. Evolution of the Economic and Administrative Structure.

In the early postwar years, first the USSR and later the German Communists took steps to adjust the traditional, liberal economic

S-E-C-R-E-T

S-E-C-R-E-T

system existing in the Soviet Zone of occupation of Germany to the Soviet economic and administrative pattern.

A. Under Soviet Occupation.

On 30 October 1945 the Soviet Military Administration in Germany (SMAD) issued Order 124, which resulted in the sequestration of tens of thousands of economic enterprises. Subsequently, these enterprises were divided into three classes. Those included in List A remained nationalized and those in List C (SAG's) became the property of the Soviet government.* Enterprises in which neither the USSR nor the German Communist leaders were at the time sufficiently interested to take over were included in List B and were returned to their private owners with great publicity.

The SMAD Order 76 of 23 April 1948 subsequently authorized the now defunct governments of the lands** to permit utilization of smaller enterprises of only local importance by the local governments. In 1951-52, all important peoples owned enterprises (Volkseigene Betriebe -- VEB's) were placed under the immediate control of the main administrations of the proper economic ministries or other bodies on the national level, 10/ and the ministries of the lands were directed to transfer all nationalized enterprises of limited and merely local importance to administration by the authorities in the geographic areas concerned. 11/ These enterprises, accordingly, were handed over to counties or municipalities. Such are the origins of the local peoples owned enterprises.

In 1948 the occupation authorities began to take systematic steps to convert the Soviet Zone of Germany into a dependable Satellite and to restore and enlarge its industrial base. Reparations payments were reduced and put on a more regular basis, and currency reforms were initiated to curb inflation. 12/ Large-scale nationalization of industry was continued under the Two Year Plan (1949-50) of the newly established GDR; and by 1950, heavy industry was almost exclusively state-owned and centrally controlled, although many small enterprises in light industry still remained under local control or in the private sector of the economy. Finally, in 1951 the GDR embarked on a full 5-year plan of the Soviet type, which emphasized priority development of heavy industry.

* At the end of 1953, title to these enterprises also was transferred to the GDR.

** The German lands (Laender) were roughly equivalent to the states in the US. The lands were Mecklenburg, Brandenburg, Sachsen-Anhalt, Thuringia, and Saxony.

S-E-C-R-E-T

S-E-C-R-E-T

The evolution of the economic control structure in East Germany reflects the major shifts in Soviet occupation policy. During the period of ruthless exploitation the USSR directly controlled the economy, principally through the SMAD. A Special Committee under the Council of Ministers of the USSR directed independently the dismantling of East German industry until May 1947, and the Group of Soviet Occupation Forces in Germany (Gruppa Sovetskikh Okkupatsionnykh Voisk v Germanii -- GSOVG) actively requisitioned supplies and took war booty until near the end of 1946. 13/ Central administrations (see Figure 1* 14/) were set up to assist the SMAD in directing the economy and coordinating the work of the governments of the lands.** The central administrations merely executed legislative and administrative ordinances of the SMAD, however, and exercised no independent authority. 16/

After late 1946, administrative control over the economy of the Soviet Zone of Germany began to be unified under the SMAD. It gradually took over the economic functions of the GSOVG and of the Special Committee under the Council of Ministers of the USSR, and in May 1947 the Special Committee was abolished. Once the SMAD was in full control, it began to take steps to develop a permanent and more efficient economic control structure in the Soviet Zone.

In June 1947, Order 138 of the SMAD established a German Economic Commission (Deutsche Wirtschaftskommission -- DWK). It was the first German central administrative body in the Soviet Zone and included 12 central administrations corresponding to those formerly under the SMAD (see Figure 1*). In the beginning the powers of the DWK were very limited. It merely executed policy decisions of the SMAD, and one of its chief duties was to insure the reparations deliveries to the USSR. In March 1948 the central administrations were transformed into main administrations, and their number grew from 12 to 17. For all practical purposes the secretariat of the DWK was the first German central government of the Soviet Zone. When the GDR was proclaimed on 6 October 1949 the name of the DWK was changed to Provisional Government of the GDR, and its leading personalities became the ministers and state secretaries of the new government (see Figure 1). Thus by establishing the DWK, the Soviet occupation authorities took an important step toward changing from direct supervision of the zonal economy to indirect supervision through German administrative agencies.

B. Under the East German Government.

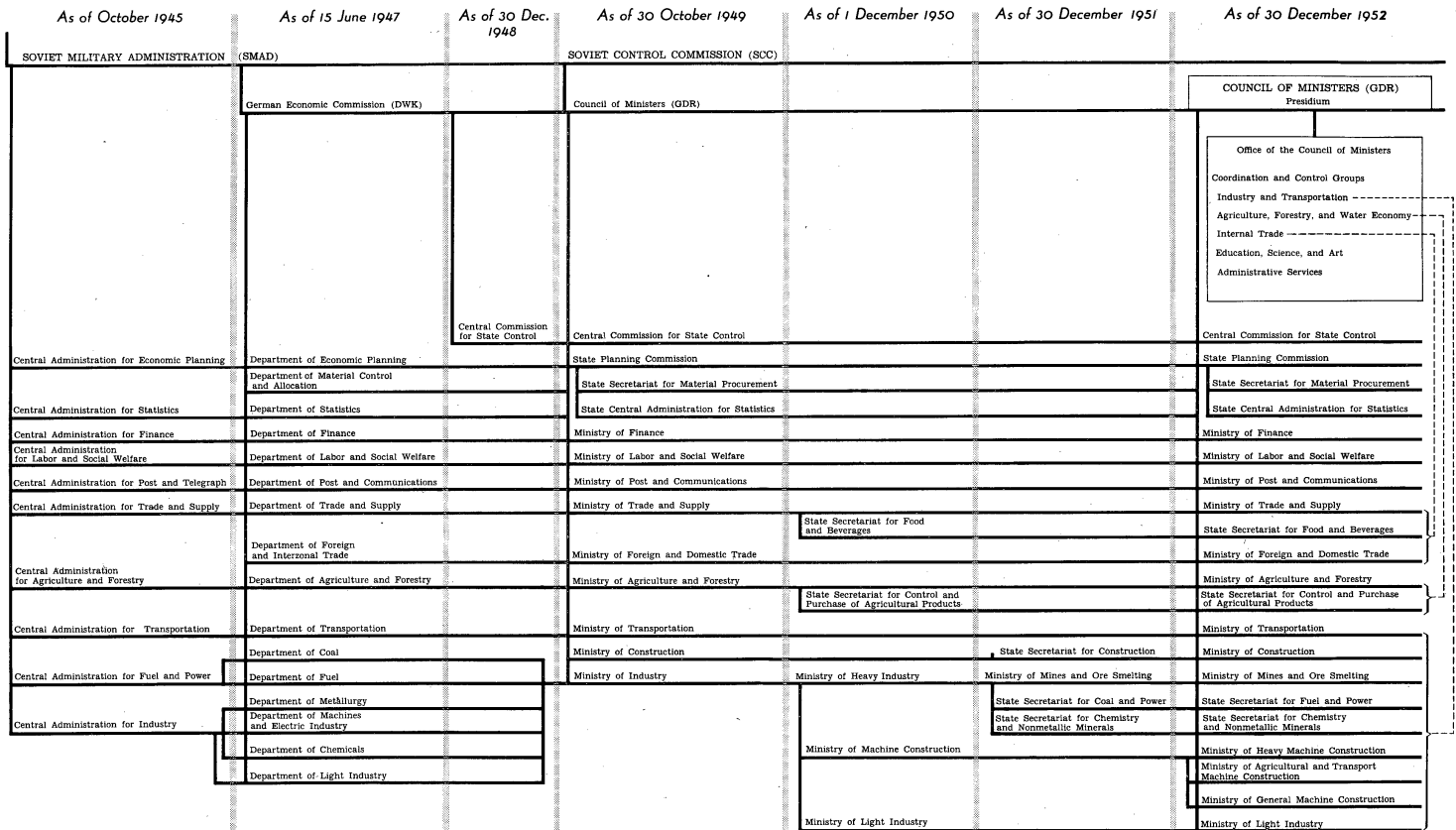
When the GDR was proclaimed in East Germany on 6 October 1949 the SMAD was simultaneously abolished, and its economic functions were

* Following p.8.

** SMAD offices also existed in each of the land governments. 15/

S-E-C-R-E-T

EAST GERMANY STAGES IN THE EVOLUTION OF THE ECONOMIC CONTROL STRUCTURE, 1945-52



Soviet administrative organs
 Administrative organs of the GDR
 Coordination and indirect administrative controls

** Only government agencies engaged primarily in economic activities are included, and the economic control structure is shown only at selected periods which typify the main stages in its development. This chart is not intended to be a definitive representation of all details of the organizational changes that occurred during the period.*

S-E-C-R-E-T

taken over by the new Soviet Control Commission (SCC). The latter gradually relinquished administrative control of the economy to the GDR, although continuing to issue mandatory plan targets for the production of items of interest to the USSR. ^{17/} Progress in carrying out this transfer of economic functions is graphically shown by the steady reduction of the staff of the SCC. In 1952 it had only about 3,000 employees compared with 50,000 on the staff of the SMAD in 1949.

The GDR was preoccupied at first with the elementary problems of nationalizing industry, centralizing control, developing adequate planning and administrative techniques, and otherwise adjusting the traditional German administrative pattern somewhat to that of the USSR. The decisive phase of the administrative reform was initiated by a law dated 23 July 1952 ^{18/} which implemented resolutions of the Second Party Conference* of the Socialist Unity (Communist) Party of East Germany (Sozialistische Einheitspartei Deutschlands -- SED). This law stated that "the old imperial system of administrative division in lands with governments of their own, as well as in large counties, does not assure the performance of the new tasks of our state." This is so, the preamble explained, especially because the economy is now owned by the people and because the GDR, in contrast to former German governments, has to manage it in addition to its other duties. Thus it is necessary to fix the territorial domain of the "local organs of the state authority" in a manner which enables them to participate effectively in the direction of the economic and cultural development. In addition, effective guidance and control of the lower by the higher organs must be assured. The statute directed the lands to divide their territories into new counties and to incorporate the counties into districts according to their economic requirements and in such a manner as to insure the performance of all state functions, especially the effective guidance and control of municipalities by counties and of counties by districts. The statute also provided that the national government agencies, each within its field of responsibilities, would regulate the transfer of the functions formerly performed by the governments of the lands to the administrative organs in the newly formed districts. Complying with the statutory directives, the diets of the various lands passed identical laws depriving themselves of their status under the constitutional law. Because of the elimination of their governments, they are no longer capable of undertaking any activities, but they continue to exist in

* The conference met on 9-12 July 1952.

S-E-C-R-E-T

S-E-C-R-E-T

the constitution. Their status is indeterminable according to the principles of traditional public law.*

Since the passage of this statute, East Germany has consisted administratively of 14 districts (Bezirke)** which comprise 216 counties (Kreise), of which 193 are rural counties (Landkreise) and 23 city counties (Stadtkreise). The districts and counties are units of the central administrative apparatus at the intermediate and lower levels, respectively. East Berlin is organized in the same manner as the 14 districts of East Germany and is combined with them in setting up the national budget.

After the virtual abolition of the lands, the GDR established administrative machinery and methods for governing the new districts and counties. 19/ Both of these types of administrative subunits were placed under the administration of agencies of the "state authority" -- the national government. Elected district assemblies were installed as the highest regional organs of the state authority in the districts, as were elected county assemblies in the counties. Each of these assemblies elects a council,*** called the district council or county council, which functions as the executive agency of the assembly that elected it.

A Coordination and Control Office for the Operations of the Local Organs of the State Authority was established as an organ of the Council of Ministers to guide and control the various activities of the local agencies.**** The supervision of the latter was regulated in relatively

* The German Communist leaders initially considered effectuation of the administrative reform by the orderly process of constitutional amendment. The idea, however, was abandoned, probably in view of the continuing efforts to reunite the two parts of Germany. There could be no doubt that a constitution providing for conditions as brought about by the reform would be unacceptable to a vast majority of the West Germans and thus would add to the many obstructions to reunification.

** Chemnitz, Cottbus, Dresden, Erfurt, Frankfurt (Oder), Gera, Halle, Leipzig, Magdenburg, Neubrandenburg, Potsdam, Rostock, Schwerin, and Suhl.

*** The German term is Rat, which is the translation of the Russian term sovet (soviet). These councils, however, differ in character from the soviets in the USSR.

**** See the Statute for the Coordination and Control Office for the Operations of the Local Organs of the State Authority, dated 16 April 1953 20/ and the Resolution of the Council of Ministers Pertaining to the Guidance and Control of the Councils of the Districts and Counties by the Council of Ministers, dated 3 February 1955, 21/ both subsequently repealed by the Resolution Pertaining to the Regulation of the Direction of the Local Councils by the Council of Ministers, dated 24 January 1957 22/ and therefore not discussed here.

- 10 -

S-E-C-R-E-T

S-E-C-R-E-T

great detail. An equally comprehensive legal regulation of their functions did not take place until January 1957*.

The national law regulating the structure and working methods of the regional and local organs of the national government placed them under the statutory duty of establishing certain standing committees. Each district assembly had to form 10 such committees for the following fields of activity: budget, agriculture and rural construction, local industry, health and social services, education, commerce, traffic, housing and communal economy, culture, and local police and administration of justice. The county assemblies had to establish seven standing committees covering the same fields, except traffic. These committees have been and are still playing a very important role in the operation of the local assemblies and councils and have helped them, in particular, to perform such functions in plan preparation and implementation as the top authorities have assigned to them. The law pertaining to the first annual plan after the administrative reform of 1952, 23/ for example, made not only the ministers and state secretaries but also the chairmen of the district and county councils responsible for plan fulfillment within their jurisdictions. The district councils were to review and approve the plans of counties and municipalities under their jurisdiction and to control compliance with the plan tasks. The county councils, likewise, were obligated to review and approve the plans of their cities and municipalities** and to insure their execution. The district, county, city, and municipal councils received detailed directions to organize the carrying out of the plans of the local peoples owned industries*** as well as to support the centrally administered economy in solving its problems.

As the GDR consolidated its position, the top economic control structure became more complex. The number of ministries increased, and they became more specialized in character (see Figure 1****). Furthermore, an Office of the Council of Ministers was set up in 1952 which included five coordination and control groups (see Figure 1). They functioned as supraministerial expediting and investigating organs for the major sectors of the economy.

III. Administrative Revision: First Phase, 1952-55.

The apprenticeship of the GDR in learning how to run a planned economy ended in 1952. Its control was firmly established, but drastic improvements in economic efficiency were required to achieve the targets

* See IV, D, 1, a, pp. 28 ff., below.

** Smaller cities and towns are examples of municipalities.

*** See IV, D, 1, b, pp. 32 ff., below.

**** Following p. 8, above.

S-E-C-R-E-T

S-E-C-R-E-T

of the First Five Year Plan (1951-55). It therefore made almost constant efforts to develop more effective methods of economic planning and administration.

A. Economic Growing Pains.

In July 1952 the Second Party Conference of the Communist Party of East Germany declared that the time had come to proceed with "building socialism." This announcement ushered in a vigorous drive to complete the reform of the economy along Soviet lines. During the next year the regime attempted to collectivize agriculture, restrict private industry and trade, and break the bottlenecks that interfered with the rapid development of basic industries. It adopted new laws providing stiff penalties for "crimes" against the national economy and permitting district councils to dispossess farmers who did not comply with state regulations. 24/ It increased the income tax for private firms and took away their ration cards as well as those of the self-employed. A 10-percent increase in over-all work norms also was called for, effective 1 June 1953.

When the GDR shifted to the "new course" in 1953, it moderated many of the harsh policies associated with "building socialism," although not in time to prevent the uprising of 17 June. 25/ After the uprising the regime attempted to provide improvements in the scale of living that would be immediately apparent to the population. It accomplished this by wage increases; by price and tax reductions; and by making more consumer goods available from domestic reserves and, in part, from imports from the USSR. The new course also brought a reduction of investments in heavy industry and an increase in plans for the production and distribution of consumer goods. 26/ The production targets for industry during 1954 and 1955 continued to be rather modest, although by 1955 there was a definite swing away from light industry. 27/

The dependence of the GDR on foreign resources to carry out its program of industrialization continued to be one of the most serious economic problems during this period. The government therefore emphasized expansion of foreign trade not only within the Soviet Bloc but also with "the countries of the capitalistic market," beginning with the 1954 Plan. 28/

The drive to increase trade had rather mediocre success, however, and plan fulfillment was uneven, so that East German industry frequently suffered from spot shortages of key materials and products. 29/ Moreover, planned increases in productivity and reductions in cost usually were not achieved. 30/

S-E-C-R-E-T

S-E-C-R-E-T

B. Administrative Response.

The East German regime made many adjustments in the system of management during this period in an effort to solve its economic problems.

1. Strengthening the Central Economic Control Structure.

The central economic control structure of the GDR underwent constant change. The various reorganizations coincided in part with shifts in policy, attempts to solve immediate problems, and a general concern with achieving greater efficiency. More fundamentally, they reflected the efforts of the regime to cope with two dilemmas inherent in the management of a planned economy. First, how to transcend narrow departmentalism and to provide coordinated direction of the whole economy without overburdening high-level policymakers with administrative detail. Second, how to achieve an efficient division of responsibilities among national ministries and between ministries and their subordinate organs and how to stimulate initiative at all levels without fragmenting authority to the point of weakening central control. The GDR attempted to solve these problems primarily by improving techniques of central control.

a. Experimentation with Supraministerial Systems.*

Several attempts were made in East Germany to develop supraministerial coordinating staffs to free the Council of Ministers of administrative detail yet give it more sensitive and effective control over the economy as a whole. At first, coordinated direction of only the major sectors of the economy was undertaken, largely through the groups set up in the Office of the Council of Ministers in 1952 (see Figures 1** and 2*** 31/). The three economic coordination groups were those for Internal Trade; Industry and Transport; and Agriculture, Forestry, and Water Economy.

This system was abandoned in October 1953, and a Department of Coordination of the Presidium of the Council of Ministers was set up "to improve the work of the state apparatus by exerting more strict control over the execution of decrees of the government." 32/ The Director of the new Department reported to the Chairman of the Council of Ministers and was entitled to participate in the sessions of the Council and the Presidium. The Department of Coordination worked

* See IV, B, p. 19, below, and IV, D, 1, c, p. 38, below, for discussions of the later evolution of the supraministerial coordination and control groups.

** Following p. 8, above.

*** Following p. 14.

S-E-C-R-E-T

S-E-C-R-E-T

independently of the Central Commission for State Control and was given broad authority to investigate the implementation of government decrees in ministries and other state organs.* It had no direct control over state organs but submitted reports and recommendations for action by the Council of Ministers and its Presidium.

Twelve coordination groups were set up in the new Department of Coordination, one for each significant economic ministry (see Figure 2**). The Presidium of the Council of Ministers thus was provided with a sensitive administrative device for directly overseeing and coordinating the activities of the whole economy as well as those of the most important sectors.

b. Consolidation of the Ministerial Structure.

Until 1953 the GDR tended to disperse responsibility for operational supervision of the economy among an ever-increasing number of ministries and state secretariats which were set up to deal with special problems (see Figures 1 and 2***). After the uprising of 17 June 1953, however, the major sectors of the economy were brought under a few large ministries headed by trusted leaders. In October 1953 the metallurgical, coal, power, and chemical industries were brought under a Ministry of Heavy Industry; and in January 1954, all machine building was brought under a single Ministry of Machine Construction 33/ (see Figure 2).

Additional consolidations of ministries occurred during 1954 as the GDR attempted to tighten control over the economy preparatory to the reinstatement of the policy of rapid industrialization. In November, railroads, motor transport, and shipping were brought under a single Ministry of Transportation; the State Secretariat for Vocational Training was absorbed by the Ministry of Labor and Vocational Training (see Figure 3****); and the State Planning Commission took over the State Secretariat for Material Procurement. 34/

2. Dividing Planning Responsibility.

The GDR took over the Soviet system of planning virtually without change but lacked the experience to make it work well. At

* The Ministries of the Interior, Foreign Affairs, and Justice; the Supreme Court; the Central Commission for State Control; and the Office of the Attorney General, however, were not placed under the jurisdiction of the Department of Coordination, for the latter was primarily concerned with economic affairs.

** Following p. 14.

*** Following pp. 8 and 14, respectively.

**** Following p. 14.

EAST GERMANY MAJOR STAGES IN THE EVOLUTION OF THE ECONOMIC CONTROL STRUCTURE, 1953-54*

As of 10 August 1953

As of 1 July 1954

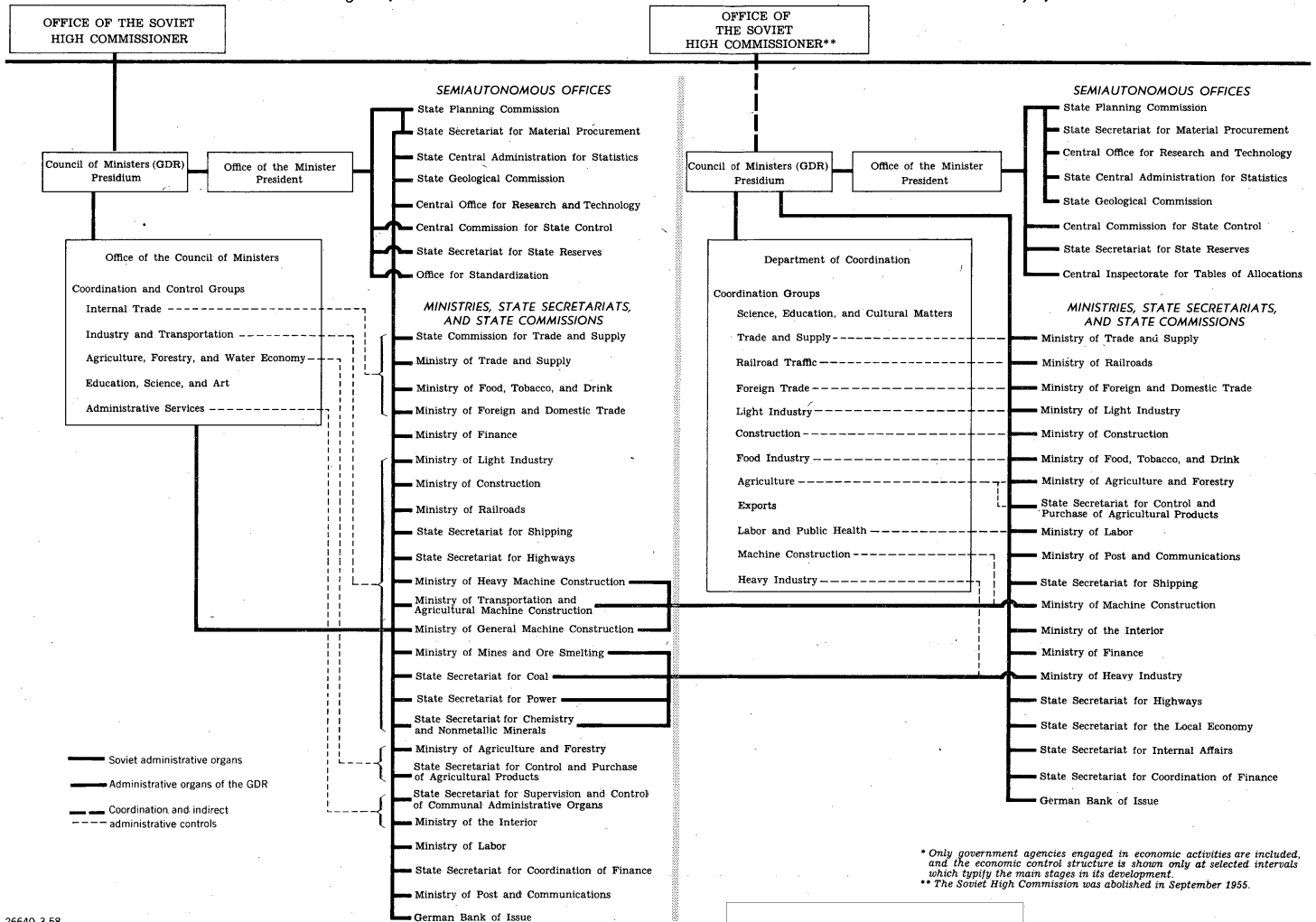
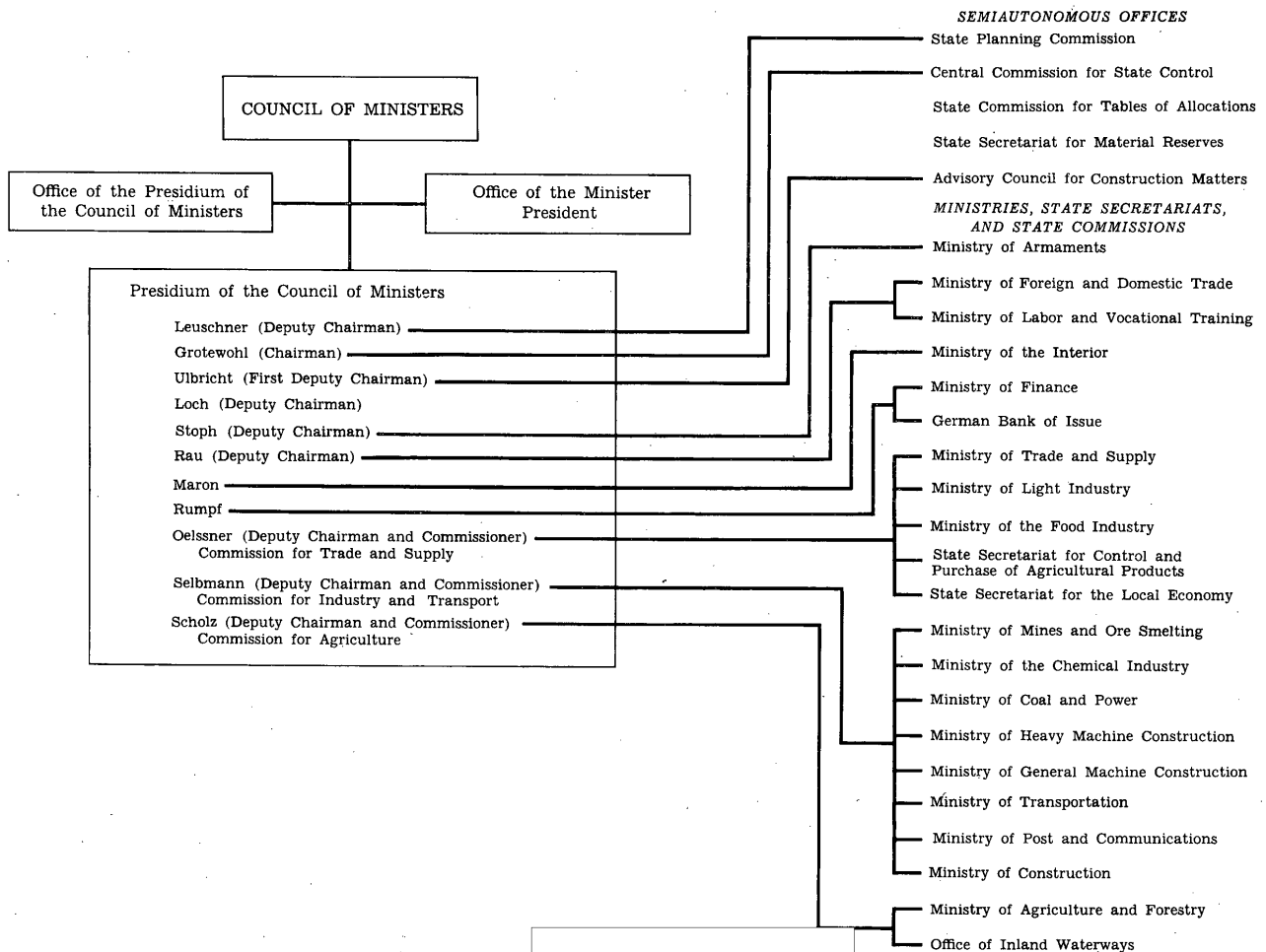


Figure 3

50X1

EAST GERMANY
ECONOMIC CONTROL STRUCTURE AS OF 1 FEBRUARY 1956



50X1

S-E-C-R-E-T

first the regime was preoccupied with such elementary problems as getting enterprises to plan their activities in a uniform manner on the basis of central directives. Its basic approach to problems of this nature was to bring all aspects and levels of planning under strict central control. 35/ As a result, planning methods tended to become more and more elaborate, and the responsibilities of each administrative level tended to be defined and regulated in ever-increasing detail. Some refinement in planning techniques also became evident. For example, the Planning Rules, which the State Planning Commission issues each year as prescribed methodology, had evolved by 1954 from a single set of somewhat general instructions into a series of sets of comprehensive instructions adapted to each branch of the economy. 36/ Rigid central control discouraged enterprise managers from showing initiative or accepting responsibility, however, and this tended to offset increased technical proficiency in planning.

The Central Committee of the Party therefore recommended that planning should be simplified and the responsibilities of enterprise managers increased in order to make them more conscious of costs, productivity, and general profitability. On 16 December 1954 the Council of Ministers passed a resolution implementing those recommendations. 37/ The State Planning Commission was directed to reduce national plans to targets of major significance* and was empowered to regulate the amount of detail that ministers, main administrations, and the district and county councils could require of their subordinate enterprises. It also was directed to assist ministries and district councils in developing a simpler system of enterprise planning before the 1956 Plan was prepared.

Simplification, however, was not intended significantly to reduce central control over the planning process. The resolution of the Council of Ministers instructed the State Planning Commission and the Ministries of Finance, Foreign and Domestic Trade, and Labor and Vocational Training (see Figure 3**) and other top organs to improve their leadership and control over those phases of plan formulation and implementation falling under their jurisdiction. Moreover, it specified in comprehensive detail when and in what form the ministries, main administrations, and councils of districts and counties should do the following: (a) issue instructions to the enterprises for drafting each important part of the plan; (b) notify enterprises of their plan targets in precise documents signed by the chief of the main administration or appropriate deputy of the district council; (c) issue provisional

* Contrary to the general trend toward simplification, the plan control figures for manpower and finance were to be made more detailed in order to tighten control.

** Following p. 14.

S-E-C-R-E-T

S-E-C-R-E-T

targets if plan targets were not formally ratified by the beginning of the plan year; and (d) supervise the introduction or further refinement of quarterly operational planning in enterprises -- that is, planning of internal preparations for carrying out state obligations. These agencies also were prohibited from changing the plan of an enterprise unless strong justification could be shown and their own plans would not be affected.

The resolution of the Council of Ministers of 16 December 1954 also placed much greater emphasis on the planning responsibilities of the enterprise manager than upon his rights. He was given no new powers with respect to the annual plan, although an effort was made to assure that he would receive more adequate and timely assistance and supervision. He was made legally responsible, however, for developing suitable quarterly operational plans on his own initiative, if necessary on the basis of provisional planning documents. Moreover, such operational plans had to provide for making up underfulfillment of production targets in previous quarters. The plans could be revised during the quarter to include new assignments but could not be reduced. The only concession to the enterprise manager was that, although the operational plan is prepared under the supervision of superior organs, it need not be submitted to them unless the enterprise is lagging in plan fulfillment.

Although the decree provided few concessions to management at the operational level, it was intended to lay the groundwork for later changes. Ministries, state secretariats, and other organs of state authority were directed to evaluate their initial attempts to simplify economic planning before the 1956 Plan was drafted. At that time they were to suggest such additional simplifications in procedures as seemed practical on the basis of experience.

3. Increasing Powers of Key Ministries.

The GDR also became concerned over managerial deficiencies at the operational level of industry, as the economy experienced increasing difficulty in achieving plan targets for productivity and reduction of costs. At first the regime was inclined to blame shortcomings in industry on "grievous and significant subjective errors on the part of the works' managements." ^{38/} Consequently, vigorous exhortations to enterprise directors to be more diligent and steps to tighten central control over their activities were at first the principal forms of corrective action.

Centralization of control reached such an extreme in the ministerial consolidations following the uprising of 17 June 1953,

S-E-C-R-E-T

S-E-C-R-E-T

however, that administrative compensations had to be provided. The trusted heads of the large omnibus ministries therefore were given somewhat broader discretionary authority. Near the end of 1953 the new Minister of Heavy Industry and his deputies, for example, were given a rather free hand in appointing administrative personnel, controlling the internal organizational structure, approving the plans and budgets,* assigning work, and regulating prices of subordinate enterprises and establishments. 39/ Significantly, these rights seem not to have been extended to the less important economic ministers and heads of state secretariats.

No new powers of any significance were delegated to enterprise managers during 1952-55. On the contrary, regulations governing the exercise of powers already granted to them became more detailed and restrictive, as is indicated by the various revisions in the statutes governing the use of the enterprise director's fund. 40/

4. Tightening Economic Control over Local Organs of the State.

As mentioned above, the districts, counties, and municipalities in East Germany functioned after 1952 as organs of the state authority and not as autonomous local governments. Nevertheless, additional steps were taken in 1954 to tighten national control over local industry and other residual economic functions remaining under the jurisdiction of the districts, counties, and municipalities. In 1953 the departments of the district and county councils, which handle local industry and handicrafts, were subordinated to a national State Secretariat for the Local Economy. 41/ Moreover, a law of 16 November 1954 directed the Council of Ministers specifically to adapt the structure of the national government, including its regional and local levels, to the needs of national economic plans and other state tasks. 42/ The Council was authorized to cancel decisions and legislation of the district councils and assemblies without the formality of legislative action by the Peoples Chamber (Volkskammer),** as previously had been required by law. In a policy speech on 19 November 1954, Otto Grotewohl, Chairman of the Council of Ministers, called for tighter central control over the district and local organs of the state administration. 43/ Subsequently, steps were taken to

* Changes in the plan or budget of the Ministry itself still required the approval of the State Planning Commission and the Ministry of Finance.

** The lower house of the national parliament of the GDR, which in practice passes alone on all legislation.

S-E-C-R-E-T

S-E-C-R-E-T

bring locally controlled peoples owned enterprises under closer supervision of national agencies such as the German Bank of Issue (Deutsche Notenbank). 44/

C. Situation at the End of the Soviet Occupation.

During 1952-55 the USSR steadily reduced and eventually abandoned direct participation in the management of the economy of East Germany in order to enhance the standing of the GDR as a "sovereign" power. In May 1953 the SCC was replaced by the Soviet High Commission for Germany. The latter, however, confined itself to representing specific interests of the USSR in Germany and to such broad supervision of the GDR as was required by the Potsdam Agreement. 45/ The USSR took additional steps to reduce its overt control mechanism after it granted the GDR "sovereignty" in March 1954. 46/ In June the Soviet High Commission reduced its staff by two-thirds and withdrew local representatives. In August, all decrees and orders issued by the SMAD and the SCC between 1945 and 1953 were canceled. In January 1955 the USSR officially terminated the state of war with Germany. Finally, in September 1955 the Soviet High Commission was abolished and the Soviet occupation formally terminated.

The gradual elimination of the overt Soviet control mechanism, however, was accompanied by a sharp rise in the number of Soviet advisers in the economy of the GDR. Early in 1954 the GDR began to contract with the USSR on a large scale for the services of technical experts of various kinds. 47/ These "technical" advisers became an important indirect channel of Soviet control and also probably made a substantial contribution to the German economy as consultants. Their influence continued to be strong for the next several years, although by mid-1956 it apparently had started to wane. 48/

The prevailing trend in economic management throughout the period 1952-55 was toward ever greater centralism. Absolute control, however, created as many problems as it solved. In spite of extensive experimentation with the central control structure, complaints continued that the Council of Ministers and its Presidium were overloaded with routine administrative detail and that ministers and lower level managers were reluctant to take responsibility. 49/ The GDR therefore had begun by early 1955 to reconsider its administrative preconceptions. It cautiously attempted to simplify planning near the end of 1954, with provision for reopening the question in 1955. Moreover, in April 1955 the Ministry of Machine Construction was divided into separate ministries of Heavy Machine Construction

S-E-C-R-E-T

S-E-C-R-E-T

(see Figure 3*). 50/ Thus an important first step was taken toward breaking up the unwieldy omnibus ministries.

IV. Administrative Revision: Second Phase, 1955 - Mid-1957.

Several converging economic and political influences finally caused the GDR to undertake a full-scale review of its management problems near the end of 1955. The Second Five Year Plan (1956-60) called for a return to the priority development of heavy industry and the "building of socialism." Improved management therefore assumed importance in achieving the sharp increase in labor productivity upon which the plan depended. Coordinated planning within the Soviet Bloc also was becoming more firmly established, so that realistic plans and certain fulfillment took on added significance. Moreover, the USSR had launched a campaign against bureaucratic tendencies in economic administration during the summer of 1955, so the political climate was right for innovation.

A. Policies of the 25th Plenum of the Party Central Committee.

In October 1955 the 25th Plenum of the Central Committee of the Communist Party of East Germany concluded that the system of economic administration should be overhauled and made recommendations that were to dominate the policy of the GDR on management reform from then to the present. The Central Committee recommended the following 51/: (1) more definite separation of policymaking and routine operational functions; (2) improvements in the administrative structure and methods of the Council of Ministers and the districts, counties, and municipalities; (3) simplification of planning; and (4) greater use of economic incentives to stimulate the initiative of enterprise managers. Several speakers at the Plenum emphasized that better use should be made of the experience of enterprise managers in deciding detailed questions falling within their competence.

B. Initial Attempts at Implementation.

The Council of Ministers of East Germany took prompt measures to implement the recommendations of the 25th Plenum.

1. Structural Reorganization.

In November 1955 the GDR replaced the Department of Coordination** with three supraministerial economic commissions, as follows: the Commissions for Industry and Transport, Trade and Supply, and

* Following p. 14, above.

** See III, B, 1, a, p. 13, above.

S-E-C-R-E-T

S-E-C-R-E-T

Agriculture (see Figure 3*). The commissions were policymaking bodies and performed control as well as coordination functions. Each of them was headed by a member of the Presidium of the Council of Ministers who also had been in charge of one of the omnibus ministries previously set up for major sectors of the economy. In addition, each of the other members of the Presidium was made personally responsible for overseeing one of the economic sectors not placed under the jurisdiction of the commissions (see Figure 3).

This reorganization made economic policy the exclusive prerogative of a small and select group in the Presidium, which was freed of more routine ministerial responsibilities. Moreover, it unified responsibility for policy formulation and the over-all implementation of policy in the persons of a few top leaders of sufficient stature to make necessary decisions.

The reorganization of the supraministerial control structure relegated the ministries essentially to routine administrative functions. The need for large omnibus ministries was eliminated, for the economic commissions provided the desired concentration of policymaking authority, and operational supervision could best be accomplished by smaller, more specialized ministries. The GDR therefore continued the breakup of the omnibus ministries which had started in April 1955.** In November of that year the Ministry of Heavy Industry was again divided into separate Ministries of Mines and Ore Smelting, the Chemical Industry, and Coal and Power 52/ (see Figure 3*). As a precautionary measure, however, the powers of the Central Commission for State Control were simultaneously expanded in order to make sure that the increase in the number of ministries did not diffuse and weaken central control.

2. Simplification of the Planning Procedure.

The Council of Ministers of East Germany also responded to the recommendation of the 25th Party Plenum that plan simplification should be continued. 53/ On 26 January 1956, Bruno Leuschner was authorized, in his capacity as Chairman of the State Planning Commission and Deputy Chairman of the Council of Ministers, to modify provisions of the decree of 16 December 1954 in order further to simplify planning in state-owned industry. 54/ Several changes in the regulations governing the assignment of tasks to the enterprise under the state plan were introduced immediately and were formally ratified by the Council of Ministers on 20 February 1956. 55/ The changes tended to restrict the discretion of ministers, chiefs of main administrations,

* Following p. 14, above.

** See III, C, p. 18, above.

S-E-C-R-E-T

and chairmen of district and county councils with respect to policy but to give them greater freedom in operational matters. Under the new regulations they were legally obligated to raise the plan targets of the enterprise to include any unforeseen increase in the rate of production. Upward revision of plan targets for other reasons, however, was to require the consent of the enterprise, once the annual plan had been formally ratified. Downward revision of enterprise plan targets was of course sharply discouraged. It was to be permitted only if fulfillment of the plan of the ministry or district council was not jeopardized, and the supply and delivery contracts of the enterprise concerned were not to be changed without the consent of both contractors or their superior organs.

Nevertheless, main administrations and district and county councils were permitted somewhat more discretion in making necessary adjustments in the quarterly plan of the enterprise. They were authorized to change quarterly targets of the enterprise for gross volume of production, manpower, and finance within limits of plus or minus 3 percent if no additional resources were required and if fulfillment of the annual plan was not jeopardized. Ministries and district councils, however, were made legally responsible for seeing that plan adjustments carried out under the above provision did not interfere with fulfillment of other parts of the enterprise plan and did not result in violation of the deadlines set by the State Planning Commission.

One innovation was that enterprises may be assigned only annual targets for certain commodities designated by the State Planning Commission. Distribution of such products was then to be effected by sales contracts negotiated by the enterprise rather than on the basis of a quarterly plan, although ministries were of course expected to influence the sales activities of the enterprise.

The new law also granted ministries, district councils, and enterprises the right to build up contingency reserves of materials, manpower, and wage funds, although main administrations and county councils were forbidden to do so. Ministers and chairmen of district councils were specifically authorized to hold back up to 1 percent of their manpower and wage funds and unspecified amounts of materials in making allocations, and they could dispose of this reserve as they saw fit. No specified limits were set for enterprises. They were merely exhorted to build up contingency reserves but were in no way relieved of responsibility for fulfilling all plan targets.

The GDR also continued its previous efforts to reduce the amount of detail contained in the national plan and in the plans

- 21 -

S-E-C-R-E-T

S-E-C-R-E-T

for major sectors of the economy. In 1955, for example, national production targets had been set for 950 individual products, but the number was reduced to 810 in 1956 and was scheduled for a further reduction to 450 items in the 1957 Plan. 56/ Moreover, it was announced that the number of mandatory plan control figures for the machine construction sector was to be reduced from 228 in 1956 to 16 in the 1957 Plan. 57/

3. Expansion of Powers of Ministers and Enterprise Managers.

The tendency to downgrade the role of rank and file ministers in policy formulation in East Germany was accompanied by the transfer of an increased number of routine operational functions to them. In December 1955 the Council of Ministers expanded the powers of ministers, chiefs of main administrations, and enterprise directors of the "centrally administered peoples owned industry." 58/ Under the new law a limited increase of discretionary authority was granted to all ministries and state secretariats, but preferential treatment was given to the Ministries of Coal and Power, Mines and Ore Smelting, the Chemical Industry, Heavy Machine Construction, General Machine Construction, Construction, Light Industry, and the Food Industry and to their subordinate main administrations and enterprises.

The new powers granted to all ministers and heads of state secretariats included the following: (a) to enter into contracts with special wage earners -- scientists, engineers, and technicians -- without registering the agreements with the Ministry of Labor and Vocational Training, provided the monthly wage rates did not exceed 4,000 Deutsche Mark East (DME)*; (b) to determine when their collegium should meet, although the schedule and changes in the schedule still had to be announced to the Council of Ministers; (c) to use their reserve funds for investment purposes, although all projects extending beyond 1 year still require the approval of the State Planning Commission; and (d) to change the amount of planned investment, provided that targets for growth of capacity were not hampered and the investment funds of the main administrations were not overdrawn.

The industrial ministers indicated above were, in addition, given the following rights: (a) to fill all administrative posts under their jurisdiction except those of deputy minister and chief of main administration; (b) to alter the tables of organization of their respective ministries and subordinate organizations up to a limit of 15 percent of the number of positions; (c) to demand up to

* The Ministry of Labor and Vocational Training continues to dispose of the quota of special workers earning over 4,000 DME per month (approximately US \$1,667).

S-E-C-R-E-T

S-E-C-R-E-T

2 million DME in additional funds for special purposes such as compensation for mining injuries, with the agreement of the Ministry of Finance; and (d) to set up branch offices abroad for those enterprises engaged in the export of products of a specialized or technical character, with the agreement of the Ministry of Foreign and Domestic Trade.

The new rights granted to the chiefs of main administrations and directors of enterprises in the industries specified above pertained to approximately the same areas as those granted to the ministers. Chiefs of main administrations were given the following rights: (a) to enter into contracts with employees falling in certain wage categories; (b) to determine the organizational structure and tables of organization of enterprises under their immediate jurisdiction; (c) to establish bonus systems within the general limits of existing regulations, although the agreement of the Ministry of Labor and Vocational Training was still necessary on all basic questions; (d) to organize export sections for their enterprises; (e) to set aside funds from their investment plans for introducing new technology; (f) to authorize changes in the plans of subordinate enterprises if planned targets for quantity and quality were not adversely affected; and (g) to delegate certain of their powers to important enterprises, particularly with respect to labor, technological improvement, and investment costs for general repairs. Managers of enterprises were granted the following rights: (a) to change their tables of organization if overdrawal of the wage fund did not thereby result; (b) to authorize investment projects up to a limit of 20,000 DME and up to 750,000 DME if so empowered by their main administrations; (c) to authorize deviations from the enterprise plan within a single quarter up to plus or minus 5 percent if fulfillment of the quarterly and annual plans were not jeopardized and the main administration had been notified*; (d) to change production technology if plan fulfillment, product quality, or production costs were not adversely affected; (e) to accept orders to produce goods from materials supplied by customers or from the enterprise's own stock if fulfillment of the production plan was not thereby jeopardized; (f) to demand credit from the German Bank of Issue or the German Investment Bank; and (g) to assign apprentices for training purposes only upon consent of the ministry, without review or approval by the county councils or departments for labor and vocational training.

* This right was virtually nullified, however, by the planning decree of 20 February 1956 (see 2, p. 20, above), which made ministries and main administrations legally responsible for assuring that enterprises used their new power wisely. 59/

S-E-C-R-E-T

S-E-C-R-E-T

In addition, the ministers could at their discretion permit certain enterprises to decide questions relating to the following: (a) recruitment and labor strength, (b) granting of supplemental food rations to old people and enterprise workers, (c) spending of interest-bearing funds for export negotiations, and (d) certain other questions of similar character.

Necessary central control was of course adequately protected, for any decision made by an economic manager on the basis of the new rights was subject to annulment by his superiors. The Deputy Chairman of the Council of Ministers and the Commissioners for Industry and Transportation and for Trade and Supply, for example, were specifically empowered to modify all conflicting orders originating within ministerial chains of command. Moreover, all "important" questions related to planning expressly required the approval of the State Planning Commission. In spite of these restrictions, the new law represented a rather significant refinement in the underlying philosophy of central control. Instead of attempting to make all routine decisions, the central authorities apparently had decided to give economic managers greater operational freedom and to intervene only if the intent of the government was definitely being violated.

C. Impact of Soviet De-Stalinization on Implementation.

Implementation of the reforms recommended by the 25th Plenum of the Communist Party Central Committee of East Germany was brought virtually to a standstill by the denunciations of Stalin at the Twentieth Congress of the Communist Party of the Soviet Union (CPSU) in February 1956. In the GDR, as in the other Satellites, de-Stalinization was a decidedly negative phenomenon. It undermined confidence in the regime and stirred the latent hostility of the population without offering any constructive program of corrective action. It caused both the Party rank and file and the public to expect change of some kind but left them uncertain as to how they would be affected. ^{60/} The regime thus was confronted with a difficult choice. If it yielded to popular pressures for liberalization, it ran the risk of weakening control and letting the situation get out of hand. But if it did not, it still would have had to contend with the pent-up frustrations of a discontented population.

Because the regime in East Germany does not command the loyalty and support of the majority of the population, it has always tended to view any relaxation of control as an invitation to disaster. This defensive attitude was intensified by the uprising of 17 June 1953 which immediately followed some easing of the harsh policies associated with "building socialism." The instinctive response of the East German leaders therefore was to resist de-Stalinization.

- 24 -

S-E-C-R-E-T

S-E-C-R-E-T

They experienced some initial confusion because some formal agreement with the Soviet denunciations of Stalin was required of them 61/ but quickly recovered and took the general line that the policies of the GDR were basically correct and that any tendency toward the "cult of personality" had been eliminated by 1953. 62/ This bland fiction did not entirely satisfy the Party rank and file or the public, 63/ but, with only nominal steps to rehabilitate purged Communist leaders and political prisoners, the regime managed to keep unrest within manageable limits. 64/

The regime also attempted to divert de-Stalinization to its own ends. At the Third Party Conference, in March 1956, Grotewohl equated implementation of the recommendations of the 25th Plenum with the "broad development of democracy in the GDR." 65/ Thus he attempted at one stroke to narrow the scope of de-Stalinization and to demonstrate that the regime had already undertaken necessary reforms. Moreover, he adroitly provided a convenient basis for rationalizing concessions which might become necessary, in terms of established policies rather than the de-Stalinization campaign. The Party Conference and the Council of Ministers sanctioned this policy line by recommending more vigorous efforts to improve the efficiency of the bureaucracy. 66/ The scope and character of the management reform program already under way was not basically changed, however, and the tempo of implementation was actually retarded. Moreover, management reform was carefully related to the achievement of planned targets for economic growth rather than to the correction of "Stalinist errors."

1. Additional Reorganization of the Top Control Structure.

As in the past, the problem of improving the organization and operational methods of the central economic control structure of East Germany received first consideration. In May 1956 the State Planning Commission, which previously had functioned as an organ of the Council of Ministers, was set up as a separate legal entity. 67/ This change enhanced its official importance and reflected the growing interest of the GDR in improving long-term planning and in coordinating planning with the Soviet Bloc.

Additional organizational measures specifically taken to improve long-term planning included the following: (a) the establishment of a Central Supply Commission for Mineral Resources (under a deputy chairman of the Council of Ministers) to check and coordinate assessments of the raw material potential of the GDR in order to provide a better basis for long-range economic planning 68/ and (b) the convening of an ad hoc commission of specialists by the Chairman of the State Planning Commission to oversee the utilization of economic reserves -- that is, materials and production capacity. 69/

S-E-C-R-E-T

In addition, the Main Administration for Local Councils was taken out of the Ministry of the Interior and brought directly under the Council of Ministers, effective 15 October 1956. 70/ This change was essentially a precautionary measure taken in conjunction with the steps under consideration to increase the participation of the district and local councils in economic affairs.

2. Postponement of Reforms Relating to Enterprises and Local Organs.

The East German regime postponed the delegation of additional responsibilities to enterprise management and justified the delay on the ground that thorough study of the operational problems of industry should precede further reform. In May 1956 an ad hoc commission was set up under Fritz Selbmann, Commissioner for Industry and Transport and Deputy Chairman of the Council of Ministers, to study supply and inventory problems in industry, particularly excessive stocks of raw materials and semifinished and finished goods. 71/

The findings submitted to the Party Central Committee by this Commission were reportedly highly critical of the discrepancy between plan targets and market demand for products, the lack of sufficient advance notice of orders for special products, the failure of the GDR to acquire a continuous supply of critically needed materials from imports, excessive drains on the capital of enterprises by the government, and similar problems of a fundamental character. Moreover, the Commission allegedly concluded that these conditions could not be improved without altering some of the basic concepts of central planning and permitting greater flexibility in the operations of individual industries. The Party Central Committee and the Council of Ministers, however, did not immediately act upon the recommendations of the ad hoc Commission, 72/ and the practical effect was to defer reform at the enterprise level indefinitely. Likewise, no attempt was made to enhance the economic role of the local organs of the state administration as recommended by the 25th Plenum, although routine functions were in a few instances transferred to them on a piecemeal basis. 73/ In view of the de-Stalinization in the USSR, the Peoples Chamber of the GDR began with great fanfare to consider new legislation for "continuing the democratization" of government by increasing the powers of local organs. 74/ On 21 August 1956, two bills dealing, respectively, with the relationship between the Peoples Chamber and the local legislative assemblies and with the regulation of working methods of the local administrative organs were given a first reading in the Peoples Chamber. Contrary to the usual custom of the Chamber, the bills were sent to committee in order to provide an opportunity for widespread publicity, and no serious attempt was made to enact them until after the uprisings in Poland and Hungary. Thus the

S-E-C-R-E-T

S-E-C-R-E-T

leaders of the GDR were clearly more interested in propagandizing the public about their "democratic" intentions than in really enhancing the economic role of the local organs.

D. Cautious Resumption of Implementation After the Polish and Hungarian Uprisings of 1956.

The uprisings in Poland and Hungary transformed the temper of the East German people and made control more difficult. Although any immediate hope of unseating the regime was largely discouraged by the experience of June 1953 and by the bloody Soviet intervention in Hungary, unrest continued to be manifested by the ideological ferment among intellectuals and students and the interest of the general public in the reforms being undertaken in Poland. 75/ What the public hoped for was less central control and subservience to the USSR and more attention to public welfare and the national interests.

The uprisings merely served to convince the German Communist leaders, however, that alert control and the intimidating presence of Soviet military forces were the two mainstays upon which their survival depended. After some initial panic they joined with the USSR in rejecting national Communism and in reaffirming Soviet Bloc solidarity. 76/ They also conducted an active campaign against the doctrines and experience of Poland and Yugoslavia 77/ and took vigorous measures to repress dissidents and "revisionists" in the GDR. 78/ In spite of their unwillingness to yield on the basic issues of doctrine and policy, the German Communist leaders recognized that inflexible adherence to the "hard line" was potentially dangerous.

The regime therefore took an ambivalent position on management reform after the October 1956 uprisings. Although adhering to the "hard line" ideologically, the leaders pretended to have some interest in workers' councils and other liberal innovations, without any intention of making serious use of these reforms. They also resumed implementation of the reform proposals of the 25th Plenum and attempted to convince the public that their efforts would adequately "decentralize" and "democratize" the economic structure.

This renewal of interest in limited reform was motivated by economic as well as political reasons. Loss of vital imports from within the Soviet Bloc caused dislocations in the East German economy. The reduction in Polish shipments of hard coal and coke, for example, contributed to underfulfillment of production targets for steel, 79/ which in turn disrupted production schedules in other economic sectors. 80/ The October uprisings obviously were not the sole cause of the economic difficulties experienced by the GDR. Demand for coal, power, and other basic resources required for industrialization

S-E-C-R-E-T

S-E-C-R-E-T

previously had been rising more sharply than the rate of increase in domestic production. ^{81/} Moreover, industry as a whole was experiencing difficulty in achieving the projected rates of increase in productivity upon which plan targets were based. Consequently, the precarious dependence of the GDR on nondomestic sources of crucial raw materials compounded the economic impact of the October uprisings. The USSR provided some assistance in overcoming shortages of critical materials but was unwilling to make up the whole deficit because many of the other Satellites were experiencing the same difficulties as the GDR. ^{82/} The latter had to release materials from state reserves ^{83/} and to initiate a priority program for rapidly increasing domestic production of coal and power. ^{84/} Measures to improve management efficiency therefore assumed practical significance as a partial solution to immediate economic problems.

1. Legislation on the Local Organs (January 1957).

At long last the two bills dealing with the rights and duties of the local organs of the state administration in East Germany and with the relationship between the national parliament (the Peoples Chamber) and the local assemblies of peoples representatives were passed by the Peoples Chamber in January 1957, thus signifying a further effort by the government to improve local economic administration.

a. Status and Functions of the Local Organs.

The Law Pertaining to the Local Organs of the State Authority of 17 January 1957 ^{85/} consolidated and partly amended the numerous earlier laws, decrees, and regulations dealing with the status, organization, and functions of these agencies in East Germany.* In the economic field the law continued earlier attempts to remove gross shortcomings resulting from the distant locations of directing agencies by bringing the immediate planning and directing authority closer to the basic process of manufacture or other economic activity.** In addition, the January law attempted to stimulate more active rank-and-file cooperation by giving workers and the general public the feeling of greater participation in decision-making. No abandonment or deviation from the basic Soviet tenet of public ownership of the

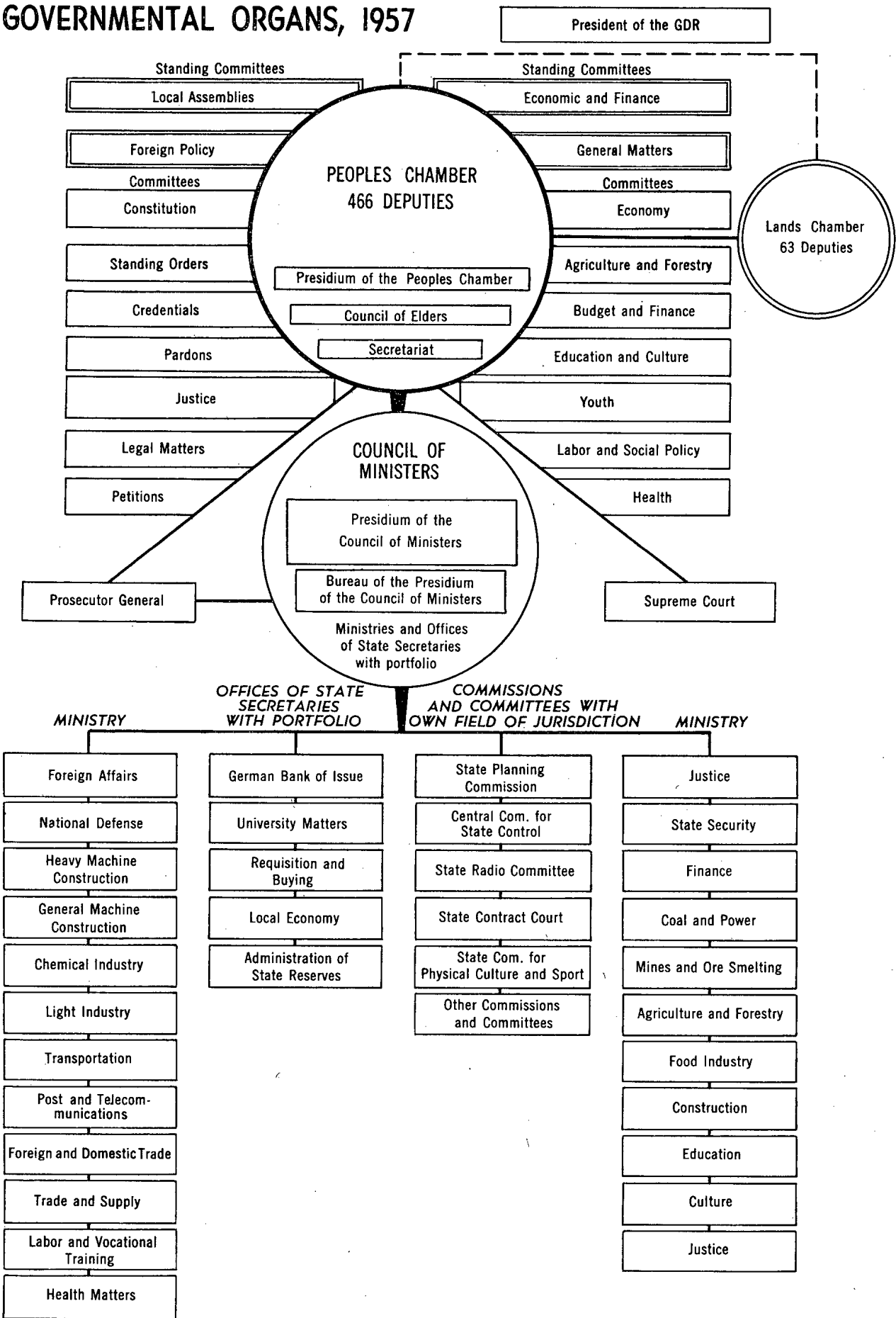
* The official structure of the central government organs on the national, district, county, and municipal levels is presented in Figures 4 to 7 ^{86/} (following p. 28). The official command channels do not necessarily tally with the actual rank and power positions of public bodies.
 ** This policy is also being pursued by Soviet leaders in the present overhaul of their economic administration. Techniques used in East Germany, however, are different.

S-E-C-R-E-T

EAST GERMANY

Figure 4

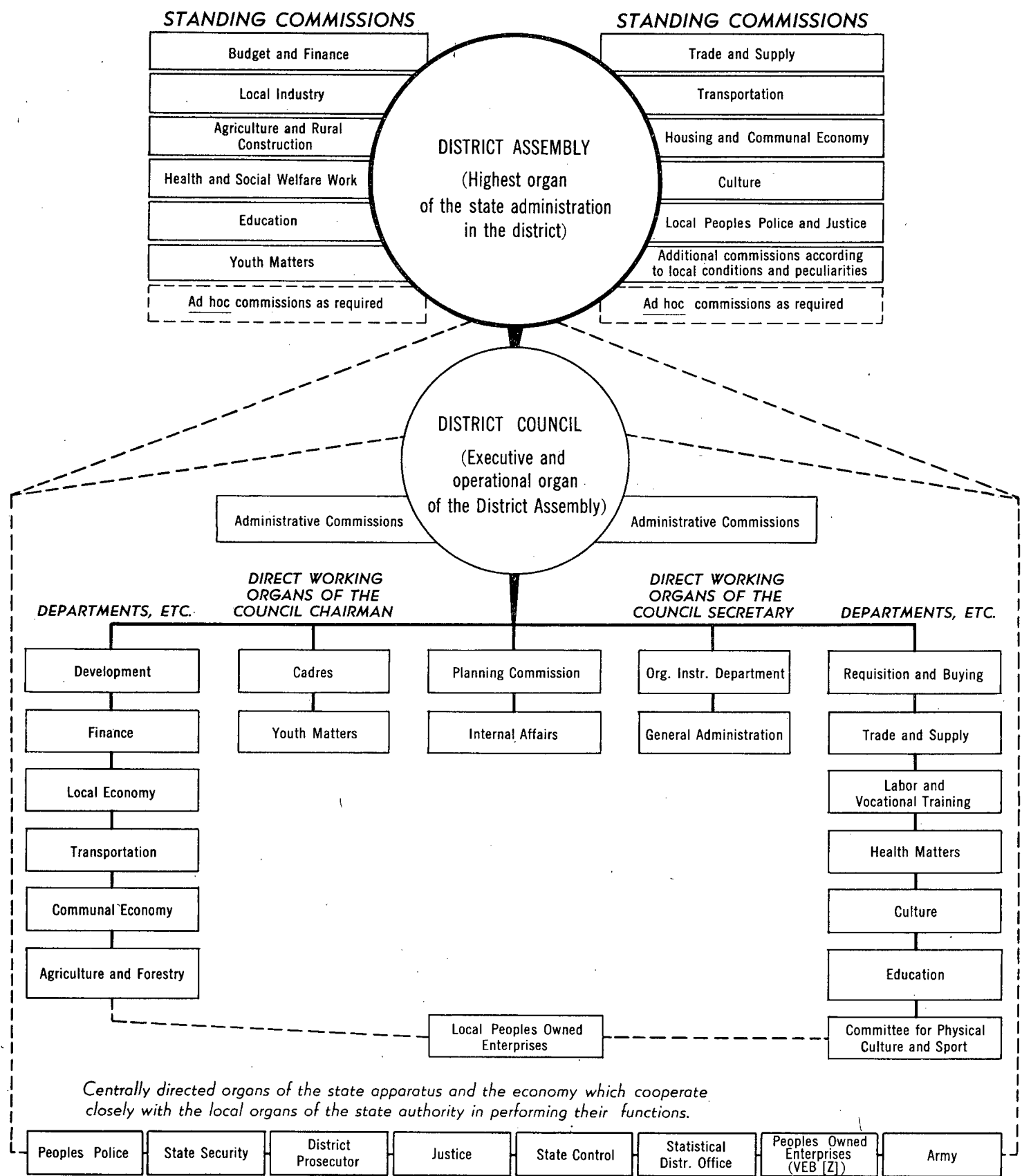
LEGAL STRUCTURE OF THE CENTRAL GOVERNMENTAL ORGANS, 1957



EAST GERMANY

Figure 5

LEGAL STRUCTURE OF THE STATE ORGANS IN THE DISTRICT According to the Law Pertaining to the Local Organs of the State Authority of 17 January 1957



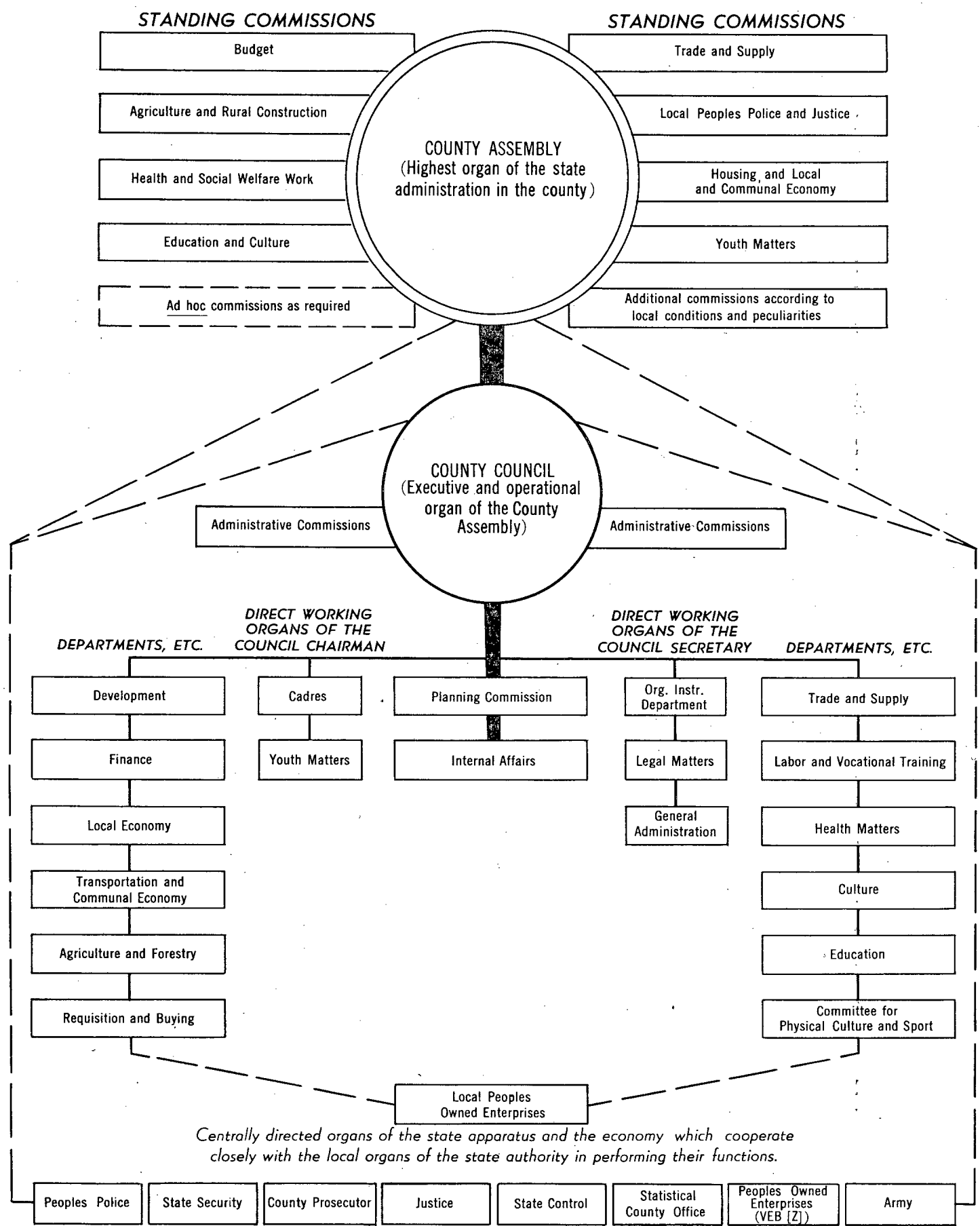
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EAST GERMANY

Figure 6

LEGAL STRUCTURE OF THE STATE ORGANS IN THE COUNTY

According to the Law Pertaining to the Local Organs of the State Authority of 17 January 1957

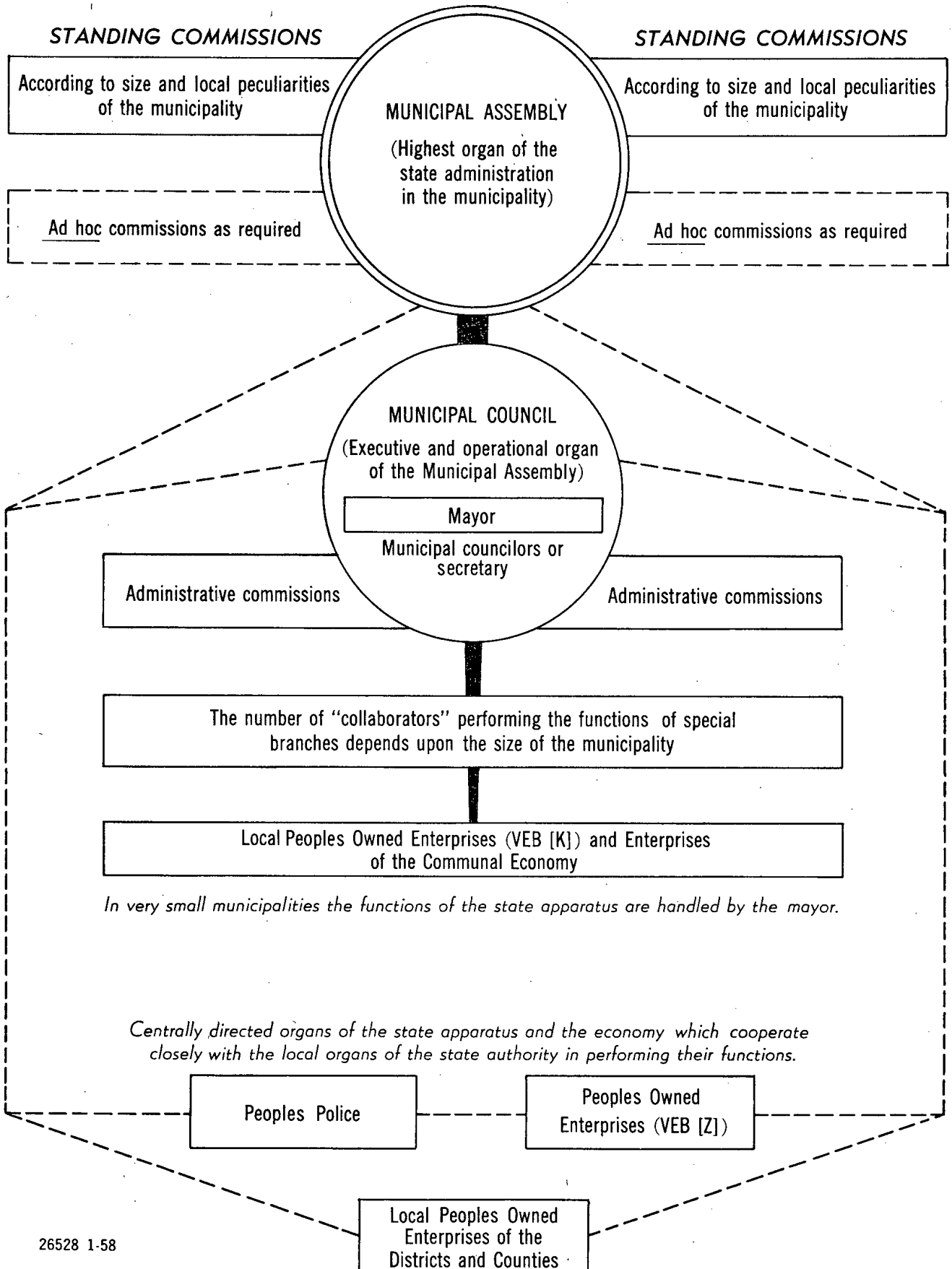


EAST GERMANY

LEGAL STRUCTURE OF THE STATE ORGANS IN THE MUNICIPALITY

According to the Law Pertaining to the Local Organs of the State

Authority of 17 January 1957



S-E-C-R-E-T

economy and its management by the national government, however, was intended. Accordingly, the statute explicitly emphasized that organizational innovations, now as before, apply only within the framework of this fundamental principle. This means that the rights and duties of the elected local bodies and other lower managerial echelons are limited in such a manner as to preserve the power of the highest governmental echelon (and the Communist Party) to have the decisive voice in decision-making.

To bring out this point, the provisions of the January laws concerning the organizational status of the local legislative bodies and their executive organs reemphasize strongly that both are "organs of the state [national] authority" rather than elements of independent local governments. As such, they are components of a governmental pyramid composed of superior and subordinate agencies. Logically, the law provides that the highest superior of the local legislative bodies (the local assemblies of peoples representatives) is the national legislative assembly (the Peoples Chamber) and that the highest superior of all local executive bodies (local councils) is the national executive body (the Council of Ministers). Accordingly, each of the lower assemblies and the local councils must comply with decisions and orders of the Peoples Chamber or the Council of Ministers, respectively, as well as with the orders and decisions of the proper (higher) local assemblies or executive organs at higher levels of the government structure. Their organization and method of operation as well as their functions are fixed by national law.

The members of the Peoples Chamber, of the higher local assemblies, and of the councils of the higher local assemblies may attend the sessions of the lower assemblies in an advisory capacity. The Peoples Chamber performs its function of guiding and supervising the local assemblies through a Standing Committee for Local Assemblies. ^{87/} The Committee's activities include, among other things, the supervision of the local elections and the calling and preparation of the sessions of the local assemblies as well as of the sessions themselves. If resolutions of district assemblies conflict with laws, decrees, or resolutions of the Peoples Chamber or the Council of Ministers, the Committee prepares their nullification by the Peoples Chamber. The Committee also draws up the standing orders of the local assemblies, the working rules of their standing committees, and the rules for the activities of local representatives.

The local councils, as mentioned above, are directed by the Council of Ministers. ^{88/} One of the latter's tasks in performing this function is to make sure that the principle of "democratic centralism" and the dual subordination in matters requiring a uniform

- 29 -

S-E-C-R-E-T

S-E-C-R-E-T

central settlement* are preserved in the integrated operation of the top and local organs of the state administration and their subordinate organs, enterprises, and facilities. The Council of Ministers also demands from the local councils oral or written reports on their activities. A State Secretary for Affairs of the Local Councils has the special duty to effectuate the directives of the Council of Ministers. Higher councils, too, are entitled to demand reports from lower councils on the performance of their duties and to make decisions which are binding upon the lower councils. In performing tasks assigned to them by laws, decrees, or decisions of higher government organs, chairmen of higher councils have the right to issue orders to chairmen of lower councils. Members of higher local councils may also participate in meetings of lower councils in the capacity of advisers.

These provisions in the various enactments of January 1957, however, are not the only factors which restrict the powers of the local assemblies of peoples representatives and of the local councils. They are also limited by the fact that the most important economic enterprises still are administered directly by top rather than by regional and local organs of the national government. Finally, although the law provides for election of the assemblies by general, equal, direct, and secret ballot, elections in East Germany cannot be relied upon to reflect the will of the people and to provide it with an opportunity to participate in important decision-making.

The Law Pertaining to the Local Organs of the State Authority of 17 January 1957 reiterates that elected assemblies of representatives of the people in the various administrative subdivisions of East Germany are, within their substantive and territorial jurisdictions, the supreme representatives of the authority of the state, as follows: the district assembly in the district, the assembly of city delegates in the city county,** the county assembly in the rural county, the assembly of city delegates in the city, the city district assembly in the city district,*** and the municipal assembly in the municipality.

These assemblies elect local councils as their executive and administrative branches. The following councils are established: the district council by the district assembly, the city council by the two types of assemblies of city delegates (in the city county

* See first footnote, p. 32, below.

** A large city.

*** A city district is roughly equivalent to a borough in a large US city.

S-E-C-R-E-T

and the city), the county council by the county assembly, the city district council by the city district assembly, and the municipal council by the municipal assembly.

The local assemblies of peoples representatives are called upon to direct the political, economic, and cultural development of socialism. Their freedom of action, however, is restricted by a number of statutory limitations. They may perform their functions only within the framework of the rights and duties given to them, and they must comply not only with the provisions of the constitution and other laws but also with the resolutions of the Peoples Chamber, the Council of Ministers, and the local assemblies on the higher administrative levels.* Decisions of lower assemblies which conflict with laws or decrees or decisions of the Peoples Chamber, the Council of Ministers, or higher local assemblies are to be nullified by the higher assemblies unless they are repealed by the lower assemblies themselves. The law includes corresponding provisions regarding the handling of conflicting decisions in the council hierarchy.

The jurisdiction of the local assemblies in industrial matters includes the following:

1. Determining the economic plan and the budget for their areas of responsibility on the basis of the national economic plan and budget and the corresponding plans of the higher peoples assemblies as well as insuring the execution of these plans and receiving reports regarding their fulfillment.

2. Increasing the production of the local peoples owned industry, especially the production of mass consumer goods, and developing and strengthening the local peoples owned industrial, service, and supply enterprises.

3. Developing and strengthening the producer cooperatives of craftsmen and other forms of cooperatives and promoting participation of the handicrafts in the production of consumer goods of high value and in repair service activities, above all for the purpose of conserving resources.

4. Furthering the manufacture of important industrial products, above all mass consumer goods, by private enterprise with or without state participation.**

* See II, B, p. 8 ff., above.

** See b, p. 32, below.

S-E-C-R-E-T

S-E-C-R-E-T

In addition, the local assemblies have the duty to increase agricultural production, to insure the fulfillment of plans for the collection and purchase of farm products, to develop and strengthen machine tractor stations and peoples owned farms, to promote the agricultural producer cooperatives and the permanent joint working groups of farmers, and to render assistance to individual farmers. The economic duties of the assemblies include also discovering and exploiting all local reserves, satisfying the needs of the population adequately, developing and strengthening nationalized and cooperative commerce, and supporting private retail trade.

The council, as the executive and administrative agency of each assembly of peoples representatives, has to organize the execution of the latter's tasks. Each council performs this function by implementing the resolutions of the assembly with due regard to the laws, decrees, and other provisions which are binding upon them. Each has the specific duty to prepare the sessions of its local assembly, to support the assembly members and committees in the performance of their duties, to insure the uniform direction of the departments of the council dealing with specific economic fields (Fachorgane)* and of the enterprises and installations subordinate to these departments. Each council, further, has to support the lower councils and to prepare and submit to the assembly the drafts of the economic plans and budgets for their administrative areas. In performing their duties, the councils of the city counties, city districts, cities, and municipalities have the statutory obligation always to use the services of the trusted Communist house and block wardens. The chairman of the local council is the lord mayor in the city county, the district mayor in the city district, and the mayor in towns and municipalities belonging to a county.

b. Economic Importance of the Local Organs.

The economic importance of the regionally and locally administered industries is one of the determinants of the significance of the role of middle and lower levels of the national government in the direction of East German industry. The Law Pertaining to the Local Organs of the State Authority of 17 January 1957 lists certain functions which the "local peoples assemblies" are to perform with regard to the peoples owned local industry, private enterprises, and handicraft producer cooperatives.**

* These departments, as a rule, operate under dual subordination. In matters demanding a uniform central settlement, they are subordinate not only to the council but also to the corresponding department of the next higher council or to the national government agency having jurisdiction in the specific field.

** This list is not exhaustive.

S-E-C-R-E-T

S-E-C-R-E-T

The State Central Administration for Statistics maintains a list of the enterprises of the GDR showing which enterprises are placed under central organs of the public administration and which operate under "local organs of the administration of the state." This confidential list contains the name, the number, the subordination, and possibly also the number of employees of each enterprise. The statistical office acts, however, only as a record keeper. The subordination of the enterprises is determined not by this office but by written agreement among the heads of the administrative organs affected, such as the minister in charge of the industrial branch concerned, the proper state secretary with portfolio, and the head of any other interested central organ of the state administration -- for example, the Minister of Finance and the State Secretary for the Local Economy -- and the chairman of the proper district council. If no agreement can be reached, the decision will be rendered, on application, by the State Planning Commission. The guiding principle in making this determination obviously is that the important industrial enterprises should be under the supervision of a central ministry, while the local councils, by and large, should administer enterprises which serve predominantly local needs or which are of a nature which makes them unsuitable for direct subordination under a top government authority. Demands to change the subordination of enterprises have been coming more frequently from the ministries concerned than from agencies on the local level. For example, the former have been requesting the transfer of enterprises from local to national administration for the purpose of facilitating their cooperation with important enterprises of the capital goods industry or, conversely, the transfer of smaller nationally administered enterprises to local administration because they are unprofitable or because their continued administration by an agency at the national level is considered too difficult. Less frequent have been requests for a change by agencies at the local level. Such requests as have come from this administrative level have, in most cases, been motivated by labor or supply problems. 89/

On 1 January 1957 (the last date covered by the official Statistical Yearbook of the GDR), 5,206, or about 28 percent, of the 18,344 industrial enterprises (excluding building construction) were peoples owned, and 2,902, or 55 percent of the peoples owned enterprises, were locally or regionally administered. The 2,902 enterprises employed about 12 percent of all wage earners in the 5,206 peoples owned enterprises, and they produced approximately 12 percent of the gross total product of these enterprises. In the building construction industry -- a largely local industry -- 307, or 87 percent, of the 353 peoples owned enterprises were locally administered. They contributed 72 percent of the production of all peoples owned building construction enterprises. 90/

- 33 -

S-E-C-R-E-T

S-E-C-R-E-T

Thus, except in building construction, the share of the locally and regionally administered industrial enterprises in the gross total production of the peoples owned industry has been relatively small. The district and county councils, in handling local industry and handicraft, operate under the (national) State Secretariat for the Local Economy,* so that their freedom of action is circumscribed. The State Secretariat maintains special offices for the various branches of the economy. One of its major duties is the promotion of cooperation between the peoples owned local industries and the peoples owned industries under the direct supervision of national government organizations on the top level. To carry out this function, the State Secretariat concludes general agreements (Rahmenvereinbarungen -- framework agreements) with production ministries, which are then implemented by specific, detailed agreements between centrally and locally administered enterprises. The latter agreements are prepared with the assistance of the proper main administration and the State Secretariat for the Local Economy. The departments for the local economy of the district and county councils concerned also participate.

Compared with other Soviet Bloc countries, the number and economic importance of East German private enterprises -- largely small business -- has been and still is relatively large. Yet the goal of the East German government, as of other Communist governments, has at all times been to eliminate, sooner or later, the private sector of the economy completely. Only the intensity of the effort and the techniques used to achieve this ultimate goal have been changing in accordance with changes in the politico-economic situation.

The government has taken steps to reduce both the numbers and the independence of private enterprises. Private firms may still be expropriated, for example, because of alleged offences against legal provisions or inability to satisfy additional tax assessments. Reports submitted to revenue and economic offices by representatives of the government-dominated union (who, in private enterprises, are entitled to broad codetermination and control of compliance with the provisions concerning industrial safety and socio-political matters) often have provided a welcome pretext for dispossession. Moreover, the license to carry on an industry, craft, or trade expires 6 months after the death of the licensee or if it is not used for more than 6 months. A new license is difficult to obtain because it is now granted only if the proper government agency regards the enterprise as "desirable from the point of view of

* See III, B, 4, p. 17, above.

S-E-C-R-E-T

the country's economic efficiency" and acknowledges that the applicant has "the required qualifications and reliability." Finally, the union representatives are expected to exercise their great powers in such a manner as to promote the nationalization of private enterprise. As a result, such cooperation between private employers and their workers as survived the overthrow of the old social order and prevented the collapse of private business firms has become very difficult. Although previously, employees in the private sector of the economy sometimes enjoyed more favorable employment conditions than those in the nationalized sector, the reverse is now frequently the case. This situation, too, contributes, as intended, to the gradual decline of private enterprise.

In earlier years, machinations of such kinds -- in addition to the government investment policy -- were used to force a maximum of private entrepreneurs to give up or even to leave the Soviet Zone of Germany so that their businesses could be nationalized. At present the German Communist leaders are concentrating on subtler methods. Moreover, they are apparently not unwilling for the time being to make use of the entrepreneurial capabilities of private industrialists in order to overcome weaknesses of their economic policies, especially the failure to produce mass consumer goods in sufficient quantities. Yet the functional independence of private enterprises has been restricted since the introduction of the planned economy. Since 1956 the private industrial enterprises have also come under the "contract system." This means that production and sales now are possible only under contracts with customers who obtained a permit from the county council to buy specific goods from the private enterprise. Raw materials can be procured only on the basis of such a contract. Government authorities thus can limit or cut off the production of private enterprises simply by refusing the issuance of the permit for the customer on the ground that there is no need for it "from the point of view of the country's economic interests."

A relatively new method of transforming private into state enterprises "by peaceful means" (also used, for example, in Communist China) is the establishment of "private enterprises with state participation." The reason given officially for this practice has been the existence of a need to increase the working capital of private enterprises which are financially not able to carry out satisfactorily "production required in the interest of the national economy for the purposes of improving the supply of the population and increasing exports."* The scheme, however, has been executed in a manner suitable to bring the capital of private enterprises and

* This was demanded by the 25th Plenum of the Party Central Committee (24-27 October 1955).

S-E-C-R-E-T

S-E-C-R-E-T

the enterprises themselves more into the control of the government. Up to the present the transaction has been carried through by forming a "limited partnership" (Kommanditgesellschaft -- KG), which the government's German Investment Bank joins with its investment as the partner without personal liability (Kommanditist), while the former private owner becomes the managing, personally liable partner (Komplementaer).* The latter receives a salary and a share in the profits of the company according to his capital share.

The government's share in the capital of these new companies in the various industrial branches varies at present between approximately 40 and 70 percent. For example, it is, on the average, 61 percent in the precision tool and optical industry, 59 percent in the building trade, and 57 percent in the building materials industry, but it is only 39 percent in the light and food industries and only 37 percent in the felt and fur industry. 91/ The companies with state participation as a rule are administered by the regional or local organs of the state; those which are important for the national economy, however, are centrally administered. Detailed criteria were established to be used in determining the subordination of the companies. 92/

Apart from obtaining additional capital, the new companies are better off than the fully private enterprises with respect to taxes, procurement of materials, and obtaining orders. They are, however, under more stringent government control. They also have to use part of their profits to maintain a fund similar to the director's fund of the peoples owned enterprises, they must enter into enterprise collective agreements of the type prescribed for peoples owned enterprises, and all their accounts are subject to control by the government-dominated union. Yet the incentives offered apparently have been tempting enough to cause a substantial number of private entrepreneurs to apply at the German Investment Bank for "state participation." At the end of the first quarter of 1957, such applications had reportedly been filed by 865, or about 7 percent, of the private industrial enterprises still existing at that time. 93/

As mentioned above, the aim of public policy, now as ever, is the eventual liquidation of private enterprise because it is considered inconsistent with the ruling concept of "socialist" property in the means of production. This policy pervades also the provisions of the Law Pertaining to the Local Organs of the State Authority of 17 January 1957 dealing with the tasks of the local peoples assemblies as well as the guiding rules established by the Peoples Chamber for the activities of its standing committees. 94/

* See Appendix A.

S-E-C-R-E-T

S-E-C-R-E-T

The "commissions for the local economy, municipal economy, and traffic" are advised to further the production of private industrial enterprises only insofar as this is still required in the interests of the national economy. In contrast, they are, however, counseled not only to foster existing private enterprises with state participation but also to create new ones -- obviously because the establishment of such enterprises is a transitory stage in the process of transforming private into government property.

As a result of this hostile public policy, the private sector of the industry has continued to decline. According to the official Statistical Yearbook of the GDR for 1955 and 1956, the number of private enterprises dropped from 17,543* (or 74 percent of all industrial enterprises) in 1950 to 12,422 (or about 68 percent of all industrial enterprises) by January 1957. 95/ Although private industrial enterprises employed 547,800 people (or 24 percent of the industrial labor force) in 1950, they employed only 441,176 (or about 16 percent of this labor force) on 1 January 1957. By the end of March 1957, 28,824 of the workers in private enterprises were employed in companies with government participation. 96/ The share of private industry in the gross total industrial production declined from 23 percent in 1950 to about 11 percent early in 1957.

Although controlled by the government, producer cooperatives of craftsmen are not necessarily state owned. Manufacturing consumer and producer goods and supplying basic, everyday services, they utilize primarily local resources and materials. In spite of great advantages offered to these cooperatives, especially regarding the procurement of materials, only relatively few self-employed craftsmen have joined them. According to the official Statistical Yearbook of the GDR for 1956 only about 239 such cooperatives had been formed in East Germany by 1 January 1957. At this time the number of private handicraft enterprises** was 237,897 (303,821 at the end of 1950), of which approximately 47 percent did not employ paid help. 97/ The peoples owned enterprises were directed to place orders with the private enterprises only if the orders could not be taken over by a handicraft producer cooperative. The government policy of reducing the role of handicraft enterprises is indicated also by the fact that the growth rate for production provided by the economic plan for the handicrafts has recently been much lower than that provided for industry.

* All data refer to industry without the building trades.

** The East German State Central Administration for Statistics regards as handicraft enterprises only shops employing, as a rule, not more than 10 wage earners.

S-E-C-R-E-T

S-E-C-R-E-T

These developments show that the industrial enterprises placed under the administration of regional or local levels of the national government are generally of considerably less importance for the economy as a whole than those administered directly by top agencies of the national government. Moreover, the authority of the lower "organs of the administration of the state" to direct and control even these less important enterprises is limited by the fact that they are administratively subordinate to all higher organs and especially to the State Secretariat for the Local Economy.

c. Probable Effects of the Legislation.

The various enactments of January 1957* dealing with the functions and status of the local organs of the state administration in East Germany continue, insofar as they regulate economic matters, previous efforts of the national government to reduce the undesirable effects of the direction of economic activities by far-removed central agencies through bringing the immediate planning and directing authority closer to the process of actual production. Conspicuous among the techniques used are the assignment to lower levels of the state administration of some functions hitherto performed by the top level and the creating of the notion in the minds of members of lower governmental echelons, enterprise directors, and rank-and-file workers that they now participate largely in decision-making by genuinely democratic process. Although stressing the continuing need for economic and political centralism, official statements have pointed out that, as contrasted with earlier periods, the economy has no longer to be directed and planned in every detail at the top government level because the persons concerned at lower levels now are capable of carrying greater responsibilities and coping with bigger tasks.

Whether the new legislation will produce all the desired effects and, especially, whether it will generally stimulate initiative and efficiency will largely depend upon the response of the population and the extent to which individual enterprises and lower government echelons will be allowed, in practice, to exercise initiative and freedom of action. In the two latter respects, reason for skepticism appears to exist.

If published reports of discussions in plants and organizations and the numerous other publications on the subject are reliable, enterprise directors, workers, and members of local assemblies are eager to make full use of the new setup and to participate

* See IV, D, 1, p. 28, above.

S-E-C-R-E-T

actively in directing the national economy and improving planning and operational practices. Yet serious doubt exists as to whether their cooperation will be fully accepted.

The argument used in the preamble of the Law Pertaining to the Local Organs of the State Authority that the people on the lower managerial levels of the national economy were not capable of carrying greater responsibilities until 1957 probably will not be believed by many East German businessmen and workers. Although, in earlier periods, lower government officials and enterprise managements may not yet have been sufficiently experienced in operating a centrally planned economy, the capability to handle large industrial tasks was widespread in the territory which is now East Germany long before the formation of the GDR. Yet successive previous administrative reorganizations did not result in full exploitation of this managerial potential, and its full utilization this time is thus doubtful. The point should not be overlooked, in this connection, that the local assemblies and councils, as agencies of the general public administration, deal with both political and economic matters. Expectation that the top level of government will limit local influence in order to maintain its supreme power in both fields therefore appears well founded.

It will not be very difficult to restrict local influence because local agencies, elected under Communist conditions, will be docile and because, even if they were not, the numerous restrictive provisions in the January 1957 enactments fully protect the traditional right and actual power of the top leaders to forestall and overrule any action of lower authorities. In spite of the democratic facade of the present setup and in spite of the seeming introduction of some local self-government, truly independent action of any importance by the lower authorities thus is still impossible. This situation cannot be concealed in the long run. Because of their continuing relatively close contact with the really democratic Federal Republic of West Germany, it is more difficult to conjure up a false picture of democratic government before the eyes of the average citizens of East Germany than of the citizens of other Communist countries. This is an additional reason why it appears unlikely that the legislative measures initiated in January 1957 will stimulate such economic initiative and efficiency and encourage such voluntary cooperation as the East German leaders are hoping for. At any rate, improvements brought about through action initiated by local assemblies and councils would probably be largely confined to local economies -- that is, to economic activities of lesser importance.

S-E-C-R-E-T

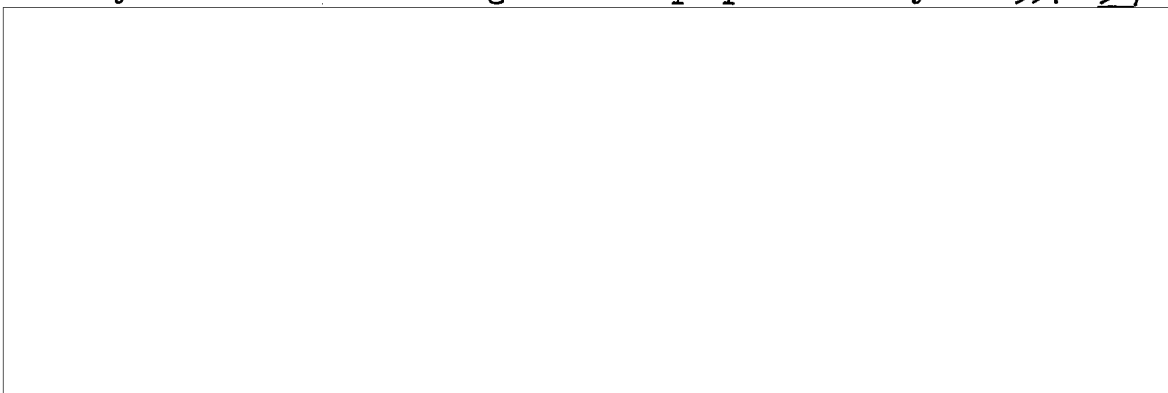
S-E-C-R-E-T

2. Further Changes in Planning and Control.

In addition to regulating the status and functions of the local agencies, the East German regime continued its efforts to narrow and unify responsibility for the formulation and broad implementation of economic policy and to promote better coordination between the ministries and local organs and between the ministries and their subordinate enterprises.

a. Establishment of the Economic Council (April 1957).

The leaders of the Party Central Committee in East Germany debated several reorganization proposals early in 1957. 98/



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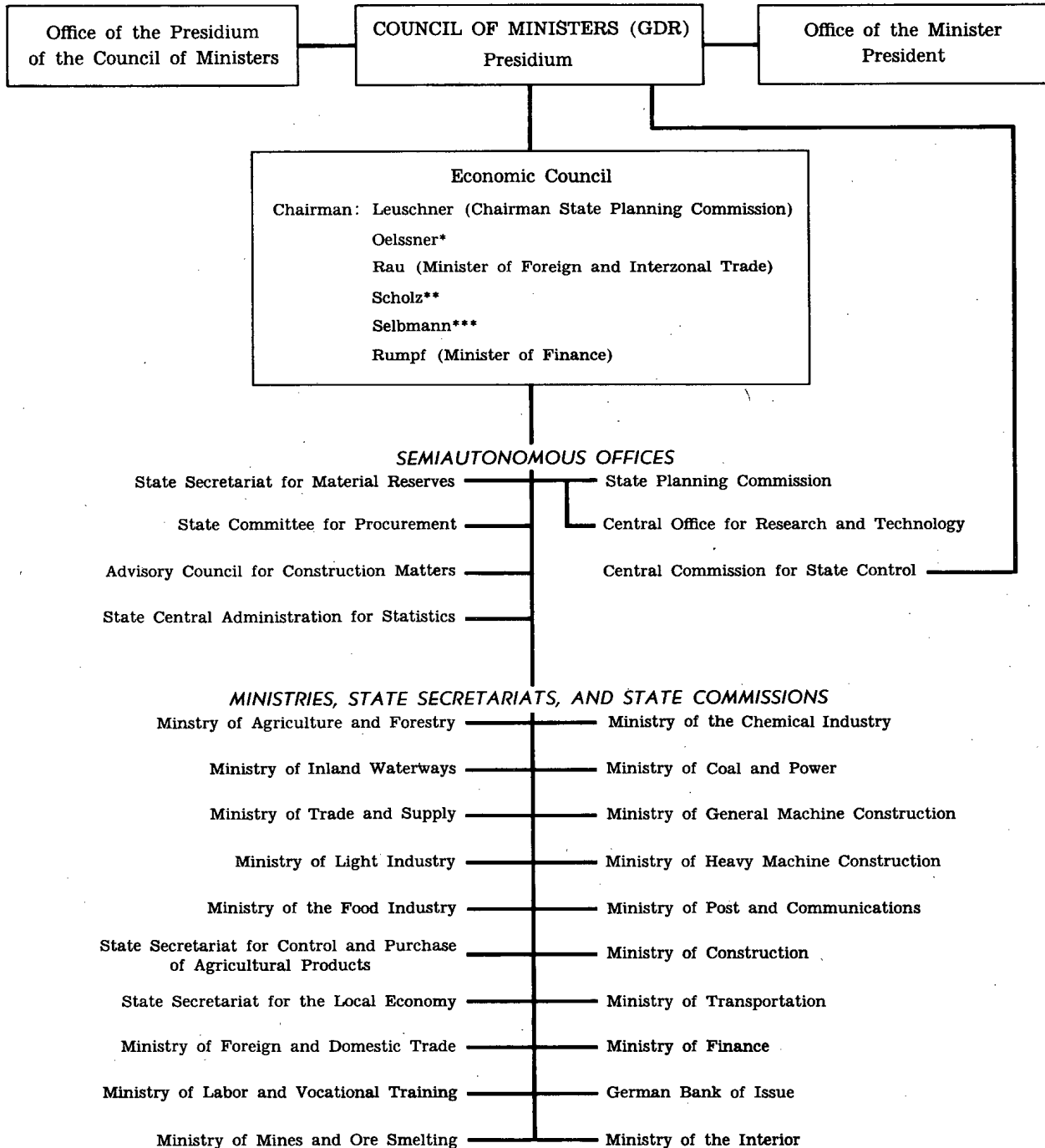
The solution was to make a small group of key administrators responsible for all economic policy decisions of any importance and to unify responsibility for both the planning and the managing of the economy in their persons. In April 1957 an Economic Council was established in the Presidium of the Council of Ministers. It is headed by Bruno Leuschner, Chairman of the State Planning Commission, and includes Heinrich Rau, Minister for Foreign and Interzonal Trade; the three Economic Commissioners Fred Oelssner, Fritz Selbmann, and Paul Sholz; and Willi Rumpf, the Minister of Finance. 102/ (See Figure 8.* 103/) The Council is empowered to decide all basic questions of an operational nature, and its decisions are binding on all ministries and their enterprises. 104/ It also reviews plans prepared by the State Planning Commission before they are submitted to the Council of Ministers for formal approval. 105/ Moreover, each member of the Economic Council oversees the divisions of the State Planning Commission preparing the plan of the economic sector for which he is responsible in his capacity as economic commissioner or minister. 106/

50X1

* Following p.40.

S-E-C-R-E-T

EAST GERMANY
ECONOMIC CONTROL STRUCTURE AS OF 1 JULY 1957



* Oelssner is Commissioner for Trade and Supply and supervises the Ministries of Trade and Supply, Light Industry, and the Food Industry and the State Secretariat for Control and Purchase of Agricultural Products.

** Scholz is Commissioner for Agriculture and supervises the Ministries of Agriculture and Forestry and of Inland Waters.

*** Selbmann is Commissioner for Industry and Transportation and supervises the Ministries of Mines and Ore Smelting, the Chemical Industry, Coal and Power, General Machine Construction, Heavy Machine Construction, Construction, Post and Communications, and Transportation.

S-E-C-R-E-T

For example, the State Planning Commission is divided into long-range and current planning components, each of which has divisions corresponding to the major sectors of the economy. 107/ These are headed by deputy chairmen, each of which is administratively responsible to the appropriate member of the Economic Council as well as to the Chairman of the State Planning Commission. Hugo Meiser, Deputy Chairman in charge of current planning for heavy industry, thus would be responsible to Selbmann as the Economic Council member who is also administratively responsible for Industry and Transport. 108/ Plans or plan revisions prepared by Meiser upon instructions from Selbmann, however, would be submitted to the Chairman of the State Planning Commission, who would in turn submit them to the full Economic Council for approval.

The Economic Council has no staff or quarters but relies on the established administrative machinery to implement its decisions. 109/ It meets in the office of the Chairman of the State Planning Commission as needed, usually weekly or more often, and conducts business on the basis of an agenda prepared by the Chairman of the Council from requests submitted by individual members. 110/ Individual economic ministers may place items on the agenda only through the appropriate Council member. Under the procedures adopted by the Council, each member has an absolute veto, and in case there is no unanimity the matter at issue may be referred to the full Council of Ministers or, more likely, to the Politburo of the Party Central Committee.

Economic policymaking in the GDR thus was narrowed down to six men. The Economic Council exercises the full authority in economic affairs of the Council of Ministers and its Presidium, although the latter of course retains a formal right to intervene. 111/

In dealing with critical problems in the economy the GDR also relies increasingly upon high-level committees and commissions rather than upon established administrative organs. The Council of Ministers, for example, set up a Special Committee under Selbmann* to work out the priority program for overcoming the fuel shortage and to guide and coordinate the activities of all agencies participating in its implementation. 112/ Likewise the State Planning Commission undertook an investigation of the operations of the Ministries of Foreign and Domestic Trade and other state trading organizations 113/ at the instigation of the Party Central Committee.

* Other members of the committee were Leuschner, Oelssner, Gerhard Ziller, and Rumpf.

S-E-C-R-E-T

The Agricultural Commission of the Party Central Committee also investigated and made recommendations on agricultural prices. 114/

No major ministerial reorganizations occurred. There were frequent transfers of enterprises from one ministry to another, however, and within ministries the main administrations were frequently reorganized in the never-ending quest for greater organizational efficiency. 115/

b. Widened Participation and Coordination in Planning.

After the October 1956 uprisings the leaders of the GDR again emphasized that plan simplification would be continued and that in the future only key plan targets essential to the development of the whole economy would be fixed centrally. 116/ The purpose of this renewed emphasis on plan simplification was not to point out the need for additional reforms but to convince the public that implementation of existing policies and the impending adoption of a new law strengthening the authority of the district and local organs of state administration would complete the fundamental changes required to overcome any objectionable bureaucratic tendencies. Citing accomplishments already made in reducing the amount of detail in the national plan, Leuschner told a workers' conference, "I believe no one can any longer speak of overcentralization if 450 out of the millions of different products are planned centrally."* 117/

No attempt was made, therefore, to change the fundamental system of central planning. Superior organs in the hierarchy still issue plan directives and indexes to their subordinate units, which then prepare draft plans and submit them to the superiors for approval. As of mid-1957, for example, the national directives for the annual plan are issued by the Economic Council; and on the basis of them the State Planning Commission issues detailed planning indexes to the ministries and district councils, which in turn issue planning indexes (through their respective planning departments, main administrations, operational departments, and county administrative apparatus) to their subordinate enterprises. The latter then prepare draft plans and submit them to the next higher echelon for approval, and the process continues until the State Planning Commission has integrated the plans of the ministries and districts into a single national plan. The draft of the national plan is then submitted through the Economic Council to the Council of Ministers for formal ratification. The power of final decision thus continues to rest with the top authorities.

* The number of production targets for individual products in the national plan was to have been reduced to approximately 550 in the 1957 Plan.

S-E-C-R-E-T

Although reluctant to make fundamental changes, the GDR has continued to widen the participation of enterprise managers and workers in the preparation of plans in order to give them a greater sense of responsibility. The directives issued by the State Planning Commission to guide the preparation of the 1958 Plan, for example, emphasized that economic managers at each level and even the workers in the enterprise should be informed and consulted concerning the plan assignments of most immediate concern to them. 118/ At the upper administrative levels, wider participation means that the State Planning Commission will now hold discussions with heads of ministries, state secretariats, and district councils before issuing control indexes or planning instructions, and, at the lower extreme, that enterprise managers are directed to discuss plan assignments with the trade union leadership and the workers before submitting a draft plan to the appropriate superior organ.

Lateral widening of participation and coordination in planning also has been provided for. Central ministries and state secretariats are directed to work more closely with the district and county councils. The latter, in turn, are given somewhat greater leeway in developing plan targets relating to local development in addition to those contained in the national plan. All managers of peoples owned enterprises therefore are legally obligated to inform district and county councils of production schedules and economic targets affecting local development. The district and county councils, however, may not alter the plan of a centrally administered enterprise without the consent of its superior ministry or state secretariat.

Sales organizations also are to participate more actively in planning in order to assist enterprises in developing production schedules that more accurately reflect the prospective demand for their output.

Widened participation and coordination in the planning process, however, was not intended to increase the discretionary authority of enterprise managers or the other lower level economic administrators. Draft plans are to be prepared in agreement with superior organs as well as in consultation with subordinate administrative units and workers. Obviously the former is to be decisive. The same relationship also is to hold between the national ministries and the State Planning Commission, between the district and county councils, and between the State Planning Commission and the other agencies of the national government. What widened participation in the planning process signifies, therefore, is not a lessening of central authority, but a changing philosophy as to how it should be used. The tendency now will be for central authorities not to interfere in the performance

S-E-C-R-E-T

of routine or detailed functions unless the responsible administrative level is inefficient or attempts to go contrary to state regulations and purposes.

3. Recent Measures Affecting Operations of Individual Enterprises.

The GDR showed little inclination after the Polish and Hungarian uprisings of 1956 to enlarge upon the resolution of December 1955, which had somewhat enhanced the freedom of enterprise managers in operational matters.

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In a few instances, however, limited additional concessions were made to certain categories of enterprise managers in order to solve specific problems or to promote important programs. New regulations were issued by the Council of Ministers, for example, making enterprise managers of the technical consumer goods industries (those producing radios, televisions sets, refrigerators, motor vehicles, and the like) responsible for the production and wholesale distribution of the spare parts required to keep their products in service. 120/ Regulations governing the negotiation of loans by the enterprise managers for the purpose of introducing new technology also were made less restrictive. 121/

Any advantage gained by the preferred categories of enterprise managers from those slight concessions was offset by the introduction of more rigorous control over inventories and certain other phases of industrial operations. 122/

The GDR also attempted somewhat transparently to capitalize on public interest in the workers' councils of Poland and Yugoslavia. In November 1956, Ulbricht suggested to the Party Central Committee that workers' committees might be a suitable vehicle for stimulating initiative and a sense of responsibility among enterprise employees. The Central Committee endorsed the idea and circulated a resolution to guide public discussions of steps to be taken to increase the rights of industrial workers. 123/

In December 1956, representatives of some 870 industrial enterprises and of the Party and government were called together in a national conference to discuss "democratically" and ratify "enthusiastically" the Party proposal for establishing workers' committees. 124/ At the conference, however, Ulbricht made it clear that the workers' committees were to have little in common with their Polish and Yugoslav counterparts. He specifically rejected "self-government" at

S-E-C-R-E-T

S-E-C-R-E-T

the enterprise level on the ground that it was incompatible with the centrally planned and well-developed economy of East Germany. 125/ As he described them to the conference, the proposed workers' committees were to participate in drafting enterprise plans and in solving production problems but were not to encroach upon the authority of enterprise managers. 126/ Moreover, they were not to infringe upon the functions of the trade unions, although the distinction between the missions of the two organizations was by no means clear.

After the conference had unanimously approved the proposal of the Central Committee for workers' committees, plans were announced for "comprehensive debate" in peoples owned enterprises and those with state participation. The purpose of the "debates" presumably was to elicit suggestions from the workers themselves as to additional functions and powers that might be turned over to the workers' committees. Near the end of January 1957, 40 representatives elected by the national conference were to meet again and draft a basic bill for submission to the Peoples Chamber. 127/ Meanwhile, workers' committees were to be formed on an experimental basis in about 20 enterprises of diverse character.

In spite of intensive propaganda, the GDR had only moderate success in its campaign to "sell" workers' committees as a significant step toward "democratization" of industrial management. At discussions in enterprises the workers were eager for increased participation but tended to view the Polish and Yugoslav workers' councils as the proper models. Consequently, they pressed for more authority than the regime was prepared to grant. 128/

Because of this response, in March 1957 the GDR convened a second "conference of workers" which again endorsed workers' committees that would be restricted to the study of "basic production problems." 129/ Subsequently, such workers' committees were elected in a few isolated instances, but the Party Central Committee was beginning to lose interest and reportedly was inclined to let the movement languish. 130/

E. Situation in Mid-1957.

As of mid-1957, thus, the policy recommendations of the 25th Party Plenum in East Germany had not been fully implemented. The GDR had made substantial progress in unifying central authority and in streamlining the control structure at the top but had delayed implementation of measures to increase the operational freedom of enterprise managers and the local organs, largely because of the uncertainties arising out of the de-Stalinization campaign and the uprisings in Poland and Hungary. A strong bias in favor of extreme

S-E-C-R-E-T

S-E-C-R-E-T

centralism still characterized economic administration, and the GDR had made little progress in its efforts to stimulate the initiative of managers at the operational level.

It would be fallacious to attribute the persistence with which the East German leaders are clinging to rather rigid centralism merely to economic considerations or predilection for the Stalinist approach. Because of historical development, geographic location, political conditions, and various other factors, a strong trend toward centralism in public administration has prevailed in Germany, as in other European countries, for a long time. It far antedates the Sovietization of the part of the country occupied by the USSR. Without foreign intervention, it would probably have continued on a larger scope in postwar West Germany also. In East Germany, however, the inclusion of the management of the nationalized economy in the public administration has added a novel feature to the old trend which has been creating (and will continue to create) more and bigger problems in the development of the East German administrative system than would have existed if the Soviet rulers had only continued the more traditional course toward greater centralism in political administration.

A historical survey brings out what is typically German in the East German approach toward administrative centralism and is, therefore, perhaps not too unpopular. Under the first constitution of 16 April 1871, Germany was a federation of states which had renounced only a relatively small portion of their independence and had preserved their autonomy -- its constitutional principles were similar to those of the US. The Weimar Constitution of 11 August 1919 aimed at much closer unity of the Reich. It augmented the powers of the federal government at the expense of the individual states. To indicate that the latter had ceased to be fully autonomous, Article 2 of the Weimar Constitution stated that "the territory of the Reich consists of the territories of the German lands," substituting the novel term "land" for the traditional name "state." Germany thus became a kind of decentralized single state divided into administrative subunits, the lands. This system was essentially taken over by the Soviet Zone of Germany at the time of its formation, but, in continuation of pre-Soviet trends, the powers of the national government were further strengthened. Article 1 of the "Constitution of the German Democratic Republic" of 7 October 1949 states, "Germany is an indivisible democratic Republic erected on the basis of the German lands. The Republic decides all matters which are essential for the existence and development of the German people as a whole; all other matters are decided by the lands independently. The decisions of the Republic, as a rule, are executed by the lands." ^{131/} In reality, however, the national government from the beginning was dominant in most respects.

- 46 -

S-E-C-R-E-T

S-E-C-R-E-T

Although the relevant provisions of the constitution have not been amended, the administrative structure of the GDR subsequently was thoroughly revised on Soviet lines. This "reform of the administration" or "democratization," as mentioned above, resulted in the establishment of a centralized unitary state run by the national government, which, in turn, is directed by, if not identical with, the Communist Party.* Ever since, all political and economic administration of and in East Germany thus has been the exclusive function of the national government, which it performs through its central, regional, and local organs. There are no individual state or local governments as they exist in the West. This has been emphasized again and again in the pertinent statutes, decrees, official government and Party documents, and private publications by the persistent use of the term "organs of the state [national] authority" for administrative agencies at any level, including the agencies in charge of local political and economic administration.

The pertinent enactments of January 1957 were by no means intended to bring a change in this respect. "It is necessary," states the preamble of the Law Pertaining to the Local Organs of the State Authority, "further to strengthen the authority of the state as the most important instrument in the advancement of socialism." Only a redistribution of functions within the central administrative apparatus has therefore taken place, which leaves the final decision (at least in all important matters) in the hands of the Council of Ministers or other organs at the top. "Since the structure of the state organs in the GDR rests upon the principle of democratic centralism, typical of socialist democracy," states the official Handbook of the Peoples Chamber of the GDR, "the laws, orders, and resolutions of the Peoples Chamber or the Council of Ministers and of the higher peoples assemblies are binding upon the lower peoples assemblies and their organs. Resolutions of the lower peoples assemblies which are incompatible with these laws, etc., must be repealed. Likewise, according to the principles of democratic centralism, ... councils are subordinate and responsible to the Council of Ministers and the higher councils." 132/ This means for all practical purposes that any action by a lower organ of any kind can be nullified by the corresponding organ on the next higher level

* This is the principle of "unity of state and party" which was first applied in Germany by the National Socialists (Nazis). Although the East German constitution, in spite of many deviations as to details, is largely based on the Weimar Constitution (frequently even using the same words), the country is governed, in reality, under methods very similar to those applied by the National Socialists, who never repealed the democratic and liberal Weimar Constitution but paid little or no attention to its provisions and spirit.

S-E-C-R-E-T

(there is always such a superior organ), and that actions by any organ can be forestalled or overruled by the Council of Ministers. In addition, the central or national parliament, the Peoples Chamber, has regulated not only the standing orders of the local assemblies but even the activities of their standing committees. 133/

The assignment of greater rights and duties to the local organs of the state authority, emphasized a recent article in the official journal of the East German Federation of Unions (FDGB), "does not signify that our principle of democratic centralism has become obsolete or is to be abolished. The economic system, the socialist property, and the objectively existing common interest of the working people call, at any rate, for central guidance toward the erection of the socialist structure. Such a rigid guidance, in addition, is required to prevent any hostile attempt to undermine and liquidate the socialist order and to ward off the degenerating influence of bourgeois ideology."* 135/

The principle of "socialist centralism" applies equally to the political and economic activities of government. Government management of industry and agriculture is considered to be both a political and an economic function because the reciprocal effects of economics and politics are particularly strong in a Communist society. According to Communist doctrine, private property in the means of production is undesirable because it separates the producers from one another and, by thus engendering unhampered competition, makes for economic anarchy. Under this view, the socialist system of property is preferable because it merges the multitude of industrial enterprises into a single entity comprising the whole national economy

* As in the other Communist countries, the body which, in reality, determines all policies at all levels, including the top government level, is the Communist Party. Writing in the Party's theoretical journal Einheit in June 1956, Professor Dr. Karl Polak, the Party's constitutional expert, stated that the local assemblies of peoples representatives are to be the most comprehensive transmission lines from the Party to the masses. He pointed out that the local Party organizations should discuss in advance the most important political and economic questions to be debated in the assembly and should put recommendations prepared in this manner before the assembly. To avoid rejection of such recommendations, Dr. Polak added, the Party must gain the support of all the representatives rather than be satisfied with only acquainting them with the Party recommendations. It may be mentioned in this connection that, according to a report in the West Berlin Telegraf of 11 August 1957, 19 of the 21 members of local assemblies (elected on 23 June) who had fled to the West during the preceding week declared that a genuine parliamentary system involving real local government was impossible in East Germany. 134/

S-E-C-R-E-T

S-E-C-R-E-T

and in this manner makes the determination of a common goal and planned (proportional) economic development possible (and necessary). It is only logical that the Communist leaders should regard central and uniform direction of the national economy as indispensable in operating this system.

V. Prospective Reforms.

A. Genesis of the Reorganization Proposals of the 32d Party Plenum. 50X1

The leaders of the GDR were reserved in their initial response 50X1 to the Khrushchev program for reorganizing the Soviet economy. [redacted]

[redacted] This doubt was indirectly 50X1 reflected in the sparse coverage by the press and radio of discussions of the Khrushchev theses in the USSR. Moreover, although a few German Communist agencies held formal discussions (prompted in at least one instance by a staff study of Soviet advisers) concerning the advisability of reorganizing along Soviet lines, they manifested no great interest. 137/

The sudden ouster of several top Soviet leaders in June 1957, however, had an electrifying effect in the GDR. Important leaders began to question whether its policies adequately reflected the spirit of the Twentieth Congress of the CPSU. 138/ Consequently, after warmly endorsing the vigorous Soviet action against the "anti-Party" group, 139/ the German Communist leaders hastily made economic reorganization the main item of business at the 32d Plenum of the Central Committee of the Communist Party, which was scheduled for July. 140/ This sudden renewal of interest in further economic reorganization clearly was prompted by the desire of Party leaders to ingratiate themselves with Khrushchev by emulating his policies.

At the 32d Plenum, Party boss Ulbricht presented theses on economic reorganization in language reminiscent of that earlier used by Khrushchev. He declared that the GDR needed better forms and methods of administration at its present stage of development if the "building of socialism" was to continue successfully. 141/ He singled out the system of central policy formulation and planning as one area in which improvement was still needed and said that one of the goals of reorganization at lower levels should be to relieve central organs of the burden of daily operational tasks. 142/ He also declared that operational management was to be brought closer to the producing enterprises

S-E-C-R-E-T

S-E-C-R-E-T

in order to develop a closer relationship between the state or national government and the population. 143/

The concrete proposals made by Ulbricht showed signs of having been hastily concocted. Many were no more than a refinement of policies already in effect. For example, he again raised the question of whether or not the Economic Council and the State Planning Commission should be merged into a single all-powerful agency or definitely separated into long-term and current planning agencies but indicated that no decision was immediately contemplated. 144/ He also recommended enhancement of the role of the Central Commission for State Control (see Figure 4* and Figure 8**), further streamlining of the ministerial structure, and abolition of the Ministry of Labor and Vocational Training, and the State Secretariat for the Local Economy, both of which had been somewhat ineffectual. 145/ What he seemed to have in mind was a somewhat more vigorous implementation of the policies of the 25th Plenum of the Party Central Committee.

Some of the innovations proposed by Ulbricht bore a superficial resemblance to the current Soviet reforms but obviously had not been well thought out. 146/ They were as follows: (1) ministries should concentrate on the solution of broad problems affecting whole branches of industry, such as planning and technological development; (2) main administrations should be wholly or partially eliminated in many ministries, with operational supervision of enterprises being turned over to associations of peoples owned enterprises (Vereinigungen Volkseigener Betriebe -- VVB's) situated in key production areas; and (3) economic commissions should be set up under the district and county councils to integrate local planning and coordinating functions. Ulbricht was exceedingly vague, however, concerning the precise form and functions of the VVB's and the new economic commissions in the districts and counties. Moreover, he declared that initial emphasis should be on improvement of working methods rather than on basic structural changes and that wide discussion and investigation at the ministry and enterprise level should precede any change. 147/

B. Evolving Reorganization Plan.

The Central Committee of the Communist Party of East Germany established a working group under the chairmanship of Selbmann to guide discussion of the theses and ultimately to develop a reorganization plan. 148/ In mid-August 1957 it began to issue instructions to ministries and other agencies. 149/

* Following p. 28, above.

** Following p. 40, above.

S-E-C-R-E-T

S-E-C-R-E-T

1. Proposed Structure and Functions of Ministries.

The working group of the Party Central Committee proposed several alternative organizational models to accommodate the projected reduction in the size and functions of ministries in East Germany (see Figure 9*). 150/ These models are considered primarily applicable to the production Ministries of Coal and Power, Mines and Ore Smelting, the Chemical Industry, Heavy Machine Construction, General Machine Construction, Light Industry, and the Food Industry and not to the more complicated situation of such ministries as Construction, Post and Telecommunications, and Transportation 151/ (see Figure 4** and Figure 8***). According to the proposed models, all of the designated ministries will have central staffs for planning, organization and reporting, labor, and inspection of operations. The staff for inspection of operations is being set up specifically to counterbalance any loss of control that may be caused by abolishing the main administrations. 152/ The ministries will also set up operational departments to supervise economic affairs (finance, sales, and supply); technical development; and production, but the number will vary according to the needs of individual industries (see Figure 9). Moreover, ministries having jurisdiction over fundamentally different types of production will be permitted to set up parallel administrative organizations for each major production area (see Figure 9, organizational model Type III).

The reorganization of the ministries is to be accompanied by fundamental changes in their functions. They are to concentrate on basic questions of policy and will supervise only enterprises and combines of national importance. All other enterprises will be placed under the new industrial administrations (Industrieverwaltungen -- IV's****) or economic commissions in the districts and counties, and the ministries will be relieved of direct supervisory responsibility. They will continue to lay down basic policy with respect to such matters as planning, economic auditing and control, labor and wages, and employee training, but the IV's will assume primary responsibility for supervising implementation at the enterprise level. 153/ In addition, certain operational functions such as overseeing general repairs; quality control; transfers of equipment; dispatching of production in the enterprise; labor and technological safety; and arrangements for

* Following p. 52.

** Following p. 28, above.

*** Following p. 40, above.

**** IV was substituted for VVB, the term earlier used by Ulbricht, in order to avoid the appearance of merely reverting to earlier and not too successful organizational forms.

S-E-C-R-E-T

S-E-C-R-E-T

transportation, fuel, power, and scrap collection will be completely relinquished by the ministries.

2. Proposed Structure and Functions of Industrial Administrations.

Industrial Administrations, or IV's, are to be formed of enterprises and combines in East Germany engaged in similar or successive stages of production or in both.* 154/ They would include peoples owned enterprises now under the direct supervision of ministries and enterprises now under local control whose output is of importance beyond the boundaries of a single district. The legal status of the IV would be that of a juridical person holding public property, but its subordinate enterprises would still retain their independent legal status.

The organization of the IV's is to center around main administrations for planning, production and technology, procurement and sales, and finance and bookkeeping (see Figure 10**). 155/ The chiefs of the main administrations and the director of the IV are to be members of a directorate, which would also have a scientific-technical council with advisory powers and central staffs for research; labor, wages, and personnel; and similar functions. The number of central staffs will vary according to need.

The IV's presumably are to take over the direct supervision of enterprises and perform most of the functions formerly centralized under the main administrations of ministries. They are to oversee the planning, procurement, technological development, finances, and (in some cases) marketing of enterprises, subject to general policy directives and regulations of the ministries. 156/ Moreover, certain operational functions such as quality control, repairs, transfer of equipment, and production expediting are to become exclusively the responsibility of the IV's.

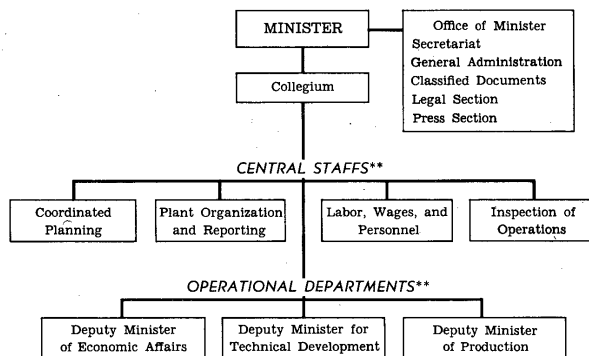
* It was specifically recommended that horizontal IV's, composed of enterprises engaged in similar stages of production, should be established for the following: coal, brown coal, potash, machine tools, textiles, ocean fishing, musical instruments, power circuits and repairs, cast iron, standard parts, automobiles, agricultural machinery, telecommunications equipment, paper and cellulose, inland shipbuilding, sugar, and publishing. Vertical IV's, composed of enterprises engaged in successive stages of production, were recommended for copper, aluminum, iron ore mining, and crude iron. Other industries presumably would adopt the form of IV best suited to their needs.

** Following p. 52.



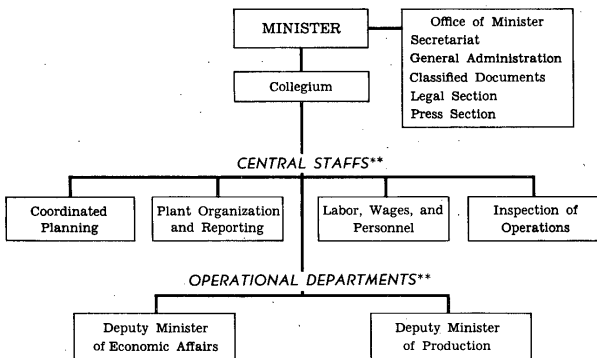
EAST GERMANY PROPOSED ORGANIZATIONAL MODELS FOR MINISTRIES

TYPE I*



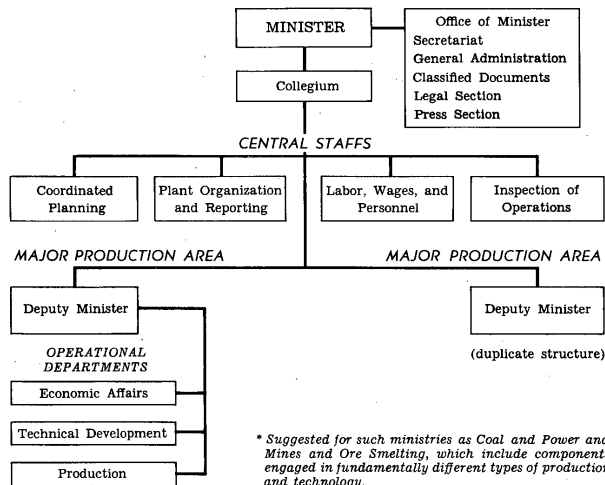
* Suggested for the Ministries of General Machine Construction, Heavy Machine Construction, and Light Industry.
 ** The central staffs and operational departments are to have sections for each branch of industry.

TYPE II*



* Suggested for the Ministries of the Chemical Industry and the Food Industry.
 ** The central staffs and operational departments are to have sections for each branch of industry. In ministries of Type II the functions relating to technical development will be distributed to the departments for economic affairs and for production, primarily the latter.

TYPE III*

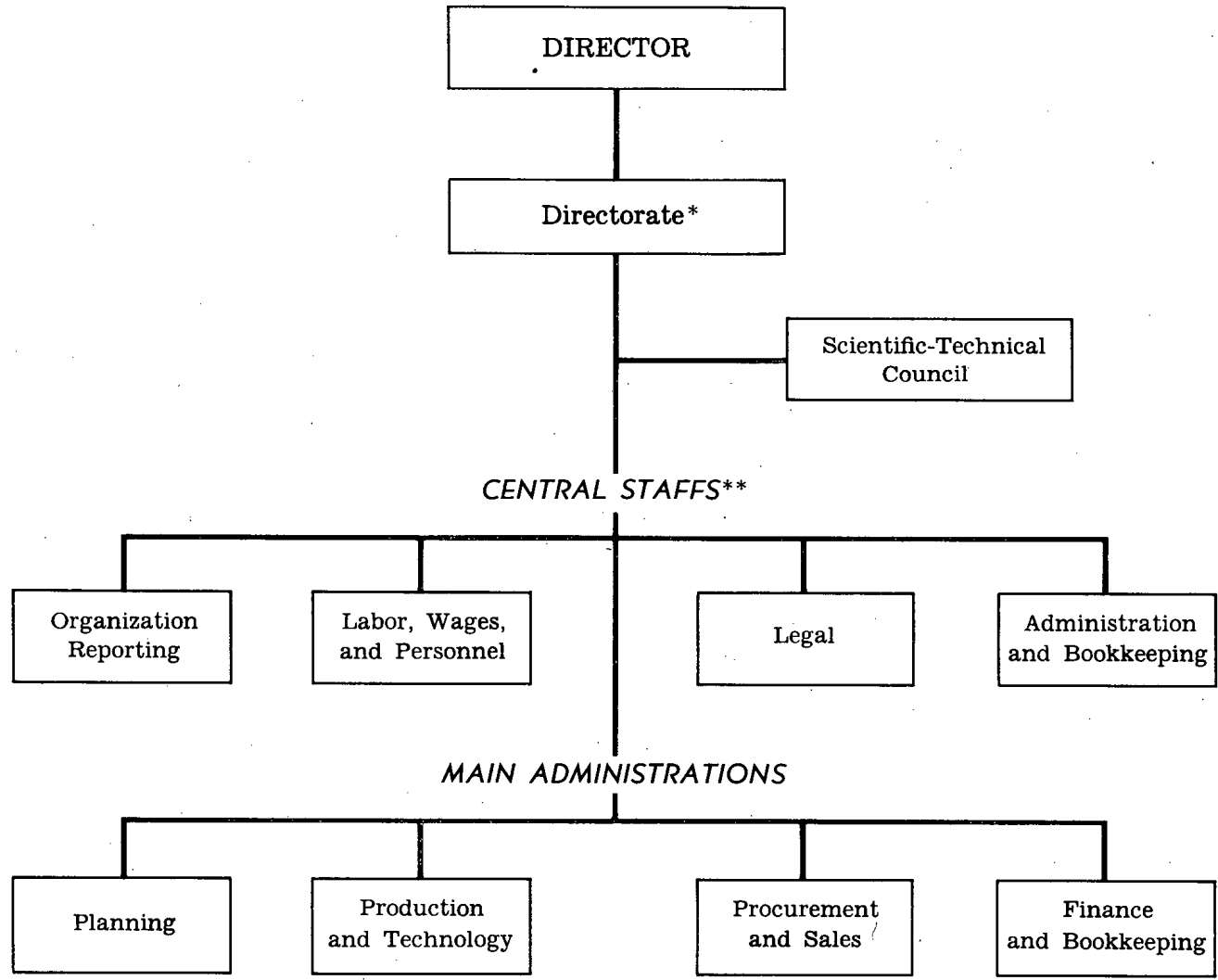


* Suggested for such ministries as Coal and Power and Mines and Ore Smelting, which include components engaged in fundamentally different types of production and technology.





EAST GERMANY: PROPOSED ORGANIZATIONAL MODEL FOR INDUSTRIAL ADMINISTRATIONS



* The membership of the directorate consists of the director of the industrial administration and the chiefs of the main administrations.

** The number of central staffs is considered flexible and may be varied according to need.



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Present plans call for four stages in the transition to IV's. First, the ministries are to determine what enterprises now under central control should be transferred to the districts and counties and what enterprises now under local control should be brought under the ministries. Some branches of industry would also be transferred to different ministries in the interest of more rational administration. Second, combines are to be formed wherever they will contribute to economy and efficiency. They are to be located if possible entirely within a single district in order not to complicate planning at that level. Third, combines and enterprises of national significance are to be brought directly under the ministries, and all others are to be organized into IV's. Finally, the main administrations of the ministries would be dissolved. No schedule has been proposed, however, for carrying out this transition.

3. Proposed Structure and Functions of District and County Economic Commissions.

Ulbricht's vague statements at the 32d Party Plenum still constitute the most explicit official description of the proposed economic commissions in the districts and counties in East Germany. As he described them, the economic commissions will be subordinate to one or more of the top economic organs as well as to the councils of the districts and counties. 157/ They will give particular attention to local economic activities of importance to the IV's and ministries and to problem sectors such as housing, agricultural construction and production, and the handicrafts. The councils of the districts and counties, however, apparently have not been specifically instructed as to how they are to proceed in developing plans for the establishment of economic commissions.

4. Signs of Impending Reorientation.

In August 1957, many of the industrial ministries in East Germany began, on the basis of directives received from the Selbmann working group, to draft plans for setting up IV's. 158/ In September, about 42 groups were reportedly set up in the Central Committee of the Party to oversee the drafting and potential implementation of reorganization plans in the ministries, districts, and counties; and in early October they held up their operations because radical changes were expected in the whole program. 159/

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S-E-C-R-E-T

S-E-C-R-E-T

At the 33d Plenum of the Party Central Committee in late October, Ulbricht confirmed that the scope and concept of reorganization had been enlarged on the basis of the discussions since July 1957. 161/ He announced that the Economic Council and the State Planning Commission are to be merged and that the latter will likewise take over the planning and coordinating functions of the ministries, which are then to be abolished. Central authority in both economic planning and administration is to be vested in a single all-powerful agency, the State Planning Commission. According to Ulbricht, the GDR still intends to implement its proposals for establishing IV's* and local economic commissions. Even these proposals, however, reportedly have been criticized in private by some leaders of the Party Central Committee, so the reorganization plans of the GDR clearly are still in flux. 162/

C. Prospects of the Reorganization Program.

Inasmuch as the GDR is publicly committed to economic reorganization and definitely needs to achieve greater efficiency, it will probably undertake additional changes of some kind. The top planning and control structure is the administrative area in which the immediate prospect of change is greatest. The whole problem of developing suitable administrative agencies to take over the operational functions of the ministries, however, is proving troublesome. Some leaders are reportedly beginning to doubt the wisdom of establishing separate regional organizations for nationally important industries and for local industry -- that is, the IV's and the economic commissions of the districts and counties. On the other hand, a regional approach calling for integration at the district level of all economic supervision clearly would involve problems that the leaders of the GDR have not thought through realistically. Delay and procrastination therefore can be expected in planning and implementing reorganization of the lower organs of state administration. Old-line Communist officials reportedly are opposing further redistribution of administrative functions and the planned reorganization of production ministries, arguing that these measures would not only be a step backward ideologically but would also end in a fiasco, especially because, in their opinion, the districts would not be able to perform the additional tasks expected of them. These officials tend to regard the whole plan as nothing but a personal propaganda move by Ulbricht. 163/

* Ulbricht used the earlier designation VVB rather than IV, but no change in basic concept seemed to be involved.

S-E-C-R-E-T

S-E-C-R-E-T

Whatever its ultimate form, economic reorganization in the GDR will probably be consistent with its previous attempts to do the following: (1) separate policymaking and routine functions, (2) narrow and unify responsibility for formulation and implementation of economic policies and plans, and (3) redistribute routine functions in order to reduce the burden of the top leaders and to give managers at lower levels a greater sense of responsibility. A reduction in central authority undoubtedly will not result, but a streamlined and more efficient administrative structure may evolve.

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APPENDIX A

GLOSSARY OF TERMS

Assembly of city delegates	Stadtverordnetenversammlung
City	Stadt
City council	Rat der Stadt
City county	Stadtkreis
City district	Stadtbezirk
City district assembly	Stadtbezirksversammlung
City district council	Rat des Stadtbezirks
Commission with its own field of jurisdiction	Kommission mit eigenem Geschaeftsbereich
County	Kreis
County assembly	Kreistag
County council	Rat des Kreises
Departments dealing with specific economic fields	Fachorgane
District	Bezirk
District assembly	Bezirkstag
District council	Rat des Bezirkes
Education	Volksbildung
GB1	Gesetzblatt der Deutschen Demokratischen Republik -- Official Law Gazette of the German Democratic Republic
German Bank of Issue	Deutsche Notenbank
German Economic Commission	Deutsche Wirtschaftskommission (DWK)
German Investment Bank	Deutsche Investitionsbank (DIB) -- Financial institution of the state economy for financing capital projects
Handicraft producer cooperative	Produktionsgenossenschaft des Handwerks
Home and block warden	Haus- und Strassenvertrauensmann

S-E-C-R-E-T

S-E-C-R-E-T

Industrial administration	Industrieverwaltung (IV)
Kommanditist	The partner in a limited partnership whose liability in respect to the obligations of the partnership is limited to the amount of his capital investment
Komplementaer	The partner in a limited partnership whose liability in respect to the obligations of the partnership is unlimited
Kommanditgesellschaft (KG)	A partnership operating under a trade name and consisting of (1) one or more partners whose liability in respect to the obligations of the firm is limited to the amount of his or their capital investment and of (2) one or more partners whose liability is not so limited
Local assembly of peoples representatives	Oertliche Volksvertretung
Local council	Oertlicher Rat
Local economy (consisting of the local peoples owned industry, private industry, and handicrafts)	Oertliche Wirtschaft
Main administration	Hauptverwaltung
Municipal assembly	Gemeindevertretung
Municipal council	Rat der Gemeinde
Municipal councilor	Gemeinderat
Municipality	Gemeinde
Office of State Secretary with portfolio	Staatssekretariat mit eigenem Geschaeftsbereich
Permanent joint working group of farmers	Staendige Arbeitsgemeinschaft der Einzelbauern
Peoples Chamber	Volkskammer
Prosecutor general	Generalstaatsanwalt
Rahmenvereinbarung	Framework agreement
Requisition and Buying (for example, State Secretary for ...)	Erfassung and Aufkauf
Rural county	Landkreis

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SAG	Sowjetische Aktiengesellschaft -- Soviet joint stock company
SMAD	Sowjetische Militaeradministration in Deutschland -- Soviet Military Administration in Germany
Socialist Unity (Communist) Party of Germany	Sozialistische Einheitspartei Deutschlands (SED)
Special branch State central administration for statistics	Fachabteilung Staatliche Zentralverwaltung fuer Statistik
University matters	Hochschulwesen
VEB	Volkseigener Betrieb -- Peoples owned enterprise
VEB (K)	Volkseigener Betrieb (Kommunal) -- Local peoples owned enterprise administered by a municipality
VEB (Oe)	Volkseigener Betrieb (Oertlich) -- Local peoples owned enterprise
VEB (Z)	Volkseigener Betrieb (auf Zonenebene or Zentral) -- Centrally administered peoples owned enterprise
VVB	Originally Vereinigung Volkseigener Betriebe -- Association of Peoples Owned Enterprises. The VVB's were compulsory associations of VEB's. This was an organizational setup decreed by SMAD Order 76 of 23 April 1948. After early 1952 the VVB's were called Verwaltungen Volkseigener Betriebe -- Administrations of Peoples Owned Enterprises, rather than Vereinigungen Volkseigener Betriebe -- Associations of Peoples Owned Enterprises. Their functions were limited to guidance and control of peoples owned enterprises.

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Next 11 Page(s) In Document Denied

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