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Economic Intelligence Report

NATIONAL INCOME AND EXPENDITURES
OF EAST GERMANY
1951-60



CIA/RR ER 63-34

October 1963

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

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NATIONAL INCOME AND EXPENDITURES OF EAST GERMANY*
1951-60

Summary and Conclusions

A set of national accounts for East Germany in 1951-60 brings out much that the Communist regime has tried to obscure -- the extent of Soviet exploitation, the scale of military expenditures, and the cost of the police forces and of the state and Communist Party apparatus. It also puts into perspective the development of investment policy and decisions affecting the welfare of the population in recent years. The accounts that are most important for discussing these matters are those for national income and gross national expenditures, which are summarized in Tables 1 and 2.** The statistical tables in this report present data in current prices only, but the discussion in the text considers the significance of price changes during the period.

East German personal incomes and expenditures (in current East German marks***) about doubled in 1951-60. Average personal incomes in East Germany (in East German marks) were about the same as those in West Germany (in West German marks) throughout the period, and nominal expenditures per capita were actually somewhat greater in East Germany. To be sure, prices were much higher in East Germany, and per capita consumption, in real terms, never was more than three-fourths of West German consumption, but the nominal parity in earnings was psychologically important to the East German workers, and the regime made a point of trying to maintain it.

The pull of West Germany also is an important cause of the rapid growth in the supply of consumer goods and services in East Germany. During the belated East German recovery of the early 1950's, prices declined and real consumption rose even more rapidly than personal incomes. After 1955, prices rose, and consumption did not keep pace with personal incomes. The rise in prices -- about 2 percent per year in 1955-60 -- was not in itself especially serious, but the effect was aggravated by the discontinuance of food rationing in May 1958. The establishment

* The estimates and conclusions in this report represent the best judgment of this Office as of 1 September 1963.

** Tables 1 and 2 follow on pp. 2 and 3, respectively.

*** The currency unit in both East and West Germany is called the German mark (Deutschemark, or DM). An indication of the internal purchasing power of the East German mark (DME) is given on p. 8, below.

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Table 1

East Germany: Summary of National Income a/
1951-60

	Billion Current DME									
	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
Compensation of employees <u>b/</u>	20.1	23.0	25.7	28.6	29.3	30.6	32.2	34.6	37.6	39.8
Earnings of the self-employed and household incomes from property <u>c/</u>	9.7	10.5	11.0	12.3	13.0	12.5	14.2	16.2	17.0	17.8
Savings of enterprises, taxes paid by enterprises, and state incomes from economic activities	13.8	14.5	16.3	16.7	18.0	18.8	20.9	21.4	24.5	26.1
Discrepancy <u>d/</u>	-0.1	0.9	-0.8	-0.8	0.7	1.4	-0.1	1.5	0.5	-0.7
National income <u>e/</u>	<u>43.5</u>	<u>48.9</u>	<u>52.2</u>	<u>56.8</u>	<u>61.0</u>	<u>63.3</u>	<u>67.1</u>	<u>73.7</u>	<u>79.6</u>	<u>83.1</u>
Depreciation	<u>2.0</u>	<u>2.3</u>	<u>2.6</u>	<u>2.8</u>	<u>3.0</u>	<u>3.2</u>	<u>3.5</u>	<u>3.8</u>	<u>4.1</u>	<u>4.5</u>
Gross national product	<u>45.4</u>	<u>51.2</u>	<u>54.8</u>	<u>59.6</u>	<u>64.0</u>	<u>66.5</u>	<u>70.7</u>	<u>77.5</u>	<u>83.7</u>	<u>87.6</u>

a. Because of rounding, components may not add to the totals shown.

b. Including wages and salaries; bonuses and allowances, except for business trips; sick pay out of enterprise funds; the cost of rations furnished to troops; and the subsidy to factory cafeterias.

c. Including earnings of members of producer cooperatives, agricultural incomes in kind, imputed rent (net) of owner-occupied housing, rebates of consumer cooperatives, and interest on savings deposits.

d. In part the discrepancies are offsetting because the estimates for savings of enterprises and the like are based on budget data which include adjustments for the previous year and do not reflect a final adjustment for the current year.

e. Including indirect taxes. Therefore, "national income" in this table is equivalent to "net national product" in US national accounting terminology. The economic significance of direct taxes compared with indirect taxes under a Communist regime is a complicated issue, but in any case separating out indirect taxes in East Germany for all years has not proved feasible.

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Table 2

East Germany: Summary of Gross National Expenditures a/
1951-60

	Billion Current DME									
	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Private expenditures	29.1	32.5	35.3	38.4	40.3	41.2	44.1	48.2	52.3	55.1
Households	28.3	31.8	34.6	37.5	39.4	40.2	43.1	47.1	51.2	53.9
Nonprofit organizations	0.8	0.7	0.7	0.9	0.9	1.0	1.0	1.1	1.1	1.2
State expenditures	6.7	7.5	8.5	9.6	10.2	10.3	10.8	11.4	12.2	12.6
Public services	2.9	3.5	3.9	4.5	5.0	5.3	5.7	6.1	6.5	7.0
Administration <u>b/</u>	2.7	2.7	2.6	2.7	2.7	2.6	2.6	2.6	2.7	2.7
Defense <u>c/</u>	1.1	1.3	2.0	2.4	2.5	2.4	2.5	2.7	3.0	2.9
Investment <u>d/</u>	5.2	6.4	7.9	6.8	9.0	11.5	13.2	16.8	18.0	18.4
Foreign balance <u>e/</u>	4.2	4.7	3.0	4.8	4.4	3.4	2.3	0.9	1.1	1.4
Discrepancy	0.3	0.1	Negl.	Negl.	0.1	0.1	0.3	0.1	0.1	Negl.
Gross national expenditures	<u>45.4</u>	<u>51.2</u>	<u>54.8</u>	<u>59.6</u>	<u>64.0</u>	<u>66.5</u>	<u>70.7</u>	<u>77.5</u>	<u>83.7</u>	<u>87.6</u>

a. Because of rounding, components may not add to the totals shown.

b. Including police forces.

c. Including investment in military facilities for East German use but not in Soviet installations (shown in the foreign balance).

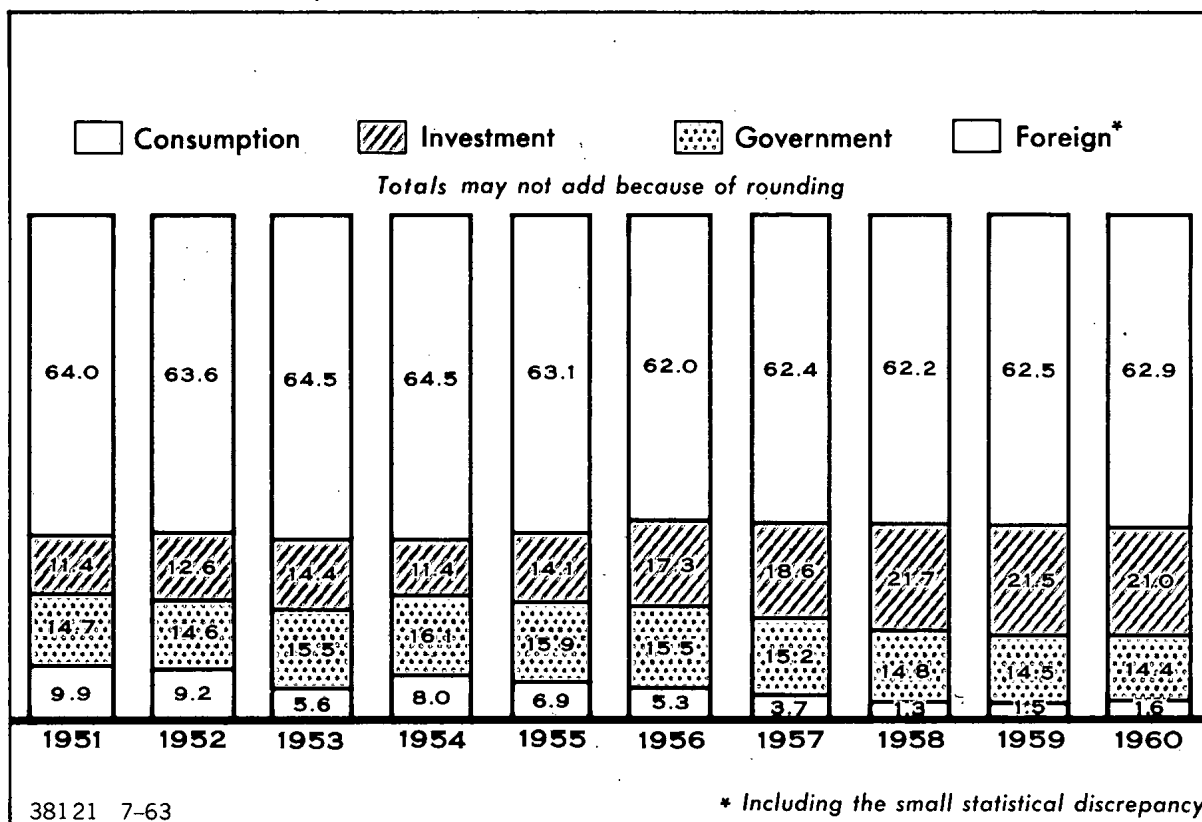
d. Excluding military investments.

e. Reflecting, in addition to a nominal export surplus, East German deliveries to the USSR and the Soviet forces in East Germany arising out of reparations demands and the Soviet occupation.

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of a single-price system, in place of the double-price system that had existed under rationing, much reduced the prices at which consumers could buy additional amounts of meat and dairy products. Thereafter, demand for these products grew faster than supplies. In 1960, East Germany was forced to reintroduce rationing under the guise of "customers' lists" -- registration of families with retail outlets, which are supplied with rationed foods in accordance with the numbers of people registered. This irritating, inefficient method of allocating meat and dairy products is a continual reminder of the regime's miscalculation in ending food rationing, one of its worst mistakes to date.

The discussion of the changing composition of the gross national expenditures of East Germany -- that is, gross national product (GNP) by end use -- is a major part of this report, and the percentage shares going to consumption, investment, government, and the foreign balance are presented in the accompanying chart:



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Somewhat surprisingly the East German accounts show that the regime was able to prevent increases in the expenditures of the state and Communist Party apparatus. These expenditures were held down by means of large cuts in employment, which was a considerable accomplishment, although it would not have been necessary if the state and Party apparatus had not been big to begin with. Expenditures for police forces, including semimilitarized police units, were an exception -- they were substantially increased in the early 1950's and again in the late 1950's.

State expenditures for welfare rose greatly throughout the 1950's. Pensions and sickness benefits, mainly financed by social insurance taxes, more than doubled from 1951 to 1960, the rise being especially rapid in 1957-59, although they remained much below benefits in West Germany, even in nominal terms. Outlays for health and education rose still faster and are comparable with outlays in West Germany. After allowing for price and wage increases, there was a substantial growth of inputs into these services during the decade. The benefits to the population, however, were questionable. In part, the increase reflected simply the extension of state control, as in the provision of medical services. A considerable portion of the real increase in services, as reflected, for example, in the growth of the universities, was used for narrowly political and technical ends, a development tending to alienate those that benefited.

East German military expenditures were influenced by the open Berlin border, the unpopularity of the Communist regime, and the general distaste for military service. The regime had to offer strong incentives in order to recruit soldiers. The difficulty of getting recruits and the high cost of paying and maintaining military forces without conscription tended to limit the size of the forces -- a limitation that actually may have made for a more effective establishment.

The amount spent for military forces during the period was not excessive in relation to GNP. In 1952, East German military expenditures may well have risen to 5 percent of GNP, if the initial cost of equipping the East German armed forces with Soviet weapons is included (it is not in the present accounts). For later years, however, the East German military establishment proper (through 1955 the so-called Garrisoned People's Police) spent only 3 to 4 percent of GNP to cover most of the outlays usually included in military budgets. Military pensions and research are not included, but East Germany has spent very little on these items. The inclusion of semimilitarized forces would raise the share by not more than 1 percent of GNP. On any basis the share of military expenditures would not be high in relation to levels in either Eastern or Western Europe. Until the late 1950's, however, the military expenditures of East Germany were much greater relative to GNP than the comparable expenditures of West Germany, which

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until 1955 maintained only small semimilitarized units in place of an army.

The share of expenditures devoted to investment was also low when compared with the share allocated by other Communist countries or by West Germany and by no means high in relation to the average for Western Europe. The share of investment fluctuated between 11 and 14 percent of GNP through 1955, and even the jump made thereafter, as a result of the easing of Soviet exploitation, brought the share to only 21 percent at the end of the period. An analysis of GNP in comparable prices for the late 1950's would show that East Germany still was devoting a smaller share of GNP to investment than West Germany, and a much smaller share than was devoted to investment by several of the other European Satellites.

There are two major reasons why East Germany allocated such a small share of GNP to investment until the late 1950's. First, production still could be increased in many branches without additional investment. Second, output could scarcely take care of the urgent needs of the population and Soviet demands for the payment of reparations and occupation costs. In addition, the figures for the early 1950's do not include investment in enterprises under Soviet ownership, including the uranium mines. Investments in those enterprises were made largely by the Soviet occupation authorities, out of funds budgeted under reparations and occupation costs. It is likely that East Germany has since repaid the USSR for such investments.

The extent of Soviet exploitation is hard to determine, but even the East Germans have come to acknowledge that the Soviet drain on the economy was one cause of the lag in East German recovery from World War II. Soviet exploitation mainly accounts for the large export balance shown in East German national expenditures through 1955. Similarly the temporary drop in the export balance in 1953 and the steady decline after 1956 chiefly reflect a decline in Soviet exploitation. The share of the export balance in the gross national expenditures of East Germany, which was about 9 percent in 1951, dropped to only 1 to 2 percent in the late 1950's.

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1. Introduction

The economic statistics published by East Germany, though voluminous, are among the least satisfactory in the Soviet Bloc. The East German regime has withheld almost all evidence relating to the Soviet role in the East German economy and to East German defense expenditures. Other gaps in published statistics have discouraged critical study of fiscal policy, economic growth, and living conditions.

It is possible, however, to fill these gaps and reconstruct the East German national accounts in some detail, and with some confidence in the results. The present report is based on such a set of accounts, recast in Western terms according to the system of the Organization for European Economic Cooperation (OEEC), 1/* consisting of national income and expenditures in current prices for 1951-60. These accounts are summarized in Tables 1 and 2.**

The accounts shown in the present report have not been deflated to real terms. Such a deflation was attempted in an earlier report on the postwar economic recovery of East Germany -- a comparison of real trends in output and end uses with those in West Germany. 2/ In that report, simplified accounts were used, showing only summary data for selected years (1936, 1950, 1955, and 1957), converted into constant (1936) prices. The accounts used in the present report, which form a more complete and, in some respects, a much more detailed series, permit a fuller treatment of important topics in the fields of personal and public consumption. The need to compete with West Germany for labor -- a theme already brought out in the earlier report in measuring the real growth of consumption -- is illustrated by the growth of personal incomes and expenditures; and the key changes in policy during the period are examined. The whole field of public consumption in East Germany is analyzed in detail for the first time. Separate consideration is given to the expenditures of the churches; the Socialist Unity Party (SED); the East German Communist Party; the state health organization; public schools and universities; civil administration; police forces; and the military establishment. Also discussed, though at less length, are the new data presented on investments and the foreign balance, which cannot be more fully exploited without going beyond the scope of the present report.

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** Pp. 2 and 3, above, respectively. More detailed tables are shown in Appendix A, together with remarks on the general scope of the accounts.

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A few general comparisons with data for West Germany are the only international comparisons introduced in this report, and they rest mainly on the estimates made in the earlier report mentioned above, comparing real changes in output and end uses in East and West Germany. The present estimates of East German GNP by end use in 1955 may be converted into US dollars by means of the following ratios, each representing an approximation of the geometric mean of the ratios that would be obtained by using the methods of Milton Gilbert 3/:

	Conversion Ratio for 1955 DME <u>into 1955 US \$</u>
Private consumption, including state expenditures on health and education	0.23
Public consumption, including research and development but excluding state expenditures on health and education	0.37
Investment, excluding research and development	0.23
Foreign balance	0.17
GNP	0.24

2. Private Income and Expenditures

Under the general heading of private expenditures are ranged the expenditures of both households and nonprofit organizations, according to the usual practice in Western accounts systems. In this study of a Communist economy, it might perhaps be more suitable to group nonprofit organizations -- churches, labor unions, political parties, and the like -- with welfare and administration under the general heading of public consumption, but the Western convention is followed.

a. Households

The development of East German personal incomes and expenditures in 1951-60 is shown in two accompanying tables. Personal incomes, shown in Table 3,* include both cash incomes and incomes in kind, broken down into four main categories. Under the first is compensation to employees, which covers wages and salaries, bonuses and allowances, and payments in kind, consisting of the cost of rations.

* Table 3 follows on p. 9.

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Table 3

East Germany: Personal Income
1951-60

	Billion Current DME									
	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Compensation of employees a/	20.05	23.00	25.71	28.61	29.30	30.65	32.22	34.59	37.60	39.84
Earnings of the self-employed b/	8.74	9.58	10.05	11.38	12.10	11.54	13.17	15.14	15.90	16.63
Household incomes from property c/	0.98	0.96	0.96	0.92	0.92	0.93	0.98	1.05	1.14	1.21
Transfers										
Social insurance d/										
Pensions	2.50	2.70	2.87	2.99	3.04	3.18	4.13	4.38	4.86	5.13
Sick pay e/	0.46	0.65	0.55	0.68	0.72	0.72	0.82	0.84	0.93	1.06
Budget										
Pensions	0.32	0.32	0.32	0.31	0.28	0.26	0.29	0.26	0.25	0.24
Scholarships	0.13	0.19	0.26	0.28	0.30	0.31	0.32	0.32	0.32	0.34
Welfare f/	0.34	0.37	0.32	0.30	0.41	0.43	0.61	1.18	1.74	1.82
Other g/	0.10	0.20	0.10	0.10	0.10	0.10	0.10	0.20	0.30	0.30
Total personal income	33.62	37.97	41.14	45.57	47.17	48.12	52.64	57.96	63.04	66.57

a. Including wages and salaries, all other payments by employers (except for business trips), and allowances in kind.

b. Including members of producer cooperatives.

c. Rents, which include imputed rents of owner-occupied housing, less expenses and taxes. This category also includes rebates from consumer cooperatives and interest on savings deposits.

d. Excluding any incomes in kind. Some small payments from social insurance funds (Pflegegeelder) are included in the category Welfare.

e. Excluding the supplementary sick pay by enterprises.

f. Including unemployment relief, maternity and dependent allowances, cash payments from unions and other nonprofit organizations, and special pensions to intellectuals.

g. Payments from savings accounts blocked in 1948.

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furnished to military personnel and subsidies to factory cafeterias. In the second category are earnings of self-employed professional workers, members of producer cooperatives, independent peasants, and small businessmen, together with the value of farm consumption in kind (imputed at average prices received by peasants).* In the third category are household incomes from property, of which the most important are from housing rentals. Housing is treated in the present accounts as an economic sector, and the personal incomes entered in Table 3 represent gross rentals (including the imputed rental value of owner-occupied housing), less costs and depreciation.** The other incomes from property are cash rebates from consumer cooperatives and interest on savings deposits. In the fourth category are transfers to households from other sectors, which come almost entirely from social insurance and other state budget accounts -- pensions, the social insurance contribution to sick pay, welfare benefits, and scholarships. Transfers in kind -- such as medical treatment, hospital care, and medicines furnished under social insurance -- are treated not as private consumption but rather as state expenditures.

Personal expenditures, shown in Table 4,*** similarly include both cash expenditures and consumption in kind. Expenditures on goods and services, broken down by major categories, thus include not only purchases by households but also military rations, that part of the value of meals in factory cafeterias not paid for, agricultural produce consumed on the farm, and imputed rents (gross) of owner-occupied dwellings. The other main categories cover social insurance payments from wages and salaries and by the self-employed; wage taxes, income taxes, and other direct taxes; and dues and contributions to unions, churches, and other organizations. Also shown are savings (net savings deposits and increases in cash holdings).

Detailed analysis of the household accounts is outside the scope of the present report. The most interesting approach, moreover -- a comparison with West Germany -- is not yet practicable, for the parallel West German accounts still remain unpublished except for aggregate figures. ^{4/} It is safe to say, however, that when they finally are published they will show striking correspondences with the present accounts for East Germany. The similarity is indicated by the

* Total farm consumption in kind is entered under incomes of the self-employed, although a part should properly be entered under compensation of employees as a payment in kind to agricultural laborers.

** Depreciation imputed for private housing, handicrafts enterprises, and private agriculture is entered as a capital transfer to households in the basic accounts, but not in Table 3.

*** Table 4 follows on p. 11.

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Table 4

East Germany: Personal Expenditures and Savings
1951-60

	Billion Current DME									
	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
Total personal expenditures	<u>33.51</u>	<u>37.39</u>	<u>40.51</u>	<u>43.68</u>	<u>45.96</u>	<u>46.52</u>	<u>50.21</u>	<u>54.71</u>	<u>59.14</u>	<u>62.31</u>
Goods										
Food and beverages <u>a/</u>	15.49	17.81	19.37	21.02	22.10	22.38	23.77	26.20	28.51	29.32
Clothing and shoes	3.02	3.72	4.28	4.93	5.21	4.83	5.21	6.10	6.71	7.34
Other	4.35	4.64	5.18	5.40	5.88	6.65	7.49	8.38	9.48	10.67
Services										
Rent <u>a/</u>	2.10	2.12	2.13	2.12	2.13	2.13	2.13	2.15	2.18	2.22
Utilities	0.39	0.41	0.42	0.45	0.46	0.50	0.49	0.53	0.56	0.59
Transportation	1.11	1.20	1.28	1.44	1.50	1.49	1.55	1.48	1.55	1.60
Other	1.84	1.93	1.97	2.18	2.16	2.21	2.43	2.28	2.25	2.21
Social insurance <u>b/</u>	2.48	2.47	2.73	2.86	2.88	3.13	3.34	3.16	3.31	3.44
Wage taxes <u>c/</u>	1.33	1.45	1.59	1.27	1.32	1.47	1.61	1.69	2.00	2.33
Other direct taxes <u>d/</u>	0.85	1.04	0.86	1.06	1.32	1.03	1.09	1.39	1.19	1.09
Dues and contributions <u>e/</u>	0.50	0.55	0.60	0.65	0.70	0.70	0.80	0.85	0.90	0.95
Other expenditures <u>f/</u>	0.05	0.05	0.10	0.30	0.30	0	0.30	0.50	0.50	0.55
Savings <u>g/</u>	<u>0.18</u>	<u>0.64</u>	<u>0.78</u>	<u>1.97</u>	<u>1.12</u>	<u>1.65</u>	<u>2.22</u>	<u>2.96</u>	<u>3.90</u>	<u>4.10</u>
Discrepancy	-0.07	-0.06	-0.15	-0.08	0.09	-0.05	0.21	0.29	0	0.16
Total personal expenditures and savings	<u>33.62</u>	<u>37.97</u>	<u>41.14</u>	<u>45.57</u>	<u>47.17</u>	<u>48.12</u>	<u>52.64</u>	<u>57.96</u>	<u>63.04</u>	<u>66.57</u>

a. Including consumption in kind.

b. Withholding from pay and remittances by the self-employed (the latter to the commercial insurance organization after 1955).

c. Including taxes on incomes of certain self-employed professionals (doctors and engineers among them).

d. Chiefly taxes on incomes of "capitalists," together with miscellaneous municipal taxes.

e. To labor unions, the Socialist Unity Party (SED), churches, and other nonprofit organizations.

f. Chiefly net expenditures on lotteries and net repayment of consumer credit.

g. Including changes in savings deposits, cash reserves of insurance policies, and cash holdings.

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following comparison of per capita incomes from wages, salaries, and other economic activities in East and West Germany in East German and West German marks, respectively*:

	<u>1955</u>	<u>1959</u>
East Germany	2,369	3,174
West Germany	2,391	3,144

Differences will be found on examining the structure of household accounts, especially the composition of expenditures. During the 1950's average household expenditures for goods and services were actually somewhat greater in East than in West Germany,** but in real terms, East German consumption never came to more than three-quarters of the West German level. Accordingly, East German families spent more in money terms than West German families on food and beverages -- about one-quarter more -- in order to buy about five-sixths as much in real terms in the late 1950's. On the other hand, they spent less on rent and utilities, which are cheap even after making allowance for the markedly lower housing standards of East Germany. Otherwise, the differences in the composition of expenditures were small, as indicated by household budgets, although in every case there were real differences in consumption, not only in the quantities of goods and services consumed but also in quality and assortment. The following comparison of monthly expenditures on goods and services of families of employees in 1959 is representative of the nominal similarities and differences in East and West Germany in East and West German marks, respectively***:

* Incomes before taxes, excluding employer's contributions to social insurance.

** Per capita disposable incomes including pensions and other transfers are slightly higher in West than in East Germany, but personal savings are substantially higher in West Germany than in East Germany.

*** Middle-income families with two adults and two children. Data are taken from the East and West German statistical yearbooks. 5/

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	<u>Monthly Expenditures</u>	
	<u>East German Family</u>	<u>West German Family</u>
Food	288	229
Beverages and tobacco	58	39
Rent	34	59
Heat and light	17	27
Household goods	56	49
Clothing	87	79
Household and personal services	22	28
Education and entertainment	47	43
Transport and communications*	19	21
Total	<u>628</u>	<u>575</u>

The nominal parity in incomes between East and West Germany is not a coincidence. It was to the interest of the East German regime to allow nominal wages to rise with West German wages, for it meant something to East German workers that they were earning about as much in East marks as they might earn in West marks across the border. The nominal equality mattered even though they realized that the East mark bought much less than the West mark. During the 1950's the middle-income consumer in East Germany on the whole paid at least 50 percent more for what he bought than he would have had to pay for more or less the same goods and services in West Germany. In spite of such a difference, the regime has continued to be concerned with nominal equality in dealing with wages, pensions, tax rates, and the like, although the problem is less pressing now than it was when dissatisfied workers could leave for West Germany at any time.

Under the influence of the open border, personal incomes and expenditures in East Germany rose by almost 100 percent from 1951 to 1960, as shown in Tables 3 and 4,** and by more than 100 percent on a per capita basis.*** From 1951 through 1954 the very rapid rise characteristic of the earlier recovery period continued. In 1955-56 the rise was slower. In 1957-59, however, in a final spurt of recovery, personal incomes and expenditures again rose rapidly. Eventually, in 1960 the rates of increase began to decline again -- a decline that was to be continued in 1961-62.

* Including cost of privately owned vehicles.

** Pp. 9 and 11, respectively, above.

*** During 1951-60 the population of East Germany was slowly declining from an annual average of 18.4 million in 1951 to one of 17.2 million in mid-1960.

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Until 1955 the regime readily allowed rapid increases both in wages and salaries and in the earnings of the self-employed, including peasants, so as to stimulate production and minimize losses of workers to West Germany. Nominal wages kept pace with West German wages, and the nominal incomes of the self-employed approached or exceeded West German levels. At the same time, the growth of output was still large enough to allow real consumption to rise even more rapidly than personal income, while prices declined.

Even though the regime gave priority to raising incomes and increasing consumption, it failed to halt the loss of population to West Germany. Judging from the number of refugees, improvements in living conditions were more than offset in the eyes of the population by the continued encroachment of the state on the rights of individuals and the intrusion of the Communist Party into business and private life. Improvements in living conditions doubtless had some effect on attitudes and behavior,* but the number of refugees nevertheless continued to rise along with incomes and expenditures until the end of 1957, when the regime finally gave up and passed a law forbidding "flight from the republic."

The one important departure from this trend was the decline in the number of refugees as a result of the "new course" adopted in mid-1953 after the civil disturbances. And this exception seems to prove the rule, for though the regime made some economic concessions, the main reason for the decline in the number leaving for West Germany probably was the momentary rise of hope that the Communists intended to relax pressures of all kinds. The "new course" did have an immediate effect on the growth of personal incomes, as a result of such concessions as a reduction in wage taxes and a cut in compulsory deliveries for peasants.** But it was more the tone of Communist pronouncements after the death of Stalin than specific concessions that apparently affected the flow of East German refugees.

* There is a negative correlation of 0.54 between annual increments in net personal incomes in 1951-57 and the annual changes in the number of refugees, although there is a positive correlation of 0.81 between total incomes and the total number of refugees.

** Disposable incomes, which had shown more than an average seasonal decline in the first quarter of 1953 and less than an average rise in the second quarter, increased in both the third and the fourth quarters at double the average seasonal rates. The main result was that savings deposits failed to grow or even dropped slightly in the first half year -- a thing that has not happened since -- and rose rapidly in the second half year. There was no unusual change in cash holdings of the population, and consumer expenditures did not vary from the usual season pattern, which is quite stable.

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In the mid-1950's, when the leadership felt that economic recovery was sufficiently advanced, the regime undertook a series of measures to improve the lot of certain groups, especially pensioners, that had shared least in the improvement of living conditions and to control or reduce incomes of other groups -- chiefly the self-employed -- that had benefited the most. From 1956 to 1960 the amount of pensions, sick pay, maternity benefits, and the like increased by about three-fourths, compared with an increase of about one-third from 1951 to 1956, as shown in Table 3.* The increases were especially large in 1957 (26 percent) and 1959 (16 percent). As a result, the nominal cash benefits to East Germans rose substantially in relation to the West German level. Even so, the per capita benefits in 1960 still were almost 30 percent less than those in West Germany, and the difference was somewhat greater in real terms, although low income groups such as pensioners have benefited most from the low rents in East Germany and the cheapness of services and staple foods. Various adjustments also were made in the wage structure in favor of the worst paid groups. Special allowances for dependents were added in 1958-59, bringing bonuses and allowances by 1960 to more than double those paid in 1956 or 1957.

In principle, the regime also favored measures to limit further increases in the purchasing power of higher income groups, but in practice took such measures only against the self-employed, who were generally better off than wage earners and salaried employees with the same qualifications. In 1956 the extremely low rates of social insurance payments by independent peasants and self-employed artisans were raised to rates well above those for wage earners and salaried employees.** In 1957 the tax rebates granted earlier (in 1954) to "capitalists" for purposes of investment were discontinued. In 1958 the income tax rates for self-employed professional workers were sharply raised, and new regulations for handicrafts enterprises also increased the tax payments for self-employed artisans. Although these changes were felt by some people (especially by self-employed professional men), the amounts involved were small in relation to the increase in welfare payments, let alone the total rise in personal incomes.

Other state policies also operated to limit the incomes of the self-employed. The state "bought into" many small industrial concerns beginning in the late 1950's, and the proprietors became in effect salaried functionaries, generally with reduced incomes. This change,

* P. 9, above.

** These payments, and those of self-employed professional men, which also were raised, still do not cover the costs of social insurance, because there is no matching employers' contribution.

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however, had only a small effect on over-all incomes. A direct effort was made to reduce incomes of artisans, both by more serious efforts to enforce price controls and by pushing for the socialization of handicrafts, but again with only limited effect. The one important success of the regime in controlling incomes from private enterprise was in agriculture, in which output rose more rapidly while incomes rose less rapidly than in the early 1950's.

East Germany controlled agricultural incomes through the manipulation of prices paid to peasants. Obligatory deliveries remained at the 1953 level throughout the 1950's, and the state continued to offer much higher prices for additional deliveries than for obligatory deliveries. But in order to limit the increases in incomes resulting from a given rise in market production, the state began in 1956 to reduce the differential between obligatory delivery prices and incentive prices, raising the former and reducing the latter.* It appeared safe to reduce incentive prices somewhat, for with the improvement of food supplies, together with selected consumer price cuts, the free market price for sales by peasants direct to consumers was falling below the level of the incentive price offered by the state. The regime recognized, of course, not only the danger of reducing total agricultural incomes but also the importance of maintaining a considerable price differential between quota prices and above-quota prices. Peasant incomes still were permitted to rise more rapidly than market production (measured at constant prices), but the average prices realized by the peasant rose much more slowly than in the early 1950's.

It is hard to estimate what effect the shift in agricultural price structure may have had on incentives. On the one hand, market production rose, at least partly vindicating the judgment of the regime. As expected, moreover, peasant sales direct to households declined. But farm consumption in kind began to rise sharply for the first time in the decade, even though the farm population was dropping.

The inflationary problem created by the increase in incomes was not unmanageable by itself. The extent of the problem may be seen from a comparison of the growth of personal consumption and the rise in disposable incomes. The estimated growth of personal consumption (in constant prices) was about 25 percent from 1955 to 1960, while disposable incomes rose by 40 percent. What aggravated the problem greatly was the ending of food rationing and the readjustment of food prices in May 1958. A new single-price system for such foods replaced the double-price system that had existed under rationing (low prices for the ration allotment and high prices for purchases in addition to the ration).

* The statistical data, shown in the 1962 statistical yearbook, are discussed in an article in the East German statistical journal. 6/

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The ending of food rationing soon had inflationary effects, probably because it entailed a large reduction of prices at which additional purchases could be made. As incomes continued to rise, it became evident that even substantial increases in the quantities of meat and dairy products supplied to the market would not satisfy the demand. The resulting imbalance between supply and demand for quality foods has remained to plague the regime in the 1960's.

b. Nonprofit Organizations

It is convenient to group nonprofit organizations under three headings -- Communist "social organizations," the Communist-dominated political parties, and the churches. Of the Communist "social organizations," the most important are the so-called Free German Trade Union (FDGB); the Free German Youth (FDJ); and the Society for Sport and Technique (GST), which provides premilitary training. The main political party is the SED, which is in effect the Communist Party of East Germany. The Communists also control the other parties of the "National Front." Of the churches, the Evangelical Church is much the largest, followed by the Roman Catholic Church. Estimates of the operating expenditures of these organizations are shown in Table 5.*

The expenditures of "social organizations" rose substantially during the 1950's, mainly as a result of an increase of somewhat more than one-fourth in the full-time staffs employed by them and the usual rise in wage rates. In the late 1950's employment ran at about 50,000. One important factor was an expansion in union membership, which rose from about 4.8 million in 1951 to 6.2 million in 1960. The activities of the FDJ (the youth organization) probably did not expand to the same extent, but those of the GST (the premilitary training organization) rose even more rapidly.

The figures shown in Table 5 for the expenditures of political parties are very approximate, but the trend probably is indicated correctly. Estimated operating expenditures of the SED and the other political parties serving the Communists actually showed a slight tendency to decline during 1951-60. With the party as with the state apparatus,** the Communists developed large, well-paid administrative organizations in the late 1940's to set up the East German regime, but thereafter tried to hold down and, where possible, to reduce such overhead expenditures. The personnel strength of the full-time party staffs appears to have fluctuated during the period, declining to a level of some 30,000 in the late 1950's. Apart from the increased efficiency, the level of employment reflected the rise and fall in

* Table 5 follows on p. 18.

** See 3, b, p. 22, below.

Table 5

East Germany: Operating Expenditures of Nonprofit Organizations
 1951-60

	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
	Billion Current DME									
Party front organizations <u>a/</u> Socialist Unity Party (SED) and other political parties <u>b/</u>	0.23	0.25	0.24	0.30	0.36	0.39	0.42	0.49	0.46	0.50
Churches <u>c/</u>	0.45	0.34	0.32	0.39	0.33	0.39	0.37	0.32	0.31	0.33
Total	<u>0.78</u>	<u>0.71</u>	<u>0.71</u>	<u>0.89</u>	<u>0.94</u>	<u>1.02</u>	<u>1.05</u>	<u>1.10</u>	<u>1.09</u>	<u>1.16</u>
	Percent									
Total as share of gross national expenditures	1.7	1.4	1.3	1.5	1.5	1.5	1.5	1.4	1.3	1.3

- a. Including the labor unions, youth and women's organizations, sport organization (for premilitary training), and sundry other "social organizations."
- b. Based on calculation of residual. This category does not include expenditures in West Germany.
- c. Including other private foundations (hospitals and the like).

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total SED membership, which dropped from more than 1.7 million in 1950 to only about 1.2 million in 1953, though rising again in the middle and late 1950's. 7/

Church organizations in East Germany have operated on very low budgets throughout the postwar period. There was, however, a considerable rise in church revenues during the 1950's, chiefly from the social insurance organization in return for medical care in church-operated hospitals. Most of this increase in revenues went to pay the salaries and living expenses of additional nurses and hospital workers. Employment by churches ran at about 45,000 in the late 1950's.* State support for the religious activities of the church was limited to the collection of the "church tax" from members. Revenues from these taxes, together with any additional state funds, did not increase in the 1950's.**

Nonprofit organizations are financed partly from the state budget and partly from membership dues and contributions. During the 1950's, dues and contributions amounted to a little less than 2 percent of gross wages and salaries and other private incomes from economic activity. Union dues, which were levied at a rate averaging somewhat more than 1.5 percent*** of taxable wages of union members, probably accounted for about one-half of all dues and contributions and would have come close to covering total union expenditures. Dues of SED members, at rates averaging nearly 2 percent of taxable salaries, also covered a considerable part of the cost of the Communist Party apparatus (not, however, including activities in West Germany). Nearly all the remaining costs of the trade unions, political parties, and other Communist front groups in East Germany presumably were met from the state budget. Church members contributed less than one-half the cost of church activities, the remainder being covered by contributions from the West and by payments, through the state budget, from social insurance for medical services in church hospitals.

3. Public Services and Administration

East German state activities, apart from defense, are separated into two classes for purposes of these national accounts, public

* Including employees of the other private charitable organizations.

** Besides the labor costs and purchases of goods and services which are covered in Table 5 (p. 18, above), the nonprofit organizations pay out welfare benefits to members, which all told amounted to perhaps 200 million DME annually in the late 1950's. The only published indication of the amount is the breakdown of the expenditures of the trade unions, which shows transfers to members rising to about 75 million DME per year late in the period.

*** Beginning in 1960, rates were reduced somewhat.

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services and administration. Public services include health, education, cultural affairs, and recreation. Administration includes among other activities the collection of taxes and disbursement of public funds; the management of the economy above the enterprise level*; and police and security activities, together with the operations of the courts and prisons. The estimated consumption of goods and services in these activities is shown in Tables 6** and 7.***

a. Public Services

As orthodox Communists, the East German leaders have steadily expanded the activities of the state in all fields of public service. They have allowed private activity to continue, however, on a small scale. Even in the late 1950's about one-third of all the doctors practicing in East Germany were self-employed, but it must be remembered that their fees were paid very largely out of social insurance funds. Self-employed engineers and scientists, artists, and musicians worked very largely on state contracts. The churches continued to operate a good many hospitals, clinics, and kindergartens, and some other private hospitals remained in operation, but only with state support and, of course, state supervision. In the field of entertainment, the only remnants of private enterprise were a few small clubs and cafes.

The importance of these activities to the regime is suggested by the increased amounts spent on them in the 1950's, as shown in Table 6. In 1960, expenditures on state services were 2-1/2 times those in 1951, and after allowing for the rise in wages and prices during the decade, the increase in inputs into state services was still substantial. Estimated employment in these services increased from somewhat more than 300,000 to nearly 500,000, mostly employed in public health and education.

Nevertheless, the figures are rather misleading, for the increase in inputs did not reflect any comparable benefit to the population or the economy. In public health, for example, the increase in the number of doctors, nurses, and other hospital workers employed by

* The "associations of state enterprises" established in industry in 1958, when the industrial ministries and "main administrations" were dissolved, may have been excluded from administration, although they were supported by the state budget, rather than from enterprise funds. In any case, the costs involved were quite small. According to recent regulations, the strength of these organizations will be increased and in the future they will be supported from enterprise funds.

** Table 6 follows on p. 21.

*** P. 24, below.

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Table 6

East Germany: Operating Expenditures of Public Services a/
1951-60

	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
	Billion Current DME									
Health <u>b/</u>	1.60	1.75	1.90	2.05	2.15	2.35	2.45	2.65	2.95	3.10
Education	1.00	1.40	1.60	2.05	2.15	2.25	2.40	2.55	2.70	3.15
Other <u>c/</u>	0.27	0.38	0.38	0.43	0.73	0.71	0.81	0.92	0.84	0.78
Total	<u>2.87</u>	<u>3.53</u>	<u>3.88</u>	<u>4.53</u>	<u>5.03</u>	<u>5.31</u>	<u>5.66</u>	<u>6.12</u>	<u>6.49</u>	<u>7.03</u>
	Percent									
Total as share of gross national expenditures	6.3	6.9	7.1	7.6	7.9	8.0	8.0	7.9	7.8	8.0

a. Excluding cash transfers and investments, but not capital repairs.

b. Including cost of contract medical services provided and drugs and medicines prescribed under social insurance.

c. Residual from total. This category includes municipal, cultural, and welfare services for which no payment is received. It does not include research and development.

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the state was offset by a decline in the number of self-employed, with their employees. East Germany made a large investment in medical education during the period but succeeded only in replacing losses resulting from the continued flight of doctors to West Germany. In education, there was a striking increase in staff and in enrollments in universities and technical colleges, and nearly all students received stipends covering most of their expenses. The expansion in higher education, however, was designed to serve narrowly political and technical ends, and even from this point of view, Communist policies were in part self-defeating. As it became more difficult for the children of the unreconstructed middle classes to attend universities, the families left East Germany in increasing numbers. The loss of doctors, engineers, and administrators more than offset the rise in the number of new graduates. And even the "children of workers and peasants," who owed the Communists their chance for a higher education, were often repelled by the dogmatic Marxism imposed on the universities. Many defected to the West.

East Germany also failed to hold its own in scientific research and development.* Although the regime succeeded in holding some older scientists -- including Manfred von Ardenne -- by special treatment, East German research was limited by the heavy loss of trained manpower to West Germany. For this reason as well as for lack of resources, East German expenditures for research and development were comparatively small, though they grew rapidly in the 1950's. Much of what was spent was wasted as a result of poor management and bad judgment by the Communist leadership. The best known example of waste is the expensive failure to develop an independent aircraft industry. Beginning in the mid-1950's the regime spent large amounts on investments and subsidies for this industry, but only a few planes were turned out by 1960, and the attempt was abandoned early in 1961, presumably at Soviet urging. 8/

In the fields of culture and recreation the regime was scarcely more successful, in spite of some technically respectable work in concert and operatic music and in television. The most notable failure was in producing films. East German films were so poor -- and so few good films were imported -- that attendance at movies dropped significantly in the later 1950's.

b. Administration

In civil administration the East German leadership was able to impose effective control over expenditures, much as it did over the

* Expenditures on research and development are under the general heading of investments, in accord with the usual practice in Western accounts (see Table 9, p. 29, below).

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staffing and outlays of the SED. Total expenditures for the state apparatus and the various police forces, as shown in Table 7,* remained almost the same throughout the 1950's. Such control, exercised as it was in a period of generally rising wages and prices, represents an apparent violation of Parkinson's law. It suggests that at least in this one respect Communist management has been successful.

It is estimated that during the decade 1951-60 the East German leadership actually cut the size of the state apparatus (not including police organizations) from about 225,000 to about 140,000. The reductions were sharpest in ministries and other central organizations. The administrative organizations, to be sure, were large to begin with, but the reduction reflects not only a reduction of excess staff but also a substantial increase in efficiency.

The police organizations, on the other hand, expanded during the period. The police included under administration are not only the regular territorial police (Volkspolizei) but also the transport police (Transportpolizei), the border police (Grenzpolizei), and the semimilitarized alert police (Bereitschaften). The strength of the police organizations was increased in the early 1950's from about 100,000 to 125,000; after remaining fairly stable for several years, the strength again was increased in the late 1950's to about 150,000. The main reason for the increases was the tightening of border controls -- the border police, which numbered only 9,000 in 1949, numbered 48,000 in the late 1950's. 9/

Basic pay rates, a big factor in the total expenditures, were the same as for comparable grades in the armed forces, but the average pay was lower because there were relatively fewer field and general grade officers. Along with police expenditures are entered those of the internal security organization (Staatssicherheitsdienst) and the overhead of the Ministries of State Security and the Interior.

4. Military Expenditures

The East German military establishment was formally set up only at the beginning of 1956, after the West German decision to rearm. But in reality it dates from the reorganization and expansion of the "Garrisoned National Police" (Kasernierte Volkspolizei, or KVP) in 1952. During 1952 the small militarized units of the KVP that had been recruited and trained since 1948 were reorganized into military forces, including six army divisions. At the same time, the strength of the KVP was increased from 55,000 to 85,000. The peak strength reached during the early 1950's was more than 100,000. Beginning in

* Table 7 follows on p. 24.

Table 7

East Germany: Operating Expenditures of State Administration, Including Police Forces
1951-60

	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
	Billion Current DME									
Economic and political administration	2.00	1.81	1.50	1.51	1.48	1.48	1.39	1.36	1.31	1.21
Police and security <u>a/</u>	0.70	0.85	1.14	1.16	1.17	1.17	1.18	1.25	1.35	1.50
Total	<u>2.70</u>	<u>2.66</u>	<u>2.64</u>	<u>2.67</u>	<u>2.65</u>	<u>2.65</u>	<u>2.57</u>	<u>2.61</u>	<u>2.66</u>	<u>2.71</u>
	Percent									
Total as share of gross national expenditures	5.9	5.2	4.8	4.5	4.1	4.0	3.6	3.4	3.2	3.1

a. Including both regular civil police and special semimilitarized units, together with internal security.

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1956, however, as the result of a drop in the authorized strength to 90,000, East German military forces were reduced somewhat. 10/

The present estimates of East German military expenditures, shown in Table 8,* include pay and allowances, social insurance, rations, housekeeping, other procurement in East Germany, munitions imports, and investments in East German military facilities. They do not cover occupation costs, research and development, military pensions, or the expenditures of militarized police units.** They are based mainly on an analysis of the East German budget, together with data on strength, pay and allowances, and expenditures published in Western sources. 11/ In 1956, having formally set up a military establishment, the East Germans began announcing purported defense expenditures but gave merely a nominal figure, just less than 1 billion DME (probably covering pay and allowances and housekeeping). From 1956 to 1961 the regime continued to announce practically the same figure, 12/ but in 1962 it announced that military expenditures would be 2.7 billion DME, 13/ which probably covers most of the costs shown in Table 8.

In evaluating the estimates for pay and allowances shown in Table 8, it should be kept in mind that East German military personnel were paid comparatively well. During this period and until after the building of the Berlin wall, they were recruited entirely from volunteers. Not only was the regime unpopular but also military service itself was disliked, and the authorities had to rely heavily on material inducements in order to get acceptable recruits. The monthly pay of a private newly recruited was 300 DME, 14/ which until the late 1950's compared very favorably with the wages of semiskilled labor.*** Well-cut uniforms and ample rations represented additional inducements. Even so, great pressure had to be used at times to obtain enough volunteers.

If the pay was high, expenditures on rations were low. Agricultural products entering industry and trade have always been priced far below cost in East Germany. The prices received by the farmer average at least double the prices at which agricultural products are resold by the state procurement organization, the difference being absorbed by a large subsidy. Part of this subsidy is offset by indirect taxes on food, but the armed forces, in all probability, do not pay these taxes, although there is no direct evidence bearing on the point.

* Table 8 follows on p. 26.

** These expenditures are covered in the foreign balance, investments, transfers to the household account, and administration, respectively.

*** In 1958, for example, as shown in the statistical yearbook, a production worker in the third lowest group, out of eight wage groups for industrial workers, averaged about 315 DME per month.

Table 8

East Germany: Military Expenditures
1951-60

	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
	Billion Current DME									
Pay and allowances	0.41	0.52	0.74	0.82	0.76	0.70	0.71	0.72	0.73	0.74
Social insurance	0.03	0.03	0.04	0.05	0.04	0.04	0.04	0.04	0.04	0.04
Rations in kind	0.07	0.09	0.13	0.14	0.13	0.12	0.12	0.12	0.12	0.12
Domestic procurement <u>a/</u>	0.46	0.49	0.99	1.18	1.35	1.31	1.24	1.46	1.47	1.38
Munitions imports <u>b/</u>	N.A.	N.A.	N.A.	0.10	0.13	0.03	0.28	0.23	0.46	0.41
Military investments <u>c/</u>	0.12	0.16	0.10	0.09	0.12	0.15	0.15	0.15	0.20	0.20
Total	<u>1.09</u>	<u>1.29</u>	<u>2.00</u>	<u>2.38</u>	<u>2.53</u>	<u>2.35</u>	<u>2.54</u>	<u>2.72</u>	<u>3.02</u>	<u>2.89</u>
	Percent									
Total as share of gross national expenditures	2.4	2.5	3.6	4.0	4.0	3.5	3.6	3.5	3.6	3.3

a. Excluding cost of rations.

b. In the early 1950's, mainly in 1952, East German forces were equipped with old Soviet weapons. The cost to East Germany, which may have been about 1 billion DME -- as suggested in the accompanying text -- is not entered as an import in these accounts. The total for later years is based mainly on a statement (discussed on p. 27) covering 1956-60. The estimates for individual years reflect the difference between Soviet and East German data for the total value of Soviet deliveries to East Germany.

c. Including investment in military facilities for East German use, but not in Soviet installations.

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The estimates shown for imports of military hardware in 1954-60 are based chiefly on a defector report published by Informationsbuero West in Berlin, 15/ which gives average annual imports of munitions after 1955 as 300 million DME. No imports of munitions are shown for 1951-53, the years in which the East German armed forces were being equipped initially with Soviet weapons. The jump in uncompensated deliveries on Soviet account in 1952 -- they are more than 1 billion DME above such deliveries in 1951 and 1953* -- is perhaps an indication of the cost to East Germany, for 1952 was the year in which most of the Soviet equipment was delivered. If an entry of, say, 1 billion DME were made for such a transaction, it would involve reducing the foreign balance, which is an export balance, by the same amount. Published sources say nothing about the prices at which such deliveries were made.

The estimates given for military investments probably cover only East German military facilities. Investments for military purposes in research and development, highways and railroads, and communications are excluded.** The estimates are based on data of Informationsbuero West 16/ for allocations of building materials to the East German forces in 1956, and on the results of subtracting all other investments from figures for total investments.***

Although the absolute level of military expenditures rose during 1951-60, those shown in the present report never amounted to more than 4 percent of GNP, and the share declined in the late 1950's. Even the inclusion of militarized police units would not bring the figure to 5 percent even for the mid-1950's. Through 1958, to be sure, East Germany also was paying "occupation costs." If occupation costs are included as defense expenditures, as in West Germany and as provided for in the OEEC system of accounts, the share of defense in GNP is greater. Because occupation costs declined and GNP increased rapidly from 1951 to 1958, the difference is much greater for the earlier than the later years. Defense, including occupation costs, would represent 10 percent of GNP in 1951, and the share would decline steadily to less than 5 percent in 1958.

* See Table 12, Appendix A, p. 37, below.

** Investments for Soviet forces are treated in the present accounts as deliveries on Soviet account (under the foreign balance); the other investments mentioned, under investments.

*** Similar data provide the basis for estimates of investments for Soviet forces. A much higher level of military investments is implied in the plan figure of 3.6 billion DME for 1956-60 published by the East Germans, 17/ but this figure undoubtedly covers not only military facilities for both East German and Soviet use but also industrial facilities under military control.

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5. Investment

The categories into which East German investment is broken down in these accounts are gross fixed capital investment, changes in inventories, and allocations to research and development. Estimates of these expenditures, which are shown in Table 9,* include capital repairs, except in administration and public services, and thus cover some expenditures that in the accounts of most other countries would be treated as a current expense of production (and, therefore, would be deducted from GNP).** The cost of military facilities for either East German or Soviet use is also excluded. Changes in inventories cover state material reserves and stocks in the hands of enterprises, including the value of standing timber and of livestock herds. Allocations to research and development cover both the expenditures of budget organizations (scientific institutes and technical colleges) and grants to enterprises for this purpose, which are treated as purchases of services.

During the early 1950's the share of investment in GNP was quite small (varying between 11 and 14 percent in 1951-55), not only by the standards of the Soviet Bloc but also in comparison with West Germany. These data do not include investments made in enterprises under Soviet ownership, financed largely out of funds made available to the Soviet authorities as reparations and occupation costs. A considerable part of East German heavy industry was in Soviet hands through April 1952, and 33 enterprises were not turned over (even nominally) until the end of 1954. Finally, in 1954 the uranium mining company was converted into a "joint Soviet-East German" company. But even if the investments made in these enterprises while in Soviet hands were all included, the figures for East German investments in the early 1950's still would be relatively low. At the time it was less urgent to expand investment than to increase consumption; for existing capacity still was not being used fully in most sectors of the economy, and real wages were lagging dangerously behind those in West Germany. Both fixed capital investment and expenditures on research and development are shown in Table 9 as increasing in the early 1950's, not only in absolute terms but also as a share of GNP. These figures, however, overstate the increase in the real volume of investment, because of the rapid rise in costs, particularly in construction costs, which went up by 44 percent from 1951 to 1954.***

* Table 9 follows on p. 29.

** In West German statistics, however, capital repairs are included in investments to about the same extent as in East German statistics.

*** According to unpublished East German data cited by the UN. 18/

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Table 9
East Germany: Investment
1951-60

	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
	Billion Current DME									
Gross fixed capital investment <u>a/</u>	3.68	4.56	5.95	6.04	7.84	10.00	10.76	12.33	14.16	15.85
Increases in inventories <u>b/</u>	1.31	1.59	1.64	0.34	0.71	0.87	1.74	3.65	2.86	1.41
Research and development <u>c/</u>	0.18	0.28	0.33	0.40	0.47	0.61	0.67	0.86	0.97	1.15
Total	<u>5.17</u>	<u>6.43</u>	<u>7.92</u>	<u>6.78</u>	<u>9.02</u>	<u>11.48</u>	<u>13.17</u>	<u>16.84</u>	<u>17.99</u>	<u>18.41</u>
	Percent									
Total as share of gross national expenditures	11.4	12.6	14.4	11.4	14.1	17.3	18.6	21.7	21.5	21.0

- a. Excluding military investments, for both Soviet and East German forces, and capital repairs in public services and administration. Data for 1951-54 do not include investment in Soviet-owned corporations.
 b. Including changes in state material reserves, livestock holdings, and the stand of timber.
 c. Both by state academies, institutes, and universities and by enterprises on state contracts.

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The increase in investment shown after 1954 correctly reflects a very rapid rise in investment activity, for only small adjustments need be made for price changes in the middle and late 1950's. These increases in the volume of investment were possible mainly because of the easing of the burden of Soviet exploitation from 1955 to 1959, especially in 1956, when payments arising out of reparations were finally discontinued.*

The rise in investment activity in the mid-1950's did not have a marked effect on economic growth. Most of the increase in investment had to be put into capital-intensive basic industries -- especially fuels and power -- which had been neglected in the early 1950's. Too many big projects were started, few were finished on schedule, and the backlog of unfinished projects rose rapidly. Finally, the forces making for a lower rate of growth in the late 1950's -- the completion of recovery and a reduction in employment -- tended to offset the effect of increases in capital.

Even the rapid growth of investment in the late 1950's did not bring the share of investment in GNP to the level found in most countries of Eastern Europe and in West Germany. When research and development are included, the share in 1958-60 still was only 21 to 22 percent. In West Germany, on the other hand, the share in 1958-60 was 24 to 26 percent, without research and development. Differences in price structure have little net effect on this comparison. Prices are relatively lower for investment goods and relatively higher for construction in East Germany than in West Germany, and the differences are largely offsetting. Thus in comparable terms the share of investment in GNP in the late 1950's was still substantially less in East Germany than in West Germany.

6. Foreign Accounts

The present estimates of the East German foreign balance, given in Table 10,** show only a balance on current accounts -- the difference between exports and imports of goods and services. The net commercial balance covers all transactions handled by the foreign trade organizations, including uranium deliveries and munitions imports in 1954-60,*** together with invisibles (transportation services and the like), on which East Germany invariably incurs a net unfavorable balance.† The

* See the discussion of reparations, p. 33, below.

** Table 10 follows on p. 31.

*** Uranium deliveries and munitions imports in 1951-53 are treated in the present accounts, as they probably were treated at the time, in the framework of reparations.

† The entry made for invisibles does not include transactions on "noncommercial account," but the effect of this exclusion on the balance should not be great.

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Table 10

East Germany: Foreign Balance in National Expenditures
1951-60

	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
	Billion Current DME									
Net commercial balance <u>a/</u>	1.42	0.43	0.28	2.00	0.90	1.14	0.30	-0.54	-0.26	0.06
Additional deliveries on Soviet account <u>b/</u>	2.83	4.22	2.76	2.76	3.47	2.29	2.03	1.40	1.37	1.33
Total foreign balance <u>c/</u>	<u>4.25</u>	<u>4.65</u>	<u>3.04</u>	<u>4.76</u>	<u>4.37</u>	<u>3.43</u>	<u>2.33</u>	<u>0.86</u>	<u>1.11</u>	<u>1.39</u>
	Percent									
Total as share of gross national expenditures	9.4	9.1	5.5	8.0	6.8	5.2	3.3	1.1	1.3	1.6

a. Exports less imports at producer prices plus indirect taxes. Domestic transport costs and nominal foreign trade markup are added to export price, subtracted from import price. For 1954-60, exports of uranium ores and imports of munitions are included. Net balance on invisibles, which is unfavorable, is added to imports.

b. Including purchases of Soviet troops in East Germany, military construction for Soviet occupation forces, and goods delivered without compensation. This category also includes deliveries in 1951-53 required to pay for old Soviet munitions with which to equip East German armed forces. The amount charged for these munitions, estimated at perhaps 1 billion DME in 1952, could properly be subtracted from foreign balance in these years.

c. Not reflecting balance on "noncommercial account," which probably is somewhat unfavorable to East Germany.

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entry in Table 10 for additional deliveries on Soviet account includes goods and services provided to the occupation authorities, purchased by Soviet personnel in East Germany, and delivered to the USSR without compensation. These goods and services were provided in fulfillment of reparations demands, in payment of occupation costs, and in settlement of other Soviet claims -- notably for Soviet equipment initially furnished to the East German forces in 1952 and for the Soviet-owned corporations returned to East German control in 1954.*

In the published East German national accounts used in setting up these balances, the prices are East German internal prices, presumably those at which transactions actually took place between the East German foreign trade organizations, on the one hand, and importing and exporting enterprises, on the other. In special cases, however, including uranium ore exports, munitions imports, and invisibles (transportation services, insurance, and the like), domestic prices are not relevant. The entries for such transactions represent values in terms of foreign units of accounts converted into East German marks.**

East German internal prices, in which most imports and exports are valued, do not correctly reflect East German costs. In particular, imports are undervalued in domestic prices. The greatest distortion is in the value of agricultural imports, which were sold to industry and trade at extremely low prices (those at which peasants are paid for obligatory deliveries). In the present account the foreign balance has been reduced to offset the estimated effect of this distortion.*** The resulting adjusted balance, however, still fails to reflect East German costs. In the early 1950's, domestic prices of industrial raw materials, which bulk large in the imports and small in the exports of East Germany, were kept much below cost. In order to correct this distortion, prices of industrial raw materials were repeatedly raised, especially in 1953 and 1955-56, while other industrial prices remained

* The known Soviet claims were largely satisfied, however, by 1956 except for occupation costs, which were reduced in 1957 and 1958 and finally were eliminated in 1959. It is uncertain on what basis East Germany was credited with goods and services provided to the occupation authorities and Soviet personnel in 1959-60.

** The conversion has been made according to the East German practice at the time. For uranium ores the official exchange rates are used through 1958. Thereafter the rate of 4.2 DME to US \$1 is used. Munitions are estimated on the basis of a value originally given in East German marks, presumably as the result of a similar conversion. Invisibles are converted at 3.33 DME to US \$1 throughout the period. *** Similar reductions have been made in the net output (value added) of enterprises.

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generally stable. Even so, however, raw material prices still did not fully reflect costs in 1960, even to the extent permitted in the Soviet type of cost accounting. One East German estimate indicates that prices still were at least 20 percent below cost in 1962.* 19/

Even without such an adjustment for the underpricing of imports of raw materials, however, the East German export surplus during the 1950's would appear relatively small if it were not for Soviet exactions. Through 1955, East Germany shipped considerable quantities of goods to the USSR as reparations and in payment for the Soviet-owned corporations turned over to East German control in 1952 and 1954. Through 1958, East Germany also furnished goods and services to the Soviet forces in East Germany in payment of occupation costs, including transportation and construction work. The cessation of uncompensated deliveries to the USSR in 1956 and the subsequent reduction in occupation costs are clearly reflected in Table 10.** Export balances still appear for 1959-60, after the final cancellation of occupation costs, but they are relatively small in relation to the level of trade.

It is worth noting in this connection that the much-publicized Soviet concessions announced in 1953 (the USSR agreed to cancel reparations payments, reduce occupation costs, and forego further profits from the Soviet-owned corporations, the last of which*** were returned to East German control) were largely offset by the shift to East Germany of the entire cost of financing uranium mining and the insistence that East Germany repay the USSR for the Soviet interest in the enterprises returned to East German ownership in 1954, and perhaps for a "share" in the uranium mining company. Thus it was not in 1954, when these arrangements took effect, but in 1956, after the repayment (and perhaps the partial commutation) of the East German debt, that the burden of Soviet exploitation dropped significantly -- and then much less than indicated by the magnitude of the concessions announced in 1953. The further decline in Soviet takings after 1956 reflects later reductions in occupation costs and improvements in East German terms of trade with the USSR (including the higher prices paid for uranium deliveries beginning in 1957).

* East German costs for producing raw materials, however, are relatively high, and the internal price adjustments of the 1950's did bring the structure of East German producer prices more or less into line with the structure of prices in the Western European market.

** P. 31, above.

*** Except for the uranium corporation, which became nominally a "joint" Soviet-East German company, and perhaps some small plants working entirely for the occupation forces.

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A full reconciliation of financial data with the foreign balance would have to show not only the budget data discussed above but also Soviet credits, which began to figure in East German accounts in 1954; the repayment of these credits; and any cancellation of East German debts that may have been conceded. A satisfactory presentation of the East German balance of payments, reflecting all these elements, cannot be made with the information now available.

The present estimates of the East German foreign balance cannot be compared with data for West Germany. The West German export balance on commercial account shows the actual net earnings on current account of West Germany, whereas the East German balance on commercial account, as explained above, reflects the structure of domestic prices, as adjusted. Instead of earning a substantial surplus on commercial account, East Germany probably incurred a cumulative deficit over the entire decade. Moreover, occupation costs, reparations, and similar transfers to foreign account, which bulk large in the over-all East German export balance, have little part in the West German balance. The West German balance does not reflect either occupation costs or the contribution to European defense made after the cancellation of occupation costs in May 1955; instead, these transfers are shown under defense, as provided for in the OEEC system of accounts. The only transfers reflected in the West German balance are the payments made to Jews and foreign nationals for property seized by the Nazis, and these transfers represented a much smaller burden than the East German payments to the USSR growing out of reparations demands.

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APPENDIX A

STATISTICAL TABLES

The estimates of East German national income and expenditures shown and discussed in the text are brought together in the accompanying tables, along with other information needed to round out the accounts. Table 11 shows a summary of the gross national product by sector of origin; Table 12, the gross national expenditures, or GNP by end use; and Table 13, the national income distributed by sector.* These accounts were prepared generally according to the rules worked out for the OEEC. The notes to the tables explain special features of classification and coverage. The derivation of the estimates is discussed in Appendix B. Selected data from the national accounts of West Germany are shown in Table 14.** They are shown for comparison, but there are various differences between West German accounting practices and those used in setting up the present East German accounts, some of which are discussed in the text.***

The national product account given in Table 11 is shown in summary form for the sake of completeness, although the origin of the national product is not discussed in this report. The presentation of gross national expenditures in Table 12 shows more detail for private and public consumption than is shown in the text tables. The breakdown of personal incomes in Table 13 is also more detailed than that given in the text tables. But the entry made in Table 13 covering the savings of enterprises, taxes paid by enterprises, and state incomes from economic activities cannot be broken down further in any useful way.

All the tables in this report are based entirely on unclassified sources.

* Tables 11, 12, and 13 follow on pp. 36, 37, and 41, respectively.

** Table 14 follows on p. 43.

*** Pp. 27, 30, and 34, respectively, above.

Table 11

East Germany: Gross National Product
 1951-60

	Billion Current DME									
	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Private sector	0.80	0.71	0.72	0.84	0.78	0.86	0.88	0.93	0.88	0.93
Households <u>a/</u>	0.30	0.28	0.26	0.25	0.15	0.15	0.15	0.15	0.11	0.10
Nonprofit organizations	0.50	0.43	0.46	0.59	0.63	0.71	0.73	0.78	0.77	0.83
Enterprise sector	39.17	44.26	46.72	50.82	55.11	57.13	60.86	67.12	72.71	75.90
"Productive" enterprises	35.85	40.86	42.86	46.56	50.62	52.73	56.23	62.40	67.67	70.73
"Nonproductive" enterprises <u>b/</u>	3.32	3.40	3.86	4.26	4.49	4.40	4.63	4.72	5.04	5.17
State sector	3.51	3.92	4.78	5.13	5.14	5.28	5.40	5.60	6.01	6.23
Public services	1.41	1.60	1.97	2.25	2.32	2.50	2.62	2.81	3.19	3.36
Administration <u>c/</u>	1.59	1.68	1.90	1.87	1.89	1.92	1.91	1.91	1.93	1.97
Defense	0.51	0.64	0.91	1.01	0.93	0.86	0.87	0.88	0.89	0.90
National income <u>d/</u>	<u>43.48</u>	<u>48.89</u>	<u>52.22</u>	<u>56.79</u>	<u>61.03</u>	<u>63.27</u>	<u>67.14</u>	<u>73.65</u>	<u>79.60</u>	<u>83.06</u>
Depreciation <u>e/</u>	<u>1.95</u>	<u>2.27</u>	<u>2.61</u>	<u>2.79</u>	<u>3.01</u>	<u>3.25</u>	<u>3.54</u>	<u>3.83</u>	<u>4.11</u>	<u>4.49</u>
Gross national product	<u>45.43</u>	<u>51.16</u>	<u>54.83</u>	<u>59.58</u>	<u>64.04</u>	<u>66.52</u>	<u>70.68</u>	<u>77.48</u>	<u>83.71</u>	<u>87.55</u>

a. Domestic services.

b. Including "productive" enterprises (the uranium mines and plants under military control) not covered in official statistics on "productive" enterprises.

c. Including police forces.

d. At established prices, including indirect taxes.

e. Including depreciation of "nonproductive" enterprises.

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Table 12

East Germany: Gross National Expenditures
1951-60

	Billion Current DME									
	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Private expenditures	29.08	32.54	35.34	38.43	40.38	41.21	44.12	48.22	52.33	55.11
Households	28.30	31.83	34.63	37.54	39.44	40.19	43.07	47.12	51.24	53.95
Goods	22.86	26.17	28.83	31.35	33.19	33.86	36.47	40.68	44.70	47.33
Foods and beverages	15.49	17.81	19.37	21.02	22.10	22.38	23.77	26.20	28.51	29.32
Retail trade <u>a</u> / [*]	12.22	14.52	15.92	17.41	18.04	18.66	19.56	21.60	23.82	24.81
Subsidized meals <u>b</u> / [*]										
Cash	0.55	0.60	0.64	0.66	0.66	0.68	0.70	0.73	0.76	0.82
In kind	0.55	0.60	0.64	0.66	0.66	0.68	0.70	0.73	0.76	0.82
From peasants <u>c</u> / [*]	0.02	0.03	0.17	0.30	0.73	0.58	0.45	0.32	0.11	0.04
Military rations <u>d</u> / [*]	0.07	0.09	0.13	0.14	0.13	0.12	0.12	0.12	0.12	0.12
Farm consumption <u>e</u> / [*]	2.08	1.97	1.87	1.85	1.88	1.66	2.24	2.70	2.94	2.71
Clothing and shoes <u>f</u> / [*]	3.02	3.72	4.28	4.93	5.21	4.83	5.21	6.10	6.71	7.34
Other <u>g</u> / [*]	4.35	4.64	5.18	5.40	5.88	6.65	7.49	8.38	9.48	10.67
Services	5.44	5.66	5.80	6.19	6.25	6.33	6.60	6.44	6.54	6.62
Rent										
Cash	1.13	1.16	1.18	1.19	1.21	1.23	1.25	1.29	1.34	1.41
Imputed <u>h</u> / [*]	0.97	0.96	0.95	0.93	0.92	0.90	0.88	0.86	0.84	0.81
Utilities <u>i</u> / [*]	0.39	0.41	0.42	0.45	0.46	0.50	0.49	0.53	0.56	0.59
Transportation <u>j</u> / [*]	1.11	1.20	1.28	1.44	1.50	1.49	1.55	1.48	1.55	1.60
Post and telephone	0.24	0.25	0.25	0.27	0.28	0.29	0.32	0.34	0.37	0.38
Theaters <u>k</u> / [*]	0.19	0.20	0.21	0.27	0.27	0.28	0.30	0.27	0.25	0.23
Domestic services	0.30	0.28	0.26	0.25	0.15	0.15	0.15	0.15	0.11	0.10
Other <u>l</u> / [*]	1.11	1.20	1.25	1.39	1.46	1.49	1.66	1.52	1.52	1.50

* Footnotes for Table 12 follow on p. 39.

Table 12
 East Germany: Gross National Expenditures
 1951-60
 (Continued)

	Billion Current DME									
	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Private expenditures (Continued)										
Nonprofit organizations	0.78	0.71	0.71	0.89	0.94	1.02	1.05	1.10	1.09	1.16
Labor costs	0.52	0.47	0.47	0.59	0.64	0.71	0.73	0.78	0.77	0.83
Goods and services	0.26	0.24	0.24	0.30	0.30	0.31	0.32	0.32	0.32	0.33
State expenditures	<u>6.66</u>	<u>7.48</u>	<u>8.52</u>	<u>9.58</u>	<u>10.21</u>	<u>10.31</u>	<u>10.77</u>	<u>11.45</u>	<u>12.17</u>	<u>12.63</u>
Public services	2.87	3.53	3.88	4.53	5.03	5.31	5.66	6.12	6.49	7.03
Labor costs	1.21	1.39	1.70	1.93	2.07	2.17	2.33	2.55	2.92	3.16
Goods and services	1.66	2.14	2.18	2.60	2.96	3.14	3.33	3.57	3.57	3.87
Administration <u>m/</u>	2.70	2.66	2.64	2.67	2.65	2.65	2.57	2.61	2.66	2.71
Labor costs	1.59	1.68	1.90	1.87	1.89	1.92	1.91	1.91	1.93	1.97
Goods and services	1.11	0.98	0.74	0.80	0.76	0.73	0.66	0.70	0.73	0.74
Defense	1.09	1.29	2.00	2.38	2.53	2.35	2.54	2.72	3.02	2.89
Labor costs <u>n/</u>	0.51	0.64	0.91	1.01	0.93	0.86	0.87	0.88	0.89	0.90
Goods and services <u>o/</u>	0.58	0.65	1.09	1.37	1.60	1.49	1.67	1.84	2.13	1.99
Investment	<u>5.17</u>	<u>6.43</u>	<u>7.92</u>	<u>6.78</u>	<u>9.02</u>	<u>11.48</u>	<u>13.17</u>	<u>16.84</u>	<u>17.99</u>	<u>18.41</u>
Gross fixed capital investment <u>p/</u>	3.68	4.56	5.95	6.04	7.84	10.00	10.76	12.33	14.16	15.85
Increases in inventories <u>q/</u>	1.31	1.59	1.64	0.34	0.71	0.87	1.74	3.65	2.86	1.41
Research and development <u>r/</u>	0.18	0.28	0.33	0.40	0.47	0.61	0.67	0.86	0.97	1.15

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Table 12

East Germany: Gross National Expenditures
1951-60
(Continued)

	Billion Current DME									
	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Foreign balance s/	<u>4.25</u>	<u>4.65</u>	<u>3.04</u>	<u>4.76</u>	<u>4.37</u>	<u>3.43</u>	<u>2.33</u>	<u>0.86</u>	<u>1.11</u>	<u>1.39</u>
Net commercial balance	1.42	0.43	0.28	2.00	0.90	1.14	0.30	-0.54	-0.26	0.06
Exports t/	3.46	3.38	4.26	7.16	7.24	8.01	9.96	10.55	12.03	13.15
Imports u/	-2.04	-2.95	-3.98	-5.16	-6.34	-6.87	-9.66	-11.09	-12.29	-13.09
Soviet personnel purchases	1.56	1.88	1.74	1.73	1.75	1.87	1.88	1.25	1.06	1.08
Other deliveries on Soviet account y/	1.27	2.34	1.02	1.03	1.72	0.42	0.15	0.15	0.31	0.25
Discrepancy	<u>0.27</u>	<u>0.06</u>	<u>0.01</u>	<u>0.03</u>	<u>0.06</u>	<u>0.09</u>	<u>0.29</u>	<u>0.11</u>	<u>0.11</u>	<u>0.01</u>
Gross national expenditures	<u>45.43</u>	<u>51.16</u>	<u>54.83</u>	<u>59.58</u>	<u>64.04</u>	<u>66.52</u>	<u>70.68</u>	<u>77.48</u>	<u>83.71</u>	<u>87.55</u>

a. Including tobacco products and restaurant meals.

b. In factory and school cafeterias.

c. Both purchases on the farm markets and directly at the farm.

d. At cost of the food to military authorities at low prices excluding indirect taxes.

e. At average prices paid to the peasant. This category includes meals furnished to agricultural workers and some small amount of nonfood items -- for example, firewood.

f. Including work clothing purchased at the factory.

g. Including cosmetics; china, glassware, and cutlery; and consumer durables.

h. Owner-occupied housing at currently fixed rents.

i. Excluding water bills paid by private housing owners. Water bills normally are paid by the landlord.

j. Excluding allowances for business trips.

k. Including movies, opera, and the like.

l. Other personal services, professional services, repair services, and "services" of insurance. No value is imputed to services of banking.

m. Including police forces.

n. Including cost of rations.

o. Including military investments.

p. Excluding military investments and capital repairs of public services and administration. For 1951-54 they also exclude investments in Soviet-owned corporations.

Table 12

East Germany: Gross National Expenditures
1951-60
(Continued)

- q. Covering inventories in the hands of enterprises and state material reserves. Increases in livestock holdings and the timber stand are included.
- r. Covering activities of state research institutes and research done by enterprises on state contracts.
- s. As noted in footnote v, below, the balance in 1951-53 should properly be reduced by the amount paid for secondhand Soviet weapons. For all years the balance probably is overstated by a small amount because no allowance is made for transactions on "noncommercial account."
- t. At producer prices plus indirect taxes plus transport costs to the border plus a share of the expenses of the foreign trade organizations. Uranium exports are included for 1954-60.
- u. At producer prices plus indirect taxes less transport costs from the border. An adjustment is necessary to bring agricultural import prices to the producer price level. With imports are included purchases of munitions after 1953 and the net import surplus for invisibles (on commercial account).
- v. Including deliveries financed from occupation costs, reparations payments, and repurchase of Soviet-owned corporations. For 1951-53 they also include payments for secondhand Soviet weapons and payments to equip the East German armed forces. (The "purchase" of these weapons is not entered above under imports.) For all years they also include construction for Soviet forces in East Germany, which probably was financed out of occupation costs until 1959, when those were discontinued.

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Table 13

East Germany: National Income
1951-60

	Billion Current DME									
	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Total households	29.77	33.54	36.72	40.91	42.32	43.12	46.37	50.78	54.64	57.68
Compensation of employees										
Wages and salaries	18.79	21.52	23.96	26.67	27.35	28.58	30.12	31.95	34.64	36.42
"Supplementary sick pay" ^a / _*	0.29	0.34	0.38	0.44	0.45	0.46	0.49	0.52	0.55	0.58
Bonuses and allowances ^b / _/	0.40	0.50	0.65	0.75	0.75	0.85	0.85	1.35	1.65	2.05
In kind										
Military rations ^c / _/	0.07	0.09	0.13	0.14	0.13	0.12	0.12	0.12	0.12	0.12
Subsidy to factory cafeterias	0.50	0.55	0.59	0.61	0.62	0.64	0.64	0.65	0.64	0.67
Earnings of the self-employed ^d / _/										
Cash	6.66	7.61	8.18	9.53	10.22	9.88	10.93	12.44	12.96	13.92
Agricultural incomes in kind	2.08	1.97	1.87	1.85	1.88	1.66	2.24	2.70	2.94	2.71
Household incomes from property										
Rents										
Cash	0.38	0.35	0.34	0.30	0.29	0.30	0.30	0.30	0.31	0.31
Imputed ^e / _/	0.49	0.48	0.43	0.40	0.39	0.37	0.36	0.35	0.33	0.31
Interest on savings deposits	0.06	0.07	0.10	0.13	0.14	0.16	0.21	0.30	0.37	0.46
Rebates from consumer cooperatives	0.05	0.06	0.09	0.09	0.10	0.10	0.11	0.10	0.13	0.13

* Footnotes for Table 13 follow on p. 42.

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Table 13

East Germany: National Income
 1951-60
 (Continued)

	Billion Current DME									
	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Savings of enterprises, taxes paid by enterprises, and state incomes from economic activities <u>f/</u>	<u>13.85</u>	<u>14.47</u>	<u>16.26</u>	<u>16.66</u>	<u>18.03</u>	<u>18.80</u>	<u>20.86</u>	<u>21.38</u>	<u>24.49</u>	<u>26.10</u>
Of which:										
Indirect taxes	8.28	9.77	12.23	12.65	13.34	N.A.	N.A.	N.A.	N.A.	N.A.
Discrepancy <u>g/</u>	<u>-0.14</u>	<u>0.88</u>	<u>-0.76</u>	<u>-0.78</u>	<u>0.68</u>	<u>1.35</u>	<u>-0.09</u>	<u>1.49</u>	<u>0.47</u>	<u>-0.72</u>
National income <u>h/</u>	<u>43.48</u>	<u>48.89</u>	<u>52.22</u>	<u>56.79</u>	<u>61.03</u>	<u>63.27</u>	<u>67.14</u>	<u>73.65</u>	<u>79.60</u>	<u>83.06</u>

a. Paid out of enterprise funds. For "nonproductive" enterprises (and certain others) supplementary sick pay is included in the category wages and salaries in this table. In the published wage bill they are included for all enterprises in certain years and for none in others, but the present estimates have been adjusted to a consistent basis. These payments are not to be confused with the sickness benefits paid by social insurance.

b. Excluding allowances for business trips.

c. Representing only the cost of the food itself at wholesale prices.

d. Including owners of small businesses, independent handicrafts masters, self-employed professional workers, and peasants (landowners and cooperative members but not agricultural laborers).

e. Rent of owner-occupied housing at legal rates less expenses and real estate taxes.

f. Based on analysis of the state budget. Because of great changes in tax regulations and accounting practices during the period, any attempt to break down this entry would have little value. Indirect taxes, however, are shown for the early years, before the complete changeover to a Soviet tax system.

g. In part the discrepancies are offsetting, for the underlying budget data have not been corrected for final adjustments of accounts for each year in the following year.

h. At established prices, including indirect taxes.

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Table 14

West Germany: Data on National Accounts a/
1951-60

	Billion Current DME									
	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
Gross national product	<u>118.6</u>	<u>135.6</u>	<u>145.5</u>	<u>156.4</u>	<u>178.3</u>	<u>196.4</u>	<u>213.6</u>	<u>228.5</u>	<u>247.9</u>	<u>277.7</u>
National income at market prices	106.7	122.3	132.1	142.8	163.5	179.8	195.3	208.6	227.1	254.7
Depreciation	11.9	13.3	13.4	13.6	14.8	16.6	18.3	19.9	20.8	23.0
Gross national expenditures	<u>118.6</u>	<u>135.6</u>	<u>145.5</u>	<u>156.4</u>	<u>178.3</u>	<u>196.4</u>	<u>213.6</u>	<u>228.5</u>	<u>247.9</u>	<u>277.7</u>
Private consumption	72.5	79.9	87.6	92.8	103.4	115.1	125.6	134.9	144.2	157.2
State consumption	11.3	13.3	14.7	16.0	17.7	19.9	21.9	24.5	25.9	28.3
Defense	6.1	7.5	6.3	6.0	6.0	5.5	5.4	6.1	7.7	9.5
Investment	26.4	31.5	31.4	36.3	47.0	49.3	52.0	54.1	61.6	74.3
Foreign balance	2.3	3.4	5.5	5.3	4.2	6.6	8.7	8.9	8.5	8.4
National income	<u>106.7</u>	<u>122.3</u>	<u>132.1</u>	<u>142.8</u>	<u>163.5</u>	<u>179.8</u>	<u>195.3</u>	<u>208.6</u>	<u>227.1</u>	<u>254.7</u>
Households	82.5	88.1	93.7	103.1	117.6	130.4	140.5	150.2	162.8	183.4
State	24.2	34.2	38.4	39.7	45.9	49.4	54.8	58.4	64.3	71.3

a. These selected data from official West German publications ^{20/} are included for comparison with East German data, but reference should be made to the text for remarks on differences in definition.

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