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EAST GERMAN ECONOMIC PLAN FOR 1963



CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

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EAST GERMAN ECONOMIC PLAN FOR 1963

The East German economic plan for 1963, recently announced at the 25th Session of the Peoples Chamber, reflects the continued restraining influence of Soviet advisers and East German experts. Industry is to grow at about the same moderate rate as in 1962, and agriculture is to benefit from a hands-off policy in the case of private plots and private livestock. The "hard" line on wages and consumption established after the Berlin wall was put up will remain in effect in 1963. Only in foreign trade, where the plan calls for a 15-percent increase in exports with no increase in imports, do the goals appear outside the capabilities of the economy.

Policy Background

East German policies on economic growth for 1963 are much the same as in 1961-62. In the last 2 years the East German leadership, under pressure from the USSR, has adopted conservative goals for industry, which have for the most part been met. As a result of the disastrous harvest in 1961, the regime has postponed further socialization in agriculture. Early in 1962 the regime quietly dropped the inflated Seven Year Plan (1959-65), under which East Germany was to "overtake and surpass" West Germany in output per worker, and shifted its sights from 1965 to 1970. Apparently, 1963 will be a year of transition to a new Seven Year Plan for 1964-70, now in preparation. For this period, higher rates of growth are projected than those of 1961-63, as well as a moderate increase in consumption, which rose little in 1961 and actually has declined in 1962.

The 1963 plan obviously assumes that there will be no crisis over Berlin. The change since 1961, when preparations for a Berlin crisis had top priority, has been marked by renewed emphasis on long-term growth and increased interest in expanding trade with the Free World, especially West Germany. Little has been said lately about reducing East German vulnerability to a Western trade embargo. On the contrary, the East Germans have been seeking West German credits. Finally the 1963 plan

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indicates that East Germany no longer can trade on the Berlin crisis to obtain economic concessions in the Soviet Bloc. Instead, the USSR apparently has become insistent on the fulfillment of East German commitments to the other European Satellites and East German obligations under Bloc programs for economic aid to underdeveloped countries.

Reasonable Aims in Industry

The continuation of the current East German policy for industry is reflected in the over-all rate of growth for 1963, the rates for specific branches, and the planned relationship between the growth of labor productivity and wages. The goal for industry is reasonable. In 1963, output is to increase by 6.4 percent compared with an increase of 6 percent expected for this year. (When computed for comparability with Western data, the 1962 rate of growth for industry, including handicrafts, will be not more than 5 percent.) Special emphasis again will be given to boosting production in chemicals (by 8 percent) and machine building (by 10 to 11 percent), the chief export industries. Emphasis also will be put on quality and assortment, which must be improved if there are not to be further increases in unsold stocks, particularly of machinery and equipment. The more profitable plants in chemicals and machine building will have priority over the less profitable ones and over light industry and food processing in general in the allocation of investment and manpower. Shifting workers to the so-called "leading" branches of industry probably will become more frequent, especially in view of the continued annual decline of about 1 percent in industrial employment.

The leadership again is counting on a sizable increase in labor productivity accompanied by only a slight increase in wages. During the first 9 months of 1962, productivity in state industry reportedly increased by about 9 percent, while wages rose by only 1 percent. The regime apparently has had some success in convincing the workers that wage and norm revisions are unavoidable, and in 1963 it intends to carry out the reform of work norms and wage rates systematically throughout the economy.

For the third year running, the East Germans will be centering their investment plans on major industrial projects and cutting back in other

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areas. There probably has been little or no increase in investments this year, but the regime apparently expects better results in 1963, when some of its projects probably will be completed. A lag in construction, not the availability of equipment, seems to be the main obstacle to completing investment projects, and new starts in housing and public works are being reduced in favor of industry. New housing is to be concentrated in key industrial areas.

Better Prospects for Meat and Dairy Products

In view of the better harvest in East Germany this year, the regime hopes the agricultural picture will be somewhat improved in 1963. Output of meat and dairy products has dropped substantially in 1962, mainly as a result of the extremely bad harvest in 1961. With more fodder available from the 1962 harvest, the regime should be able to carry more livestock through the winter on the assumption that the hoof and mouth disease, currently a problem in East Germany, is kept under control. The regime thus hopes to increase meat production, at least in the second half of 1963. In order to encourage increased production, the regime is going to continue the policy begun in mid-1962 of keeping hands off the private plots and livestock of the collective farmers. Agriculture also is to receive increased allocations of machinery and fertilizers.

In accord with the agricultural plans, there is to be some increase in the per capita consumption of meat and dairy products, but not up to the 1960-61 level. Although the East Germans plan to import more meat in 1963, they have stated that the additional imports are necessary to maintain supplies in the first half of the year. Import restrictions, however, will affect the supply of other quality foods. Indeed, the Peoples Chamber resolution on the plan states that there will be no increase in 1963 in the supply of commodities such as tropical fruits, cocoa, and coffee, which are imported from Free World countries. Informal rationing of meat and butter is to continue, but the leadership does promise that greater efforts will be made to insure an equitable distribution of what is available.

Few Promises to Consumers

The improvements promised the East German consumer in 1963 are quite small, not only in the supply of quality foods but also in the supply

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of nonfood consumer goods and of services. Moreover, the improvements may be illusory. The 2-percent increase planned in retail sales probably will be more than offset by price increases, which the regime is using along with wage controls to cut back excess purchasing power. A visible improvement in living conditions, sufficient to affect the attitudes of the population, is not likely to occur until after 1965.

Meanwhile it is at least as important for the regime to improve the distribution and the assortment of goods as the total supply. Perishable goods often go to waste because of inefficient marketing, and inventories of unsalable industrial goods, especially shoes and clothing, have been accumulating. The regime has been attacking both producers and the trade network for these failures, which are much resented by the population. But qualitative improvements in either goods or services cannot be made quickly -- especially services such as repair services that are provided by the private sector, whose position is continually being undermined by the regime.

Ambitious Foreign Trade Program

In foreign trade the East Germans announced the ambitious goal of raising exports by 15 percent in 1963 while holding imports at about the level of 1962. In order to fulfill the foreign trade program, a large part of the increase in industrial production as well as some of the large existing inventories of manufactured goods will have to be exported. The hope of holding down imports presumably is based in part on the existence of unusually high inventories of semimanufactures. This hope depends even more, however, on the reduction of waste and on a shift toward production of commodities with lower inputs of materials. It apparently also assumes cuts in imports of consumer goods (except foods) and a pause in imports of investment goods.

These extremely ambitious plans for increasing exports and holding down imports probably have been adopted at Soviet insistence that East Germany fulfill its obligations under Bloc trade and aid programs. Contrary to long-term plans adopted in 1959, there has been a noticeable slowing down during recent years in East Germany's extensions of new credits both to the other Satellites and to the underdeveloped countries. East

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Germany has fallen far behind the other industrialized Satellites in carrying out its commitments under the Bloc program for aid to the underdeveloped countries. Moreover, the other Satellites also have criticized lags in East German deliveries vital to their investment programs, and it is not unlikely that East Germany has been required to make up these lags in 1963.

Nothing is known directly about current Soviet - East German discussions on foreign trade policy, but the above interpretation is implied by the plan. On the one hand, East Germany is to run a considerable export surplus in 1963, even after allowing for the usual unfavorable balance on invisibles (such as transport and insurance). On the other hand, the USSR once again is extending a substantial credit to East Germany. This credit will run at about \$130 million for 1963, or close to the average annual credit for 1962-65 implied in the commitment of \$475 million mentioned by the East Germans in May 1961. The announcement of this credit by the East Germans on 28 November does not specify whether it includes any Western currency, but most of it (as in 1961-62) probably is intended to finance an East German import surplus from the USSR. If this presumption is correct, then East Germany expects to run a large export surplus with the rest of the world. It may be assumed that none of this surplus will result from trade with West Germany, which is still the main trading partner of East Germany in the Free World. Indeed, East Germany hopes to obtain substantial credits from West Germany in 1963, though not on the scale originally requested last February. Some small export surpluses may be planned for trade with Western European countries to liquidate any debts outstanding and to build up foreign exchange reserves. But most of the apparent export surplus planned for 1963 must be intended for the Satellites and the underdeveloped countries, for the reasons suggested above.

Evaluation

The foreign trade program is the most doubtful part of the 1963 plan. It obviously will be difficult to increase exports by 15 percent -- something East Germany has not done for many years. Moreover, it is rather unlikely that the East Germans can increase industrial production and maintain food consumption while holding imports at the level of 1962. It

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is more likely that imports will rise, especially if East Germany obtains some credits from West Germany. (On 16 December the East Germans announced the signing of an interzonal trade agreement for 1963 without giving any details. Substantial West German credits are involved, according to a press dispatch. US missions in Bonn and Berlin, however, do not confirm these reports.)

On the assumption that some increase in imports will be possible, the goals for industry are within reach. Part of the increase achieved in 1962 was obtained by correcting lags in work norms that had existed for several years, and there probably will be a decline in 1963 in gains from this source. Output also was increased in 1962 by working more days than in 1961, and these gains will not be repeated in 1963. On the other hand, in 1963 the payoff may increase on large investment projects finally being completed in the chemical and steel industries. The shifting of labor to more profitable enterprises, accelerated in 1962, also should show results. Continued efforts to hold down wages and consumption, though extremely unpopular, are not inconsistent with a further increase in labor productivity.

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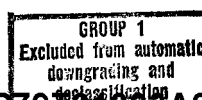
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