

Current Support Brief

EAST GERMAN ECONOMIC PLANS
SHOW INCREASED CAUTION AND REALISM



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During 1963 the East German leadership has become still more cautious about the short-term prospects of the economy. From recent announcements of East German economic goals for 1964, it would appear that the regime has lowered both its expectations for 1963 and the preliminary goals for 1964. The change represents a shift from a "hard" to a "soft" plan and is explained by a shift in policy from insistence on maximum increases in output to greater emphasis on quality and assortment and on profitability. An increase of only 3 percent in national income is expected for 1963, and the planned increase in 1964 is less than 4 percent.* The rate of increase planned for 1964 actually appears lower than that expected in 1963 if the first quarter of both years is excluded, thus eliminating from the comparison the effect of the losses resulting from the exceptionally cold weather of early 1963.

1. Introduction

The announcement of the 1964 economic plan for East Germany came early, in the first week of October, suggesting that the leadership found it easy to agree on next year's goals. In the past, under exceptionally difficult circumstances, the decision on the economic plan was put off until late in the first quarter of the plan year, as, for example, in 1961 and 1962. The timing of the 1963 plan, which was announced last December, was more or less normal, indicating that there was no serious disagreement or uncertainty. The announcement of the 1964 plan is remarkably early -- in fact, it is the earliest such announcement in the 14-year history of the regime. The announcement probably was timed to precede the "elections" to the East German national assembly later in October. But the early timing also is in keeping with the "soft" character of the plan itself. A "soft" plan does not involve the usual prolonged haggling over the feasibility of economic goals.

* For 1961-62 the increase averaged less than 3 percent; for the years immediately preceding 1961 the increase averaged roughly 5 percent. These and other data in this publication are official East German figures or are estimates comparable in coverage -- that is, these figures in some cases are not comparable in coverage with Western statistics.

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The change in view is suggested by the following remarks on the plan made by Erich Apel, the head of the State Planning Commission:

What matters is not a tenth of a percent more or less in the rate of growth of gross industrial production, but the qualitatively new tasks set by the plan to be solved by strict management in connection with the purposeful application of the system of economic levers.

And again:

Not production at any price but the more rapid development of production in the leading branches of the economy, production corresponding to requirements, with the highest quality, with the lowest costs, with the highest technical level, to the greatest economic effect -- that is the task for the year 1964.

2. Growth of Output

Most of the increases in output planned for 1964 are lower even than those in the "realistic" plans made for the years 1961-63. What is more, these increases are based on "plan" figures for 1963 that are significantly lower than those in the original 1963 plan. The original plan for 1963 was revised downward last spring to take account of the losses caused by the severe winter of 1962-63, but the "plan" figures given as a base for the 1964 plan are even lower. They apparently represent estimates of the probable results for 1963.

a. Industrial Production

The regime apparently has settled, at least temporarily, for an annual rate of industrial growth of about 5 percent compared with a rate of nearly 7 percent in the preliminary goals of the new Seven Year Plan (1964-70) that was announced in January 1963 and with a rate of almost 9.5 percent in the abandoned old Seven Year Plan (1959-65). The expected growth in 1963 is 4.4 percent and that planned for 1964

is 5.7 percent, but the difference reflects mainly the low level of output in the first quarter of 1963. As a result of the cold winter, many branches had to cut back production, and there was only a negligible increase over the first quarter of 1962. The following official figures show the annual increase, in percent, for gross industrial production in East Germany:

<u>1961 Actual</u>	<u>1962 Actual</u>	<u>1963 Original Plan</u>	<u>1963 Expected</u>	<u>1964 Plan</u>	New Seven Year Plan (1964-70) Annual Average (Preliminary)
5.9	6.1	6.4	4.4	5.7	6.9

The growth in industrial production planned for 1964 is in line with or lower than recent achievements, both over-all and in the major branches of industry, as is shown below (annual increase, in percent):

	<u>1961 Actual</u>	<u>1962 Actual</u>	<u>1963 Original Plan</u>	<u>1964 Plan*</u>	New Seven Year Plan (1964-70) Annual Average (Preliminary)
Metallurgy	5.4	3.7	4.2	4.2	5.6
Chemicals	7.9	7.7	8.0	7.5	9.0
Metalworking	7.0	9.3	10.0	8.0	9.4
Light industry	4.9	5.1	2.0	2.5	3.0
Food processing	3.9	0	3.9	3	2.4

As also suggested by these figures, the recent changes in planning have not involved any abrupt shifts in priorities. The export industries -- chemicals and metalworking -- continue to have a high priority. Exports

* The 1964 plan is calculated on the basis of expected production in 1963, which is not available industry by industry but which in most cases would be below the original 1963 plan. The figure for food processing is an estimate.

of chemicals have been rising more rapidly than output for several years, and the same now holds true for machinery and equipment. As a result, product mix is changing rapidly. In production of consumer goods, there is continued emphasis on raising the output of consumer durables; otherwise, the main emphasis is on improving quality and assortment. In production of consumer goods, particularly, the over-all production goals are of secondary importance.

b. Construction

The planned increase in construction in 1964 is 4.7 percent. Because of the extremely low level of output in the cold first quarter of 1963 -- only 65 percent of plan -- output of construction for 1963 as a whole probably is expected to fall below the level of 1962. Consequently, the goal for output in 1964 is little if any above output in 1962.*

c. Agriculture

In agriculture as well the East Germans are planning cautiously. The year 1962 was a very poor one in agriculture, especially in output of meat and dairy products. In planning for 1963 the regime accepted the fact that the livestock sector could not make a quick recovery. Data on output during the first three quarters of the year suggest a modest increase in 1963, but total output for the year will still be below the levels in the best postwar years. It is thus noteworthy that little further increase is expected in 1964 -- only 1 percent in the value of gross agricultural production. The increases planned in state procurement of meat and dairy products range from 2 to 3 percent. No plan data are given for crop production or yields, but the increases must be quite small.

3. End Uses

a. Exports

In the allocation of output, exports still have a high priority, as mentioned above. The foreign trade program for 1963 apparently is

* This is a rough estimate. The announced goal for construction in 1964 and the 1963 base figure are not comparable with published data for 1962.

continuing to go fairly well. Exports, which were to increase by 15.4 percent for the year, were up 15 percent in the first three quarters, and the prospective figure for the whole year shows an increase of 11 percent. Imports in 1963 apparently will be held at about the level of 1962, as planned -- or so the prospective figure for 1963 indicates. As a result, East Germany probably will have a small favorable trade balance for the first time in several years. A slightly larger export surplus is indicated for 1964, as exports are to increase by 8.8 percent and imports by 7.7 percent. The result, according to the regime, is that East Germany will be able to repay some 400 million valuta DME (or US \$95 million) of its funded debt to the USSR.

b. Consumption

Some improvements in living conditions are to be expected in 1964. The planned increase in the total supply of consumer goods amounts to almost 3 percent; that in the supply of consumer services, by about 6 percent. Personal income is to show an increase of 4.5 percent, of which part doubtless is expected to go into savings. In more concrete terms, large increases are to be made in supplies of tropical fruits (21 percent) and coffee (12 percent) and considerable increases in supplies of fresh vegetables, fish, processed foods, and necessary luxuries such as wine and brandy and tobacco products. There also will be a small increase (2 percent) in the supply of meat and dairy products. The biggest increases of all are promised in supplies of some consumer durables in great demand, including passenger cars (38 percent), motorcycles (44 percent), and refrigerators (32 percent).

Even though the over-all increase in personal consumption will not be large, there should be a noticeable easing of consumer dissatisfaction. The gap between consumer incomes and available goods has been greatly reduced over the last 2 years by means of creeping price increases and stiff wage controls. The process is painful, but the end result is welcome: shopping is less disheartening and much easier. Consumer goods industries and trade organizations, moreover, are being encouraged to show more flexibility in scheduling production and in setting retail prices. Some signs of improvement in availability in retail shops in fact have been shown in 1963, although it is still too early to judge whether the improvement is general -- and permanent.

c. Investment

In the field of investment the regime has for some time recognized that the most urgent need is to complete major industrial projects already under way. Among the most important of these are the oil refineries at Schwedt and Luetzkendorf, the second major chemical works at Leuna, and the synthetic fiber plant at Guben. Only slightly less urgent is the repair and replacement of old facilities, to which a substantially increased share of funds will be devoted in 1964. The total value of fixed capital investment plus capital repairs is to rise in 1964 by less than 4 percent over the 1963 base figure, which probably is little if any above the comparable 1962 figure. Most of the increases will be divided between industry and agriculture. There will be little or no rise in investment in other sectors, including housing.

4. Attitude of Leadership

East German leaders obviously take a sober view of East German economic prospects in the near future, yet they seem to have become somewhat less discouraged over the prospects -- even while cutting back the plans. This attitude seems to come mainly from the feeling that they have at least got their feet on the ground. After several years of trying to operate within the framework of obviously unsound economic policies and illusory expectations, they have during the last 2 years reached a somewhat less frustrating position. There remains distrust between the Party and the state apparatus, but there is a considerable area of agreement on what needs to be done.

The first phase in the change in policy and attitude after the erection of the Berlin wall was the abandonment of the old Seven Year Plan (1959-65) early in 1962. By the end of 1962, Walter Ulbricht was ready to admit that the plan had not been well founded technically and had been imposed dogmatically from above. Even now, economic experimentation is to be confined within rather narrow limits, and many senior economic functionaries are cynical about the new program for reform of management, prices, and incentives, which Ulbricht has named grandiosely a "new economic system of planning and management."

The immediate question is how well the Party will adapt to the new policies. Party organizations at all levels have been involved in running

the economy to a far greater extent than in any of the other Satellites. The Party can largely nullify the program for more efficient management simply by continuing to throw its weight around as it has in the past few years. Even if the Party succeeds in curbing its own activities, East German planners and management will do well to make any visible progress in improving the efficiency of the East Germany economy in 1964.

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