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**DIRECTORATE OF
INTELLIGENCE**

WEEKLY SUMMARY

Special Report

East Germany Agonizes Over Economic Policy

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EAST GERMANY AGONIZES OVER ECONOMIC POLICY

The East German economic plan for 1971-75 has been delayed while an apparently divided party hierarchy wrestles with serious economic problems. The regime has had to deal with shortages of electric power and consumer goods, large backlogs in industrial deliveries, a rise in unfinished investment, and a substantial foreign trade deficit. At the same time, it has faced a basic policy choice of whether to go on trying to develop a "show window" Communist economy which attempts to give every appearance of successfully competing with West Germany, or to accept its current place as a more prosperous version of other East European economies. In mid-March, Foreign Trade Minister Soelle said that "far reaching and weighty decisions" about the five-year plan are to be made in the next few weeks.

Lessons of Past Years

From 1967 on, and especially in 1970, Pan-kow went to great lengths to make a few branches of East Germany's industry competitive on the world market. The leaders had learned from the failure of the 1959-65 plan not to try to remake the whole economy in a few years. Consequently they agreed to a less ambitious program encompassing the development of selected "structure-determining" branches, particularly the electronics and petrochemicals industries.

Party chief Walter Ulbricht urged the planners on, however, and the East Germans again overreached themselves. Because he insisted on quick results, the planners projected increases in efficiency that were improbable, and neglected too many other aspects of the economy. They made little allowance for the costs of the long, cold, snowy winters of 1968-69 and 1969-70, and of two unfavorable growing seasons—the first marked by severe drought, the second by extremes of dry and wet weather. By mid-1970, the foreign trade deficit and domestic shortages had become serious, and the backlog of unfinished investment projects was growing rapidly.

Moreover, Ulbricht learned in August 1970 when trade agreements were being negotiated that

Soviet support over the next five years would be less than he had counted on, both as regards deliveries of materials from the USSR and orders for products from "structure-determining" industries. The leadership was left with little time to decide how to reshape plans for 1971 and the 1971-75 period.

Facing Up to Its Problems

East Germany had encountered a similar problem in 1962. Three years of forcing the economy had created more and more bottlenecks in production and investment. The seven-year plan was dropped, but there was scarcely a public reference to the decision to do so or how it was reached. Now, however, the regime is more open about the country's economic difficulties. The Central Committee plenum held last December revealed that a major review of economic policy had been under way for several months. Several official speeches outlined the problems, stressing that major investment projects would have to be put off, and that new priorities had been set, especially for export commitments. These changes marked a sudden shift from the party's approach in the first half of 1970 when the leadership repeatedly asserted that fulfillment of the ambitious plan for 1970 was essential.

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THE OLD LINE AND THE NEW



**Party Chief Walter Ulbricht
December, 1969**

"The planning and management activities of the central state organs will extend on a priority basis to...big and important projects. For them, the entire resources of the state...will be mobilized...."



**Premier Willi Stoph
December, 1970**

"If...we concentrate to such an extent that the projects cannot be balanced, that leads to disproportions and to a slowing down of development, and ultimately upsets the carrying out of an efficient structural policy...."

By publicizing the policy reappraisal, and tacitly admitting differences of opinion among policy makers, the regime hoped to strengthen confidence among local party workers, enterprise management, and the population at large. The leadership wanted party and state officials to know that it recognized the seriousness of the

economic situation and that it would take appropriate steps. Advertising the change in policy may also have been intended to reassure the Soviet leadership that East Germany was concerned about its economic problems and that measures were being taken to solve them. The party leaders probably would have moved sooner

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if they had been able to persuade Ulbricht of the need for action; he evidently gave only grudging and belated consent.

In line with the new approach, Premier Willi Stoph has called for a lowering of the goals for national income and industrial productivity this year. More realistic plans may be in the offing for at least the beginning of the new five-year period. In particular, the party will put a greater emphasis on the consumer sector—a policy no doubt reinforced by the Polish riots of mid-December.

At the December plenum, the party approved measures to pay bonuses to those plants and workers that had not been able to fulfill their 1970 plans because of shortages and bad weather, and to give wage increases to workers in the lower income brackets. The party also pointed up the amounts that had been spent for imports to maintain food supplies. Consumer dissatisfaction, however, remains strong because of high prices, uneven quality, limited assortment, and outright shortages of many foodstuffs and consumer goods. The grain crop last year was the smallest since 1966, and imports of food from capitalist countries will be necessary to keep food consumption at current levels.

Trade Imbalances

Perhaps the most compelling force for policy change is the problem of foreign trade. The trade deficit has become severe, particularly with the West, and backlogs in East German export deliveries recently have become more noticeable. A planned increase in imports in 1970, reported in December to be over 20 percent, was found to be inadequate to meet demands. Plans for additional imports were belatedly drawn up, and more exports were demanded to offset these imports. Despite the call for extraordinary efforts on the part of producers, deliveries failed to reach planned levels. To cover up the seriousness of the trade imbalance, the regime apparently has switched some 1970 imports to the 1971 accounts.

The deficit with West Germany is of particular concern to the leadership. It handicaps foreign policy by putting the East Germans at a disadvantage, not only in dealing directly with West Germany but also in trying to dissuade the other East European countries from relying too heavily on West German credit. Some improvement occurred in 1970, partly as a result of Bonn's tax rate revisions that slowed West German deliveries but encouraged imports from East Germany. Nevertheless, East Germany's debt to West Germany is about \$500 million, and its debts to all Western creditors total approximately \$800 million. Moreover, East Germany's international credit worthiness has suffered as a result of delays in repaying supplier credits.

The East Germans also are in arrears in deliveries to the USSR—by far their most important trading partner. Exports to the USSR undoubtedly fell short of those planned for 1970. One causative factor may have been a call to switch scheduled exports, wherever possible, from the USSR and Eastern Europe to West Germany. The USSR apparently agreed to allow the East Germans to run a substantial import surplus, but this surplus doubtless caused some embarrassment during trade negotiations with the USSR for 1971 and 1971-75. Top East German officials now are personally involved in an intensive propaganda campaign plugging the effort to fulfill export commitments to the USSR.

Just Another Communist Economy?

East Germany's trade problems—at least in the next five years—are likely to continue to undermine Ulbricht's efforts to catch up with Western technology and efficiency. From limited data, it appears that trade with the West is to decline as a share of East German trade, after having increased rapidly in the last two years. A projected leveling off of imports from West Germany probably will be the main factor. The composition of imports from the West is likely to shift increasingly to food, raw materials, and semimanufactures, and away from machinery.

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The 1971-75 trade agreement with the USSR calls for a rapid rise in deliveries of Soviet machinery, indicating that East Germany will become more integrated in the Communist world so far as engineering is concerned. That agreement also projects a continued slow shift away from deliveries of East German machinery and consumer goods to shipments of chemicals and semi-manufactures. Machinery still will be exported, but the East Germans will have to struggle to obtain an increased share of the CEMA market for new machinery products, especially electronics equipment. East German export production, which dominates the economy, nevertheless will continue to be oriented chiefly to heavy machinery and chemicals, as it has been throughout the postwar period. In short, the East German economy, barring some shift in policy toward closer relations with the West, is likely to resemble increasingly the other East European economies.

Decision Making

Ulbricht's piecemeal approach to making the economy more competitive was highly imprudent, something the economic elite probably understood from the beginning. Now, domestic party views are being taken more into account. The new policy is being decided by a consensus of party and state officials, under party leadership. Moreover, the failure of Ulbricht's campaign to catch up has forced Pankow to turn to the Soviets for support and presumably to allow the USSR a correspondingly greater influence in East German economic affairs. Although Ulbricht remains the leading spokesman on economic policy, his ability to determine that policy appears to be more restricted than it has been since the mid 1950s.

Ulbricht's grudging acceptance of less ambitious economic goals could mean that he will not try to overrule the Politburo and will concentrate on political concerns, which have always been uppermost in his mind. Ulbricht is 77 years old, and his speech in December suggests that, at his age, he is not disposed to learn new tricks. He is



Shoppers lined up in East German market

clearly less impressed with the importance of the politics of rising economic expectations, as reflected by the riots of relatively well-to-do workers in Poland, than are some of his colleagues, who have borne the brunt of popular disaffection over the economy's ineffectiveness this winter. The East German people, particularly industrial workers, refuse to accept that, after 25 years, one still has to suffer shortages of electricity, heat, and food every winter. Their complaints have hit responsive chords among segments of the party bureaucracy, who are hopeful that new measures for improving living standards will be unveiled at the eighth party congress scheduled to open on 14 June.

Ulbricht over the past few years has noticeably reduced his participation in the day-to-day management of the party and government, leaving this in the hands of politburo member Erich Honecker and Premier Willi Stoph. It is most likely that Ulbricht will continue to avoid the routine daily problems, and perhaps will turn over additional responsibilities to his lieutenants. Because of Ostpolitik, however, it does not seem likely that he will voluntarily pass up participation in the making of policy decisions, particularly with respect to the East-West talks. This is something he has worked hard for in recent years, and he is not likely to entrust it to others at this crucial juncture. These talks constitute not only

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an additional pressure on his policies but they argue against his retirement—despite age and economic problems—in the foreseeable future. The talks have put his regime somewhat on the defensive, a position that Ulbricht almost certainly believes presents more reason than ever for him to protect East Germany's claims and interests.

Ulbricht is doubtless aware of the rivalry for his mantle between Honecker and Stoph, as well as the growing tendency of party economic functionaries to gather political power in anticipation of an eventual struggle over the succession. Ulbricht probably prefers to mediate the incipient factionalism rather than upset party stability during this important time of international negotiations on the fate of Germany. Meanwhile, Ulbricht will remain unchallenged as party chief even though his economic policy has again presented his regime with difficulties.

Outlook

The order of the day in East German economic policy is likely to be one of restraint, but it is hard to say for how long. In at least a couple of years, East Germany will again have to face the problem that Ulbricht has had to deal with: the backwardness of the East German economy compared to that of West Germany, and its waning technological superiority in Eastern Europe.

The backwardness of East Germany will continue to pose a dilemma to the leadership. It would be costly to East German political ambi-

tions to accept status as simply another, albeit relatively prosperous, East European country. At the same time, it is costly to try to change that status, as Ulbricht did, to make East Germany the "show window" of Communism and the model for the future of Germany.

The choice between those two alternatives plays a major role in both the domestic and foreign policy of East Germany. To accept the current status means adoption of a more accommodating policy toward the population, while the attempt to become a "show-window" Communist economy would demand a highly authoritarian regime at home, a "special relationship" with the USSR, and high tension in relations with West Germany. The economic facts of life evidently favor the modest policy.

It can be anticipated that after a year or two of pursuing a policy of balanced and restrained economic growth, the East German leadership may well revert to its time-honored habit of pushing growth at rates well beyond the bounds of rationality. The regime will never find it acceptable to watch the economy merely inch along, and the leaders probably will be enticed into believing once again that they can force the economy to grow faster and to "make it all up" in the final portion of the plan period. The inevitable result will be a revival of the same type of problems that have plagued the East German economy since the 1950s, and the continuation of a vicious cycle that will not be easily broken if past history can be taken as an indicator of future actions.

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