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ECONOMIC DEVELOPMENTS IN THE "GERMAN DEMOCRATIC REPUBLIC"(1)

1968-1969

Report by the Economic Committee

SUMMARY AND CONCLUSIONS

Introduction

1. Notwithstanding the partition of Germany which left the "GDR" with an unbalanced economy, cut off from its vital links with the Western part of the country, subsequently weakened by the exodus of an important part of its active population, the "GDR" has succeeded in building up industrial power which, despite the modest size of the country, enables it to play, after the Soviet Union, a pre-eminent rôle within COMECON. With a population that accounts for less than 17% of the East European countries (USSR excluded) the "GDR" has a national product nearly a quarter of all these countries put together. It is technologically the most advanced Communist country in both industry and agriculture(2). The standard of living of its population is higher than anywhere else in the Communist world. However, for all its achievements the economy of the "GDR" still lags far behind the Federal Republic of Germany.

2. The "GDR" is faced with a series of problems. The most serious results from the demographic trend which will saddle the country with a shortage of labour during the next five years. Consequently economic expansion must be based on greater labour productivity. This is to be achieved not only through increased investment but also by improving the industrial structure (regrouping of enterprises in larger units, development of the technically most advanced industries, greater emphasis on research and development) and by increasing the professional skill of the workers. The rigidity of the planning system and in particular the lack of price flexibility could hamper a more efficient allocation of resources. In order

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- (1) It is to be noted that the present report does not consider the economic aspects of the particular problem of Berlin. The Economic Committee intends to examine further this question and to prepare, if need be, a separate report on these aspects.
- (2) Excluding military and space activities where the Soviet Union is obviously in the lead.

to maintain its lead within COMECON and act as the major economic partner of the Soviet Union, it would be logical for the "GDR" to seek to improve its access to Western technology by increasing imports, but close economic ties with the USSR and the political pre-occupations of its leaders could inhibit efforts in that direction.

3. Other difficulties could be occasioned by a shortage of energy, slow rate of construction and a rather antiquated transport system. The economy still remains vulnerable to fluctuations in agricultural output due to weather conditions; this was demonstrated by the poor harvest in 1969 and by the effects of the severe winter of 1969/70.

Recent performance

4. After some stagnation in the early sixties (1961-63) there has been steady though moderate economic expansion since 1964. According to Western estimates the Gross National Product has been growing at about 3% per year over the last five years which has allowed an increased share of production to be devoted to investments and a gradual improvement in consumption. Agriculture, which in the "GDR" is technically more advanced than in any other Communist country, achieved record results in 1968 but was severely hit by bad weather in 1969 when output dropped back almost to its 1966 level. Industry as a whole roughly fulfilled its targets but performance in some key sectors such as electricity production and building remained below expectations. Labour productivity in industry in the "GDR" which, before the war, was comparable with that in the Western part of the country, is at present estimated at about two-thirds of that of the Federal Republic. The bureaucratization of industry and the forced economic growth led to distortions, waste and inefficiency. In industry raw materials are wastefully used and much of the equipment is obsolescent. The piling up of unsold stocks and the hoarding of scarce goods by the producers points to deficiencies in the planning mechanism. The lack of dynamism in applying science and technology to production is indicative of the wrong use of incentives.

Economic reforms

5. The "GDR", faced with economic stagnation, was the first among the Communist countries to introduce economic reforms. Since 1963 attempts have been made to improve the efficiency of the system. By various price reforms (1964, 1965 and 1967), improvement in planning techniques (1968), reorganization of the banking system (1968) and the foreign trade sector (1965 and 1970), the "GDR" leaders have sought to combine greater efficiency and strict control, stubbornly refusing any experiment with free market mechanisms, as for instance in Yugoslavia or Hungary. Nevertheless, the planners have been making increasing use of monetary means of controlling

the economy instead of prescribing targets simply in physical terms. More sophisticated planning methods requiring more elaborate data processing equipment and an improved flow of information and instructions are envisaged. The system so far lacks flexibility and, as monetary considerations now enter the picture, the price problems are presenting a major challenge to the planners.

Standard of living

6. In view of the renewed emphasis on the need for investment, the standard of living of the population has been improving less rapidly than the growth of national income might suggest. In the early months of 1970 the effects of the bad harvest and the hard winter have been felt by the population. In terms of consumption per person the East Germans are well ahead of the other Communist countries (USSR included) but still behind the West. Thus in 1967 there were 48 private cars per 1,000 inhabitants in the "GDR" as against only 5 in the Soviet Union, but 230 in France. The "GDR" economy can satisfy all the basic needs of the consumer (food, clothing, housing, education, health) with the occasional shortages such as occurred early this year but there has been increasing irritation as regards poor quality and lack of variety. The steady rise of private savings deposits is indicative of this lack of balance between demand and supply. The poor housing facilities and the lack of personal services are among the most striking causes of consumer dissatisfaction.

Economic relations with the outside world

7. As far as agriculture is concerned, self-sufficiency in domestic food requirements seems to be within reach in a not too distant future, but, since the area is rather poorly endowed with natural resources for industry, it has to rely largely on imports of raw and semi-finished materials while exporting finished products. The internal market (17 million inhabitants) is rather limited and there is not much scope for large-scale production. The "GDR" leaders since the mid-fifties have sought to use their country as a workshop producing capital goods for the USSR and other COMECON countries (including some specialities such as precision machinery, optical instruments and electro-technical products). Foreign trade has been growing more rapidly than the national product and at present probably accounts for a greater share of the GNP than in the Federal Republic. This growing dependence on foreign trade corresponds in fact to a growing dependence on the Soviet Union which absorbs nearly half of the external trade. The other East European countries account for about a quarter and the rest of the Communist world (Cuba, China) 2%. This leaves less than one-fifth for exchanges with the industrialized West, within which the Federal Republic plays a leading rôle (about 10%), and a modest fraction (4 to 5%) for aid and trade with the developing areas of the non-Communist world.

8. This politically motivated orientation of trade helps to explain why the "GDR" is particularly eager to maintain its predominant position within COMECON which it regards as a protected market for its products thus avoiding as far as possible the open demonstration of the relative lack of competitiveness of its industrial output in comparison to similar Western goods and equipment. Well aware of the widening technological gap between their industrial production and that of the Western world, the "GDR" leaders have a keen interest in intra-zonal trade through which they hope to retain some sort of privileged access to Western technology, while seeking simultaneously to dissuade, if possible with Soviet help, the other COMECON countries from expanding seriously their own purchases of Western technology. Hence their insistence on the need to build up a "socialist world market" insulated from outside influences which, for different reasons, happens to suit the Soviet leaders.

Prospects and Conclusions

9. The economic future of the "GDR" is at present somewhat blurred by the short-term difficulties resulting from the poor performance of agriculture last year and the consequences of the severe 1969/70 winter. Therefore, the 1970 plan targets might not be fully achieved. This accidental fall-back should not interfere with the economic expansion which will probably be resumed at a steady though rather modest rate during the next five-year plan period (1971-75). This would provide the basis for a reasonable improvement of the lot of the consumer, allowing simultaneously continued efforts at automation and technical progress in industry. Much will depend, however, on the main choices made by the Soviet Union in her next five-year plan as industrial output in the "GDR" is closely linked to the requirements and general orientation of the USSR's economy.

10. According to what is known so far of the next five-year plan, the "GDR" foreign trade is expected to double by 1975 but trade with Communist countries is to increase even faster. The "GDR" is caught between on the one hand its wish to avoid economic dependence on West German deliveries and, on the other hand, the need to rely on them to maintain its position within the Communist world. If the "GDR" wishes to receive a constant and ever-increasing flow of sophisticated goods and equipment from the West, it will have to improve the quality and variety of goods that may be of interest to the supplying countries.

11. The "GDR" continues to have a direct interest in fostering its economic relations with Western countries and in particular with the Federal Republic as a large part of its technological advance will depend on imports from that part of the world. In 1969 the "GDR's" purchases in the Federal Republic rose by 56% over 1968 and reached an all-time record of \$560 million. The level of trade between the other NATO countries and the "GDR" has remained practically unchanged since 1966.

12. As far as NATO countries are concerned they have in the past acknowledged the special importance attached to trade with the "GDR". It was felt that an expansion of trade with the Zone, achieved at the expense of intra-German trade, would have weakened one of the last ties linking the two parts of Germany and reduced the effectiveness of one of the instruments to protect free access to Berlin(1).

13. In the present changing circumstances the members of the Alliance continue to recognise the special importance attached by the Federal Republic to trade with the "GDR" as one of the most practical means of improving relations between the two parts of Germany.

(1) See C-M(67)45

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ECONOMIC PROFILE OF THE "GDR"

(All figures from official "GDR" sources)

I. AREA AND POPULATION

1. Area (sq. Km.) 108,174

| 2. Population (in thousand) / mid-year estimates | | 3. Main Cities (more than 150,000 inhabitants) (end 1968) | | 4. Population by Sex (end 1968) | | 5. Density of Population | | 6. Net decrease in population 1960-68: | |
|--|--------|---|-----------|---------------------------------|------------|---|--|--|--|
| 1960 | 17,241 | a. East | 1,083,913 | Males | 7,843,503 | Inhabitants per sq.Km. (end 1968) : 158 | | 57,000 | |
| 1961 | 17,125 | Berlin | | Females | 9,243,733 | | | Annual rate of decrease 1963-68: | |
| 1962 | 17,102 | b. Leipzig | 589,064 | Total | 17,087,236 | | | 0.1% | |
| 1963 | 17,153 | c. Dresden | 500,242 | | | | | | |
| 1964 | 16,984 | d. Karl-Marx Stadt | 296,680 | | | | | | |
| 1965 | 17,020 | e. Magdeburg | 268,345 | | | | | | |
| 1966 | 17,058 | f. Halle/Saale | 262,749 | | | | | | |
| 1967 | 17,082 | g. Erfurt | 193,930 | | | | | | |
| 1968 | 17,084 | h. Rostock | 192,006 | | | | | | |

| | |
|--|-------|
| 7. Total population gainfully employed (September 1968): | 7,712 |
| apprentices: | 461 |
| TOTAL | 8,172 |
| of which women (47.3%): | 3,865 |

| 8. Distribution by sector of gainfully employed population (September 1968) % | |
|---|------|
| Industry | 36.6 |
| Handicraft | 5.3 |
| Building | 6.7 |
| Agriculture | 13.8 |
| Transport and Communications | 7.0 |
| Trade | 11.4 |
| Other Productive Activities | 2.3 |
| Non-productive Professions | 16.9 |

II. PRODUCTION

| 9. Net Material Product (official Communist concept) (1968) 102,245 (thousand D.M. East) | | | | | |
|---|------|-------------------------------|------|------|------|
| NMP Origin (1968) in % of total | | NMP Utilisation in % of total | | | |
| | | | 1966 | 1967 | 1968 |
| Industry | 59.7 | Investment | 15.9 | 17.3 | 19.0 |
| Building | 7.9 | Stockpiling and Reserves | 5.3 | 4.1 | 1.2 |
| Agriculture | 13.4 | Private Consumption | 70.4 | 69.9 | 70.6 |
| Transport | 5.1 | Public Consumption | 8.4 | 8.7 | 9.2 |
| Trade | 12.2 | | | | |
| Others | 1.8 | | | | |

| 10. Growth Rates (% increase over preceding year) (constant prices) | | | | | |
|---|------|------|------|------|-------------|
| | 1966 | 1967 | 1968 | 1969 | 1970 (plan) |
| Industry | 6.3 | 6.5 | 6.1 | 7.0 | 8.4 |
| Construction | 5.5 | 9.5 | 9.8 | 10.0 | 8.6 |
| Agriculture | 4.8 | 6.2 | 1.0 | 6.6 | 2.6 |
| Fixed Capital Investment | 7.0 | 9.2 | 10.0 | 3.0 | 11.0 |
| Consumption | 4.5 | 4.3 | 4.7 | 4.5 | 3.8 |
| Net Material Product | 4.9 | 5.4 | 5.3 | 5.0 | 6.3 |

III. FOREIGN TRADE

(million valuta Marks)

| 11. Total Trade | 1964 | 1965 | 1966 | 1967 | 1968 |
|-----------------|--------|--------|--------|--------|--------|
| Exports | 12,312 | 12,893 | 13,461 | 14,515 | 15,894 |
| Imports | 11,061 | 11,800 | 13,503 | 13,771 | 14,229 |
| Balance | +1,251 | +1,093 | - 42 | + 744 | +1,665 |

IV. NATIONAL CURRENCY

Monetary unit: Deutsche Mark (East)

For "GDR" Authorities 1 D.Mark East = 1 D.Mark West

For the Federal Republic: free exchange rate: 1 D.Mark West = 0.265 D.Mark East

Foreign trade: valuta mark: 4.2 V.Mark = 1 US \$ or 1 V.Mark = 0.87 D.Mark West

NATO UNCLASSIFIED

ECONOMIC REVIEW OF EASTERN EUROPEAN COUNTRIES

THE "GERMAN DEMOCRATIC REPUBLIC"

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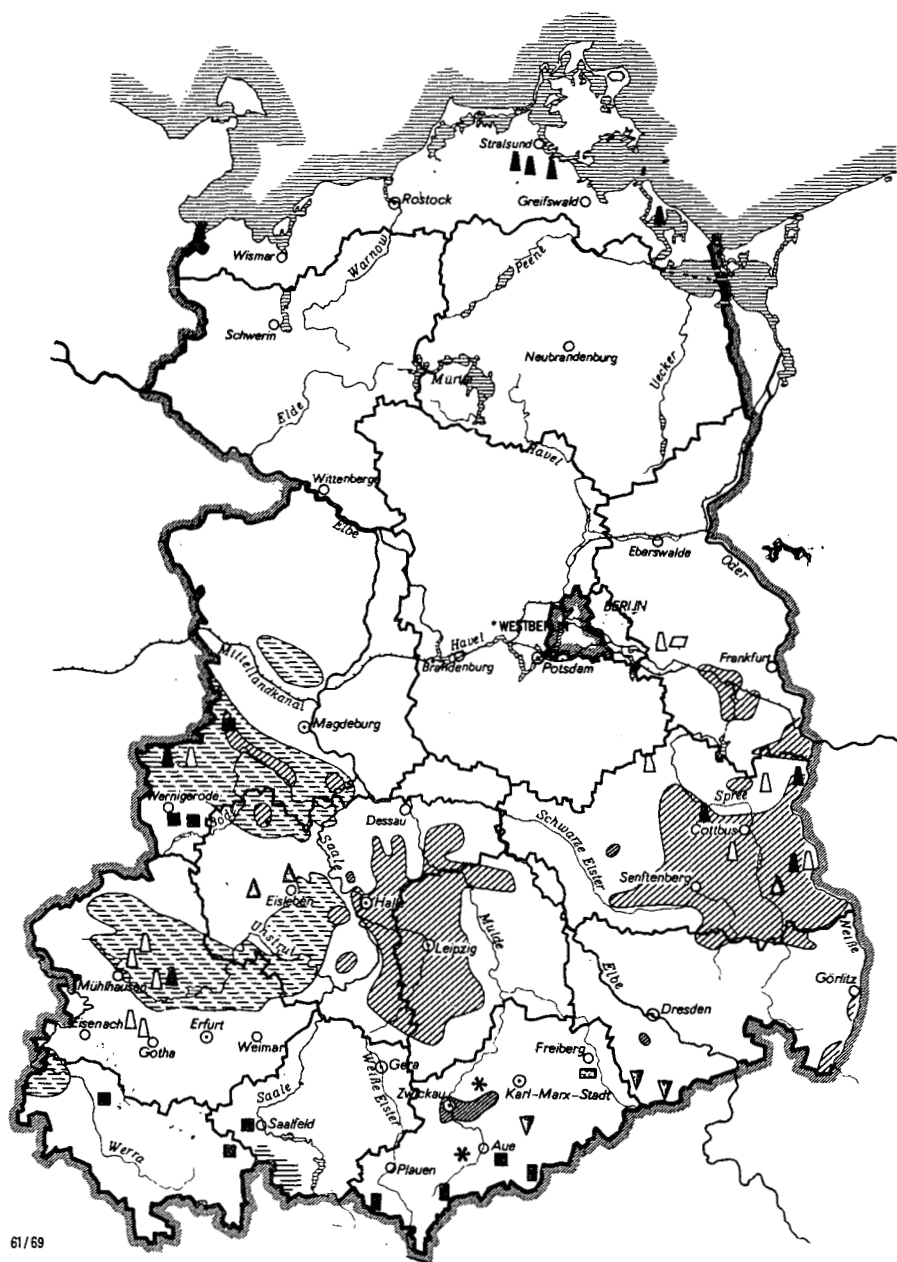
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





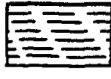


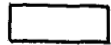

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CHART I - GRAPHIQUE I

ECONOMIC MAP OF THE "GDR" - LOCATION OF RAW MATERIAL RESOURCES
 CARTE ECONOMIQUE DE LA "RDA" - EMPLACEMENT DES RESSOURCES EN MATIERES PREMIERES



61/69

- | | | | | | | | |
|---|------------------------|---|----------------|---|------------------|---|-------------------------|
|  | HARD COAL CHARBON |  | OIL PETROL |  | LIME CHAUX |  | NICKEL NICKEL |
|  | LIGNITE LIGNITE |  | GAS GAZ |  | SLATE ARDOISE |  | COPPER CUIVRE |
|  | POTASH SALT POTASSE |  | CHALK CRAIE |  | IRON FER |  | LEAD-ZINC PLOMB-ZINC |
| | | | | | |  | TIN ETAIN |

ECONOMIC REVIEW OF EASTERN EUROPEAN COUNTRIES

THE "GERMAN DEMOCRATIC REPUBLIC"

Draft Report to the Economic Committee

I. BASIC FACTORS IN THE ECONOMY

1. In order to assess recent economic performance of the "GDR" certain basic factors should be kept in mind, in particular:

- (a) the economic consequences of the partition of Germany;
- (b) the unfavourable demographic evolution, and
- (c) its repercussions on the labour force available;
- (d) the rigidity of the economic system originally based on the Soviet model and the subsequent attempts to reform;
- (e) the price system,
- (f) the planning techniques, and
- (g) the foreign trade organization;
- (h) the problems posed by scientific and technological progress.

(a) The division of Germany

2. Although a quarter of a century has passed since the end of the last world war, the partition of Germany still provides the general background against which developments should be viewed. Before the war (1936-1939), the present area of East Germany was as highly developed economically as that of West Germany. On a per capita basis industrial output was slightly higher⁽¹⁾ and agricultural production much more so. However, the structure of East German industry was quite different from that of West Germany: it was mainly concentrated on the production of consumer goods and, within the sector of investment goods, on textile machinery, machine tools, radio, aircraft, etc. In the chemical sector the Eastern part of Germany mainly produced basic chemicals, coal chemicals, synthetic rubber, and provided 58.4% of the potassium fertilizer products of Germany (including areas now part of Poland).

3. Mining and metallurgy were located in West Germany which specialised in heavy industrial equipment, agricultural machinery, ships, heavy electric motors, instruments, pumps and compressors, watches and medical

(1) The Joint Economic Committee of the US Congress in "Economic Developments in countries of Eastern Europe", April 1970, puts the lead of East Germany over West Germany in 1939 in terms of per capita industrial output as high as 16% - page 559.

equipment. The area now covered by the Federal Republic of Germany supplied, in 1938, about 38% of all German hard coal, 99% of coke, 99% of pig iron, 94.5% of iron ore and 93.5% of rolled steel (excluding the part of Germany now under Polish administration). In agriculture West Germany specialised in meat and dairy products and viticulture but was largely dependent on the eastern regions for potatoes, grain and various foodstuffs. With an area of less than half the size of the Federal Republic and a population of roughly a third, the territory covered by the present "GDR", according to East German sources, accounted in 1936 for some 30% of Germany's national income. Whereas the Federal Republic could base her economic reconstruction on a highly developed basic industry, abundant raw material supplies and the Marshall Plan assistance, the Soviet-occupied territories in the East, with an inadequate raw material base and no heavy industry had to cope in the early post-war years with reparation payments, the dismantling of existing enterprises and the imposition of a centrally planned economic system.

4. By 1970 some of the structural problems created by the partition of the country had been partly overcome. The problem of insufficient raw material resources(1) has been solved by long-term trade agreements, mainly with the Soviet Union. The division of labour, which before the war had been developed between the Eastern and Western parts of Germany, has been replaced by a division of labour between the "GDR" and other COMECON countries in Europe. As a result of this, the "GDR" has become dependent on Eastern Europe and on the USSR in particular, not only as a source of raw materials and semi-finished products but also as a market for its industrial products.

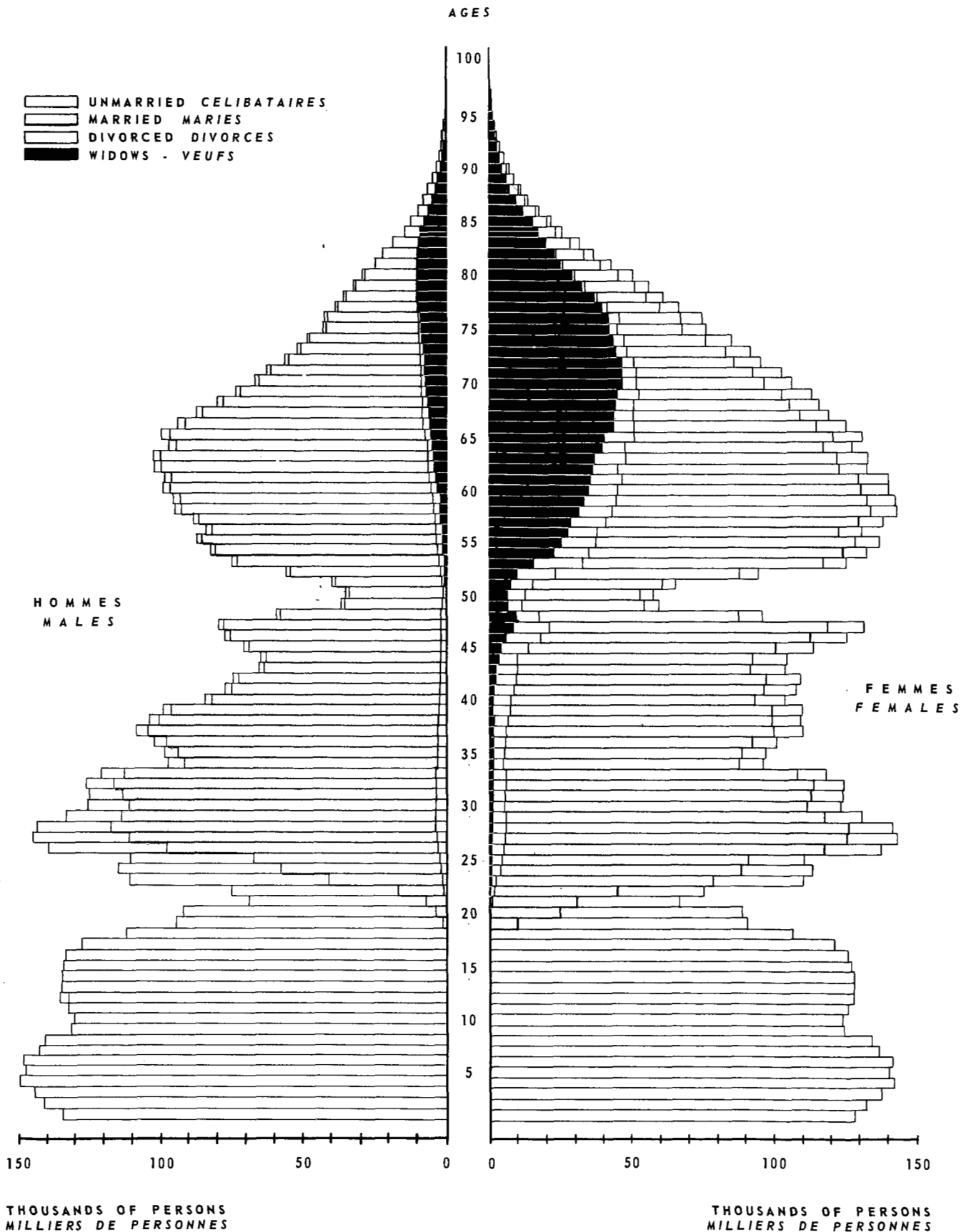
(b) Demographic trends

5. The demographic development of the "GDR" in the post-war years has been a major source of concern for its leaders. The population, which in 1948 exceeded 19 million according to East German statistics, had by 1968 declined to 17.1 million. In 1968 East Germany had both the lowest birth rate (14.3 per thousand) and the highest death rate (14.1 per thousand) of the East European countries. In addition, the sex ratio in East Germany (84.7 males for 100 females) was the lowest of the entire area. The natural increase dropped from 0.61 in 1961 to almost nil in 1968. These figures reveal the gravity of these problems of sex and age structure resulting from the war and seriously aggravated by the massive emigration to the Federal Republic. According to the FRG data, between 1951 and 1966 about 3.4 million people fled into Western Germany while less than 500,000 emigrated from West to East Germany,

(1) The main mineral resources of the "GDR" are lignite and non-metallic minerals, including uranium ores which have been mined under Soviet control for Soviet use since the end of the war.

POPULATION BY AGE AND SEX IN 1966

PYRAMIDE DES AGES ET REPARTITION DES SEXES EN 1966



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resulting in a net loss to the latter of 2.9 million, mostly young men. The building of the Berlin Wall in August 1961 brought an end to the massive migration from East Germany (233,000 in 1961, 21,500 in 1962) but did not stop it completely (24,300 in 1966).

6. In consequence, over the years 1950-68 the population of working age decreased by some 15% and its share in the total population fell from 61.4% to 57.8%. The fall in the number of young people in the country is reflected in the gradual decline of the birthrate since 1961. The annual growth rate of the population is expected to remain low up to 1975, and only a minor improvement is forecast for the 1975-80 period. It seems unlikely that the population will number 18 million before the end of the present decade.

7. The "GDR" Authorities have tried to remedy the demographic outlook by improving the health services. This led to a considerable decrease in infant mortality, (the rate in 1968 being the lowest in Eastern Europe and below that of the FRG) and to a rise in the expectation of life (+4 years since 1952). With a view to encouraging larger families various incentives were offered. A system of childrens' allowances, increasing proportionally with the number of children up to five, was introduced. Maternity allowances, also increasing with the number of children, and various other payments for pregnancies and confinements were granted. Kindergarten and day nurseries were established and allowances were paid to single persons taking care of sick children.

8. However, this comprehensive demographic policy was largely stultified by the need to increase the employment of married women and was further hampered by the poor housing conditions which acted as a disincentive to large families. Similarly, the law for "the Protection of the Mother and Child" introduced in 1950, which permits abortion on medical and eugenic grounds only and was more restrictive than in the other East European countries, was somewhat liberalised after March 1965. As a result the number of legal abortions increased from less than 1,000 per year in the period 1952-65 to 16,000 in 1966 and 20,000 in 1967.

(c) The labour force problem

9. Faced with a decline in the number of people in the working age group, the "GDR" Authorities attempted to raise the labour force by employing more housewives and retired people, by trying to attract workers from other East European countries, apparently, however, with little success. The fall in the numbers actively employed between the years 1950 and 1965 was 375,000, the big loss due to demographic factors,

particularly emigration (over one million) being partly offset by drawing some 800,000 women into the labour force. Although a high rate of female employment is common to most Communist countries it is highest in East Germany where among families of workers and employees 70% of the wives were at work in 1965 (nearly four-fifths in the 18-25 years age group and over one-fifth of the wives aged 60 or more). The statutory retirement age for working women is 55 years in all European Communist countries except in Poland and East Germany where the limit is 60 years.

10. The male population of working age is at present practically fully employed and there remains little scope for increasing further fulltime activity rates among married women, although a wider spread of part-time employment still seems feasible. The 1970 economic plan stresses the importance of utilising whatever resources of female labour may still exist. The share of women in the labour force will continue to be high during the 1970s, probably of the order of 45-47% of the total.

11. In 1968, out of a total active population of about 8.44 million, some 1.26 million were engaged in agriculture (about 15% of the total). This percentage, though high compared with some Western industrialised countries, is the lowest among European Communist countries. The transfer of manpower from agriculture to industry and services in East Germany has been more rapid than in other Communist countries: between 1950 and 1968 the number of persons engaged in agriculture declined by 39.2%. There might still be some room for further transfer although the sex and age pattern of agricultural labour is rather unfavourable. The percentage of older people is higher in agriculture than in any other sector of the economy. The outflow of labour from agriculture must, therefore, be expected to slow down considerably in the future.

12. The decline in the working age group as a proportion of total population since 1950 is expected to come to an end in the 1970s. After 1975 the labour force will grow faster than the population as a whole. The labour shortage will, however, remain critical. Efforts to draw additional manpower from other East European countries have so far met with little success. Between 40 and 50 thousand foreign workers, mainly Hungarians and Poles, and including several thousand Polish commuters working along the border (textile industry and mines) are employed in industry in the "GDR". This amounts to about 0.5% of the total gainfully employed people, as against almost 6% of foreign workers in the Federal Republic. Foreign labour does not, therefore, provide any substantial relief of the shortage in the "GDR". It would seem that the other East European countries are rather eager to keep their manpower within their own countries.

(d) The economic system before 1963

13. In order to assess the significance of economic reforms, it may be worthwhile to recall briefly the development of the economic system introduced during the Soviet occupation. In the early years, the large-scale industries and trade and financial institutions, were nationalised and the big agricultural private holdings broken up. A central planning system on the Stalinist model was introduced under direct Soviet control and with the participation of Soviet advisers. However, the need to meet the requirements of a population aware of the rapid recovery in the Western part of Germany, compelled the régime to tolerate private ownership in small business and agriculture during a recovery period which went on till the late 1950s.

14. With the rise of Khrushchev, the East German Communist leaders gained some say in economic decision-making and the Soviet exploitation took more subtle forms. The plan adopted in 1960 at the initiative of Ulbricht for the 1961-65 period called for a 7.5% increase in the national income annually. The rôle of private business was considerably reduced as the emphasis shifted from consumption to investment. Small-scale industrial units and handicrafts were forced into co-operatives or absorbed into the "semi-state corporations" and agriculture was quickly and fully collectivised by the end of 1961. The industrial ministries were abolished and replaced by "Associations of State-owned Enterprises" (VVBs) under direct control of the local Communist Party leaders. A genuine heavily centralised and rigidly planned economic system was established that was supposed to favour fast economic growth.

15. The inefficiencies of the bureaucratic system soon became evident. In 1961-63, the "GDR" went through an economic recession instead of reaching the ambitious growth targets of the plan. Faced with the failure of their initial attempts, the East German leaders, first among the European Communist countries, embarked in 1963 upon a continuing process of economic reforms to improve the efficiency of their planning techniques. The East Germans, however, have so far rejected the idea of introducing "market" elements that were adopted by other East European countries (e.g. Hungary), but have relied rather on technical improvements in the authoritarian central control of the economy by introducing new economic incentives.

(e) The industrial price reform

16. The system of fixed prices which existed up to 1964 was largely based on the price levels prevailing in 1944 and could hardly be related to the actual "costs" or "scarcity" of these products(1). For instance, the prices of raw

(1) See Manfred Melzer "Preispolitik und Preisbildungsprobleme in der DDR", in DEUTSCHES INSTITUT FÜR WIRTSCHAFTSFORSCHUNG Year 1969, 3rd number.

materials were kept considerably below the actual costs of production through State subsidies in order to favour the production of capital goods, while prices for consumer goods were fixed at much higher levels resulting in high profit rates in the industries producing such goods. A price reform was started in 1963 with the re-evaluation of invested capital in industry; the nominal value of this was increased by 52% on 30th June, 1963.

17. This first step was followed during 1964 by two sets of measures which resulted in an average increase of some 70% in the price of basic raw materials (coal, minerals, energy, pig iron, rolled iron and steel, raw materials for the chemical industry, etc.). On 1st January, 1965, the prices of other raw and semi-finished materials were increased on the average by 40% (wood, timber, paper, hides and skins, chemical products such as synthetic rubber and fibres, building materials); prices for agricultural products were also increased during 1965. On 1st January, 1967, the price of machines, electronic and electro-technical equipment, products of the chemical industry, products from the light and food industries, building, transport and communication services, was increased on an average by 4%.

18. The average increase in the price of investment goods was about 16%, but there were wide differences as between the prices of various goods. For instance, construction costs increased by more than 30%, capital equipment in general by about 8%, but products of the electro-technical industry declined by 1% and optical equipment and high precision instruments by some 30%. Consumer goods prices were fixed at enterprise level. The increases in the price of raw materials and equipment were to be largely absorbed by increased rationalisation and a reduction in the profits of industries producing consumer goods.

19. Free prices do not exist in the "GDR" except for a few second-hand goods, antiques and domestic animals, which have no economic significance. Although the reforms have brought industrial prices more in line with the actual production costs, they are still not flexible, which is the main objection to the system of central price fixing. The new prices proved incapable of stimulating the production of new types of goods. The "scarcity" factor is still insufficiently taken into consideration. Since they were based on average costs, the profit rates differ widely between enterprises. A number of price distortions are not yet overcome: durable consumer goods are generally too expensive (private vehicles, refrigerators, washing machines, textiles, shoes, etc.), while other prices do not cover the real production costs (rents for housing, transport costs, etc.). The depreciation costs have been included in the industrial prices but the interest and

taxes on capital is still not covered, so that products of capital intensive industries tend to be priced too low. On the whole, the price structure has been used as a means to reduce consumption and favour investment. The "GDR" Authorities are well aware of the disadvantages of fixed prices and various attempts have been made to overcome the lack of flexibility but as price fixing remains an essential element in the centrally authoritative system such attempts have so far proved rather unsuccessful.

20. The system of prices in the "GDR", both before and after the introduction of reforms, represents the political priorities as decided by the Authorities. Even if the régime were in a position to gather all the information needed to allow the valuation of "real costs" and "relative scarcity" of the products, there is no reason to believe that the leadership would give up its present power to fix the prices according to the mainly political considerations. Political control remains the most important goal before any consideration of increased economic efficiency or improved technology would be taken into account, whatever the prevailing price system.

(f) The new economic system

21. Since the introduction in 1963 of what the "GDR" leaders call the "new economic system", various attempts have been made to express in monetary terms the objectives of the plan, and to control the economy through methods relying more than in the past on concepts such as "cost" "value" "prices". In that connection may be mentioned: price reforms, reorganization of the banking system, efforts to encourage enterprises to finance a larger share of their investments from their own profits, the introduction of a tax on capital and of interest rates on investment loans from banks(1).

22. In April 1968, the planning system as such has been reorganized. The reforms adopted in this field aimed primarily at improving the planning mechanism. More refined forecasting methods were introduced, based on an extensive information system that was set up within the planning hierarchy. The unified statistical accounting system was to speed up the flow of standardised data from the central decision-making authority down to the executive level in the production units and vice versa. Central planning was to be freed from the task of detail control and would henceforth concentrate on the main "structural" aspects of the economic development. Thus, the plan would deal only with basic questions considered to be of decisive importance for the overall economic growth. It was to be the responsibility of the production units to comply with the plan outlines. In order to reach some economics of scale the grouping of State-owned enterprises in "combinates" combining both vertical and horizontal concentration was encouraged. The number of planned targets imposed on the enterprises was reduced and plan procedures were simplified.

(1) For details see paragraphs 74-86.

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23. Basically the Council of Ministers remains, as before, the sole decision-making centre for controlling and directing the economy on the basis of proposals submitted by the State Planning Commission. Such a procedure, even refined, limits the flexibility of the economic system. As long as the rigid price fixing system remains in the hands of the central authorities and market influences are excluded, prices cannot fluctuate and consequently do not adequately reflect either the relative scarcity of the goods or the changes in their cost of production. They cannot, therefore, be used as guidelines to indicate the real economic efficiency of resource allocation as decided by the planners and they hamper the introduction of advanced technology. However, the system does allow the Communist leaders to retain firm control of economic development.

(g) Reforms in the foreign trade sector

24. Reforms were also introduced in the foreign trade sector with the aim of making enterprises more competitive on foreign markets and allowing a reduction of export subsidies. On the organizational level the system was not changed. Exports are still to be channelled through the official foreign trade organizations which would however, seek to induce enterprises to give priority to the production of high quality export goods. The foreign trade organizations are supposed to improve after-sales services and intensify their research activities on behalf of the export industries. The main feature of the foreign trade reform is that, henceforth, enterprises will benefit from profits but also share in losses resulting from sales.

25. In practice, the results of these reforms have so far been disappointing. The low competitiveness of East German exports on Western markets has resulted in losses for the exporting enterprises and has reduced premium funds left at the disposal of the production units. The reform measures in this field might have acted as a disincentive for exports to the West.

(h) Science and technology

26. One of the key elements in the economic development of the "GDR" is the technological lag which characterises much of the "GDR" outlook. This lag is reflected in the slow economic growth since the end of the war and limits the "GDR" capability to modernise production in the future as is currently envisaged.

27. The guaranteed outlets for East German exports in the Soviet Union and other COMECON countries, as well as the rigid internal price system, have to some extent insulated the economy from Western technological progress. This lack of competitiveness of East German products has made the leadership increasingly aware of the widening gap in technological progress between East and West. The need for systematic development of research and development has been stressed since 1963. One of the main goals in the 1968 new planning system in the key sectors was indeed to provide for their rapid technological development, including automated control systems, electronic data processing and modern management techniques. It is intended to set up 16 large-scale

research centres within industrial combines in 1970, grouping various enterprises under the direct authority of the Council of Ministers.

28. After reforming the primary and secondary school system, the functioning of the universities has more recently been reconsidered. The aim seems to be to improve the links between scientific research and its technological applications. Inter-disciplinary research in the more important economic sectors has been encouraged. In order to provide the decision-making authorities with alternate sets of options in their elaboration of development planning, the preparation of different proposals for branch development was requested in 1969 from the Ministry of Science and Technology. Simultaneously, universities have been made increasingly responsible for contractually arranged applied research projects, to be financed jointly with industry. It is intended that elements of economic accounting are to be gradually introduced in the universities. The long-term plan will provide a framework for directing science and technological research towards the new structural sectors of the economy.

29. It is too early to assess the results that can be expected from this renewed emphasis on research and development, but the efforts undertaken are indicative of the growing concern of the "GDR" leadership with the technological leap forward in the United States, Western Europe and Japan. So far, however, it would appear that the economic incentives for promoting rapid exploitation of the scientific and technological innovations are still largely inadequate to allow fast progress in this field. In addition, the technological gap which has been increasing steadily between the "GDR" and Western Europe has already reached such proportions as to make it difficult to see how it could be reduced.

II. THE INTERNAL ECONOMIC DEVELOPMENT

(a) Overall growth performance

30. The economy which had suffered during the war got off to a slow start after 1945. Reconstruction was retarded by heavy occupation costs, reparation payments and the dismantling of some enterprises. The rapid advance starting from the low 1950 level (Western estimate: GNP 1950 + 77% of GNP 1936(1)) was due to a highly developed processing industry and, especially, the availability of an industrious and skilled labour force. Production capacity, which was not fully utilised in the early post-war years, was gradually put into use thereafter which explains the rapid rise in the national income. Between 1950 and 1960 the Net Material Product, in constant prices, more than doubled according to Communist sources, implying an average annual rate of increase of about 8% during the second half of the decade. After Bulgaria, this was the highest rate of growth of all East European COMECON countries. (Western estimates indicate a growth rate of GNP of 6.4% annually during the period 1951-55 and 6.2% for 1956-60).

(1) See Joint Economic Publication - US Congress mentioned earlier.

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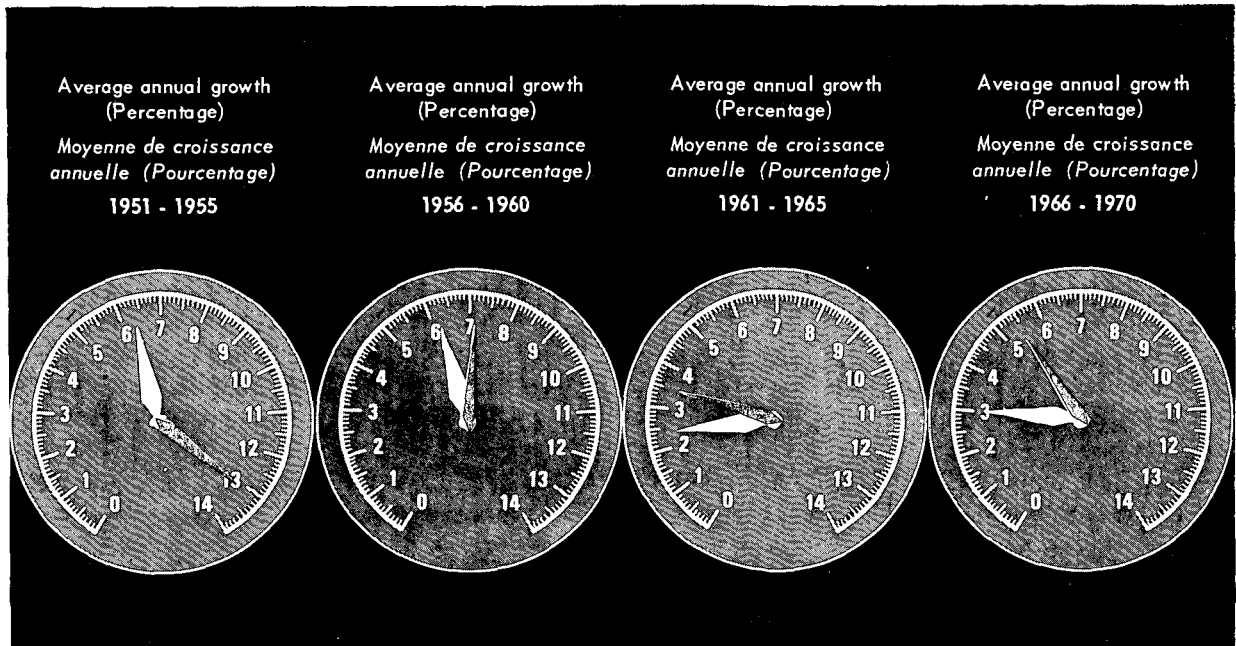
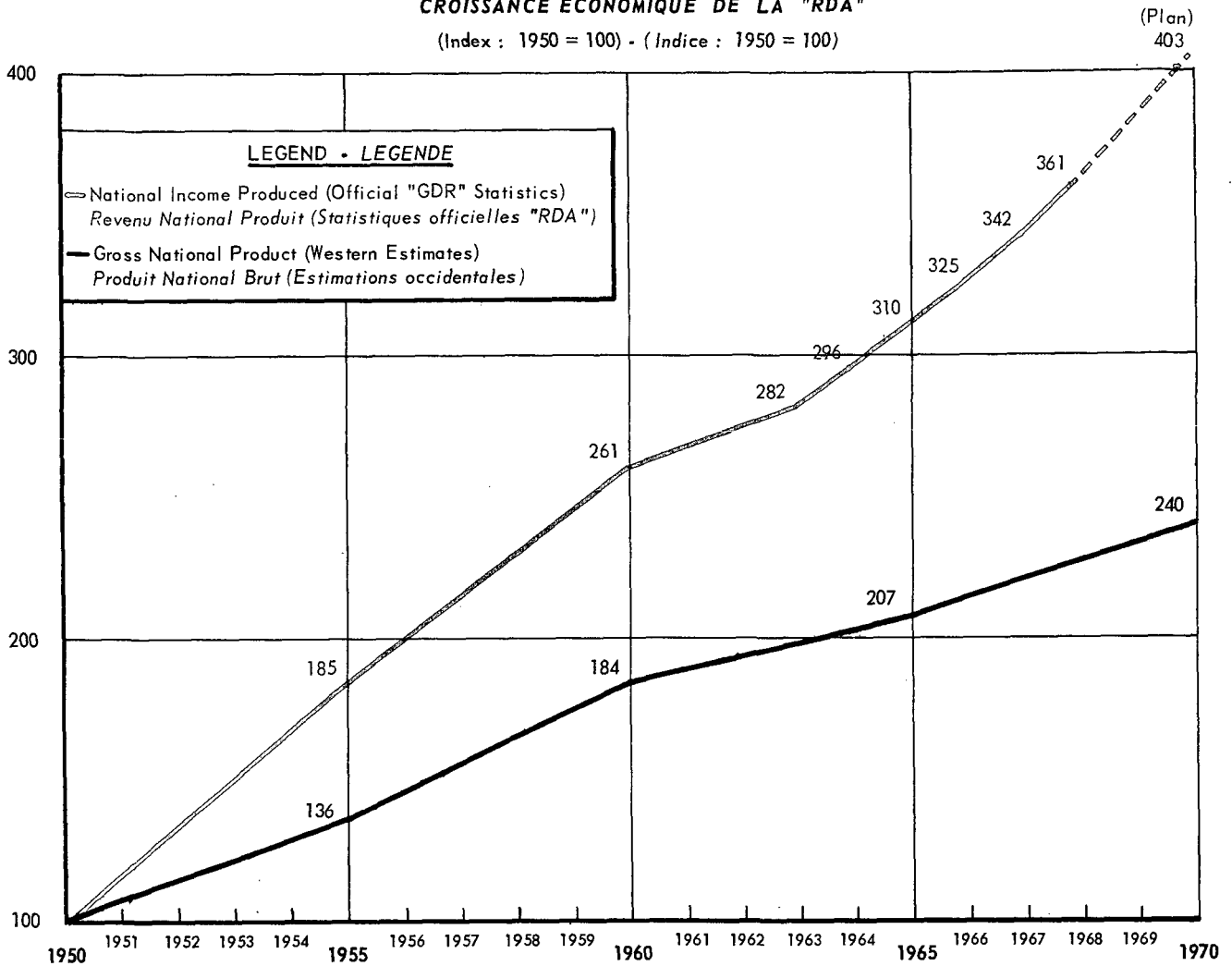
31. The period of rapid recovery was confined to the fifties. In the next few years the growth rate fell sharply to 2-3% (official figures) and the economic recession (Western estimates put the rate of growth of GNP during 1961 at 0.7%) lasted till 1964. In the following years economic expansion picked up again without reaching, however, the high growth rates of the reconstruction period. According to Communist sources the Net Material Product rose by 4.8% in 1964 and fluctuated thereafter between 4.6% in 1965 and 5.4% in 1967. (Western estimates for the period 1964-67 indicate an average rate of growth of GNP of about 3.1%.)

32. The 1968 results on the whole must have appeared rather satisfactory to the "GDR" leaders. Net Material Product according to official records grew by 5.3% as against a planned target of 5.4% (Western estimates: rate of growth of GNP: 2.8%). But this achievement was largely due to agricultural net output being 1% higher than in 1967 which was an excellent year. Production of cereals and livestock output were especially satisfactory. Industrial production, however, did not come up to expectation. The 6.1% rise in output was less than during the two preceding years and below target. Consumption, both private and public, grew more moderately (+4.7%) than the Net Material Product permitting a reported 10% increase in fixed capital investment and a 9.5% increase of exports, while imports grew only by 3.3%. Money income expanded more rapidly (+4.9%) than planned (between 3.5% and 4%).

33. Results in 1969 were less satisfactory. The annual plan had envisaged a 6.0% increase of the Net Material Product but actual rise was 5.0%, i.e. less than the two preceding years (in comparable Western terms GNP has probably increased by about 2.7%). The 1969 results brought out once more the significance of agriculture in the short-term fluctuations of aggregate output even in the most industrialised country in the Communist group. Owing to adverse weather conditions net agricultural output dropped 6.6% below the 1968 level. In contrast industrial output increased by 7.0% and construction by 10%, fulfilling and in some cases even exceeding the plan. Nevertheless, growth targets were not reached in energy production, transport and house building. Labour productivity continued to rise at the same high rate as last year (+8%), consumption rose at a rate comparable to that of the year before and investment more rapidly (+13%). The rise of money incomes was only slightly less than in 1968.

34. The main tasks of the 1970 plan are to further mechanisation and automation and intensify research efforts in industry. The Net Material Product is planned to increase by 6.3% as a result of a 2.6% growth of agricultural output,

ECONOMIC GROWTH OF THE "GDR"
COISSANCE ECONOMIQUE DE LA "RDA"
 (Index : 1950 = 100) - (Indice : 1950 = 100)



The white arrow represents the average annual growth of GNP as estimated by western specialists and the red arrow the average annual growth rate of the national income produced according to official "GDR" statistics.

La flèche blanche représente la croissance annuelle moyenne du PNB estimée par les spécialistes occidentaux et la flèche rouge le taux moyen de croissance annuelle du revenu national produit selon les statistiques de la RDA.

the total net production of which is expected to remain well below the 1967 level and an 8.4% increase in industrial production, a much faster rate of growth than actually achieved over the last five years. Industrial expansion is to be achieved mainly through a 9.4% increase in labour productivity. It is expected that this will allow an increase of 11% in investment and of 13.6% in exports.

35. In view of the disappointing agricultural performance in 1969, it will be necessary in order to meet the internal needs to import about 350 million valuta marks of grain, potatoes and other foodstuffs. The unusually severe winter 1969/70 has aggravated the bottlenecks in the supply of energy, raw materials and transport services. In consequence, economic performance during the first two months of 1970 lagged seriously behind plan. On 1st February, 1970 the Council of Ministers admitted it would not be possible to achieve 25% of the annual plan during the first quarter of the year and that overall annual targets could only be reached if shortfalls in some sectors were compensated by overfulfilment in others.

36. Owing to below plan performance during the first four years of the current five-year plan (1966-70), the overall average yearly growth in the Net Material Product of 5.4% can only be reached if the 1970 plan is fulfilled. On present showing this is unlikely. Nevertheless, the degree of fulfilment of this present five-year plan will be greater than in the past. Industry is likely to reach its target even if its 1970 goals are not entirely fulfilled. The same applies to investments, retail trade and foreign trade. As in the Soviet Union the planning organs of the "GDR" are at present preparing the draft of the next five-year plan 1971-75. The Soviet plan will have a direct bearing on the East German one since the latter's economy is heavily dependent on the former. According to official speeches and the goals so far published concerning the new five-year plan 1971-75, such as for instance the proposed 60% increase in production and 85% increase in exports of machinery and equipment over the period, the new plan will resemble the 1970 plan which set ambitious and rather unrealistic targets for economic development. The realistic approach of East German planning that prevailed during the period 1963-68 reflected the economic crisis following the discontinuation of the seven-year plan adopted in 1962. Having passed that crisis, the leadership seems to be returning to its former policies of forced growth.

(b) Economic development by sectors

(i) Agriculture

37. Before the war the part of Germany that was to become the "GDR" had specialised in the production of grain and other crops but relied on the West for animal products. On the whole it had a small export surplus in foodstuffs. Output per worker employed in agriculture was higher than in the Western part of

the country and far ahead of that of other East European countries. In the post-war years agricultural productivity fell behind that of the Federal Republic. It is still higher than any other East European country but its lead has been reduced, which is mainly due to the collectivisation of agriculture and the priority accorded to industry.

38. Collectivisation was introduced in two stages. In 1953 over a quarter of total agricultural land was "socialised" and this sector was gradually enlarged to cover about half of arable land by 1959. In 1960 collectivisation was extended to 92.5% of the agricultural land(1) and by 1968 less than 6% was still in private hands (including the private plots of collective workers). Simultaneously, agricultural holdings were reorganized into larger units: their number fell from nearly 900,000 in 1950 to 60,000 in 1960, and 26,000 in 1968. About 700 State farms account for 7% of the total agricultural land, 13,000 production co-operatives for 87%, and private farms, numbering about 11,000, and small private plots the rest.

39. Over the last twenty years the increase in agricultural output has been slower than in the other East European countries, except Czechoslovakia which is not surprising given the higher level of East German agriculture. The average annual rate of growth between 1948-50 and 1965-67(2) was 2.9%, i.e. slightly below that of West European countries (average 3.1%). Crop output in 1968 was at the same level as in 1948-50 but animal output had apparently increased by about a third (annual average increase 5.0%).

40. This rise in productivity is mainly due to increased inputs of machinery, fertilizers and to soil melioration works. Since 1960 the number of tractors has doubled and that of combined harvesters has nearly trebled. In 1967 about 90% of the grain was harvested with combines. As regards chemical fertilizers, more nitrogen, potash and lime was used in 1966 than in the Federal Republic but the quantity of phosphates was less. The switch of labour from agriculture to industry meant that available manpower is better used. Improved working conditions and organizational reforms have helped contribute to raise agricultural productivity. Since 1965 there has been a move to foster closer relations between co-operative enterprises: merging of fields and meadows, joint purchase and utilization of machinery, joint animal breeding. On the vertical plane, too, there has been closer co-operation between the producing units, the processing factories and domestic trade organizations, which has increased the efficiency of agricultural production.

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- (1) Agricultural land includes all arable land, orchards, gardens, vineyards, permanent and temporary meadow, pasture and grazing land.
 - (2) Joint Economic Committee, US Congress, op. cit., page 476.

41. The 1968 results were the culminating point of a series of good crops. The dependency of East German agricultural output on the vagaries of the weather was once more highlighted in 1969 when total output dropped by 6.6% almost to the 1966 level. Compared with the 1968 bumper harvest, production of cereals fell by 13.5%. Production of oilseeds, potatoes and sugar-beet was reportedly some 30% below the average of the preceding five-year period. Fruit, vegetables and fodder supplies were seriously affected by the extreme drought. Performance in animal husbandry compensated to some extent for the poor results in the crop sector. Livestock numbers have hardly increased in recent years but the yields have continued to improve.

42. The 1970 plan envisages an increase of 2.6% in total agricultural output. The main objectives are: further mechanisation of agriculture and greater investment in melioration works, the building of additional storage facilities and the improvement of the qualifications of agricultural labour. The repercussions of the bad 1969 harvest on animal production are inevitable and this explains the lower rate of increase planned. The severe winter 1969-70 may make it difficult to reach this rather modest target.

43. In conclusion, agriculture in the "GDR" has undoubtedly reached a higher technical level than in any other Communist country; output per capita and per worker has risen in an economy where both the population and the agricultural labour force are declining. However, in terms of pre-war efficiency and in view of the increase in post-war inputs, the overall rise in output is less impressive. "GDR" agriculture is still subject to the vagaries of weather conditions and wide annual fluctuations are inevitable as demonstrated during the past two years. As indicated earlier, a better balance between crop and animal production is aimed at and progress in the latter sector has been greatest. The per hectare yields for wheat, rye, potatoes and the production of milk per cow, are the highest among East European countries. Yields nevertheless still lag far behind those of the Federal Republic, particularly in potatoes, meat per pig, milk per cow and eggs per hen. It does not seem very likely that the "GDR" will be able to forego imports of grain and foodstuffs in the near future. Imports during the 1965-68 period averaged 1.7 million tons of grain and 1.0 million tons of fodder annually, as well as some high protein food supplements. The economy may well be self-sufficient in a not too distant future in meat and dairy products, despite the set-back of 1969 and the slow recovery expected for 1970. The output per person engaged in agriculture is still between one-third and one half of that industry. Agriculture, which accounts for about 15% of the economically active population, contributes less than 10% to total GNP.

(ii) Industry

44. East German recovery in the immediate post-war years was apparently more delayed by Soviet dismantling of enterprises than by the war destructions. Metallurgy, the chemical and heavy machine-building industries, suffered most. More than

half of the 1936 capacity in these branches was actually dismantled. The manufacturing capacity left to Eastern Germany was predominantly concentrated in light and food industry and light machine building, which constituted before the war the industrial mainstay of that part of Germany. Soviet levies on current production as payment of occupation costs and war damage reparation charges imposed a heavy burden on industrial output up till the mid-1950s. Owing to the urgency of the needs of the private consumption from 1950-55, investment in East Germany grew less rapidly than consumption. Up to 1958 industrial output increased nevertheless rather rapidly as more previously idle capacity was put into operation and private ownership of small business was still tolerated to a larger extent than in any other Communist country. In 1955 private firms (including handicraft) accounted for more than one-fifth of total industrial production and nearly a half of construction.

45. After 1958-59 the growth of industrial output gradually slackened. The chief sectors where the rate of expansion remained fairly high were: chemicals and rubber, metal products, electric power and electrical engineering. Since the mid-1950s, lignite, the main natural resource of the country, had to be extracted from less productive deposits. The "GDR" was short of steel which had to be imported from the Soviet Union and after 1958 output was modified to suit the Soviet demand for such "steel intensive" machinery as ships, railroad rolling stock and equipment for heavy industry. The shift to the Soviet market affected also the consumer goods industries whose output in 1958 was still well below the 1936 level. The main reason for the continued lag in output of the light and food industries was the fact that whereas before partition a large surplus of such goods was sold in the Western part of Germany, the Communist countries were much less interested in such products and the rather low level of investment of the preceding period had also made itself felt. On top of all this, between 1949 and 1961 over 10% of the total population had left the "GDR" to join the Federal Republic. According to the official data of gross industrial production, which tends to exaggerate the rates of growth, the annual increase fell from 12% in 1959 to 4% in 1963, the lowest figure ever recorded in East German statistics of total industrial production.

46. After 1963 and the beginning of the "New Economic System", industrial expansion picked up again reaching roughly the plan targets. Between 1964 and 1967 an annual average increase of 6.4% in gross industrial output was officially recorded.

47. The 1968 plan envisaged a growth of 6.4% - the average of the three preceding years - while the rate achieved was 6.1%. The semi-State sector, which consists of mixed enterprises in which the State owns more than half of the capital, increased faster than the State sector for the third

year in succession. As previously this was due almost exclusively to increased productivity as manpower employed in industry rose only very slightly (+0.3%). The most favourable results seem to have been achieved in the metallurgy sector, chemical industry, processing machinery and transport equipment. The lignite and power industries, however, failed to meet their targets and light and food industries increased only moderately. Some durable consumer goods (television sets, refrigerators, washing machines) declined.

48. In 1969 industry fulfilled its target by expanding output 7% without any noticeable increase in employment. Output of lignite rose 3.3%, gas 3.4%. A strikingly poor performance was reported in the output of electricity which apparently increased by only 2.9%, one of the lowest figures over the last twenty years. In metallurgy output of rolled products was said to have increased by 28.5%, that of steel by 2.7%, while pig iron production declined by 10.1%. Metal working industry did rather well but durable consumer goods continued to decline. The chemical industry apparently experienced difficulties in its conversion from carbo to petrochemicals. Output of chemical fertilizers increased by 4%, sulphuric acid by 3% and synthetic fibres by 1.1%. Other items such as caustic soda, calcium carbide declined. Light and food-processing industries rose somewhat less rapidly than the overall average.

49. The 1970 plan envisages a rise in the growth rate to 8.4%. Electro-technical and electronics, as well as the chemical industry are expected to grow rapidly. Research in the latter sector is to be intensified. On the other hand the growth rate of metallurgy is to be considerably reduced.

50. The "GDR" is undoubtedly the most industrialized of all COMECON countries. It has proportionally the largest share of total labour force in industry (41.1%) which accounts for roughly two-thirds of total GNP. Faced with a bottleneck in manpower it has not the possibility of increasing production by drawing additional labour force into the industrial process, a solution which has often been adopted by other Communist countries. Industrial labour productivity in the "GDR", which before the war was at least comparable to Western Germany, is about 35% lower than in the Federal Republic in 1970. The bureaucratization of industry and the forcing of economic growth have led to a number of distortions and lack of efficiency. Among these may be quoted: the excessive quantity of raw materials and energy used in industrial production, the piling up of large stocks of unsaleable goods and of scarce goods hoarded by producers, the lack of dynamism in applying science and technology in production, the long delays in completing construction projects, the obsolescence of the new equipment installed, the wastage of labour.

- The "GDR" uses about 30% more rolled steel than West European countries for the production of the same product because of the poor assortment of the rolled steel, obsolete design, high losses in processing. For the production of electricity the "GDR" needs nearly one-third more fuel per Kwh of net power than West German power plants because the equipment is old and less efficient than the large units now being built. While electric power consumed per worker in industry is about the same in the "GDR" and in the Federal Republic, output of the East German workers is only about two-thirds that of the West German employee, hence electric power consumed for a similar production value is about 50% higher in the "GDR".
- Between 1955 and 1965 industrial inventories increased at the rate of 9% per year, i.e. much more rapidly than production; stocks kept by the trade organizations rose at about the same rate.
- Resources allocated to industrial research and development have been much lower in the "GDR" than in Western countries. Although such expenditures, calculated as a percentage of GNP doubled during the 15 years up to 1965 from 0.3% to 0.6%, the corresponding figure for the Federal Republic in 1965 was 1.6%. There are no adequate incentives for promoting the introduction of innovations in production.
- It takes generally at least twice as long to get a construction job done in the "GDR" as in the Federal Republic. The East Germans have pointed out that considerable delays are imposed for the construction of large-scale projects (in some cases more than 10 years). When such projects are completed their equipment, much of it ordered 10 years earlier, is likely to be outdated.
- The poor quality of the new equipment installed in the "GDR" is clearly demonstrated by the difficulties met when this equipment is to be sold on Western markets.
- The continued use of old equipment and poor quality capital goods leads to a labour wastage. Manpower used in material handling and moving of materials has been increasing gradually as a share of total production workers in the absence of labour-saving equipment. Repair works occupy increasing numbers of workers. In 1965 over 6.5% of all production workers were engaged in moving materials and about 15% in repair works.

The gap between industrial production in the "GDR" and most of the industrialised Western countries has been widening over the last decade. According to Western estimates the average annual rate of growth of net industrial output between 1960 and 1968 has been 3.7% in the "GDR" against 4.9% in the Federal Republic, 4.9% in France and 5.3% in the United States.

(iii) Construction

51. Mainly pre-occupied with rapid growth of production, the planners tended to neglect the economic infrastructure of the "GDR" which did not keep pace with the upward trends of industrial output. The building industry has become a major cause of concern for the "GDR" leadership. Up till the 1960s the sector had been rather neglected and the available capacities are inadequate to cope with the construction requirements. The building industry consists largely of relatively small firms lacking the modern equipment needed for large-scale work and the regional distribution of these firms does not correspond to requirements. Civil engineering and basic construction therefore constitute bottlenecks for further expansion. The production of building materials has increased less rapidly than overall industrial output. Between 1959 and 1965 only 40% of the plan targets were reached.

52. Too many projects have been undertaken simultaneously resulting in an excessive spreading of the limited construction capacities. The number of unfinished projects has been increasing fast since the early 1960s. Although this problem is common to many Communist countries it seems particularly acute in the "GDR". According to certain East German specialists in 1968 large-scale projects worth between \$2 and \$4 million needed 5 to 6 years to complete and those worth more than \$10 million over 10 years which is much longer than in the Soviet Union.

53. Communist governments have generally tended to give rather low priority to the satisfaction of individual housing needs. The building of dwellings, considered in Communist terminology as "non-productive" has been lagging behind targets. More than half of the building investments are absorbed by the "productive" sectors: industry, agriculture, transport. The share of housing in total construction investment grew from 51% in 1960 to 58% in 1967. During the last three years total output in the building sector reportedly rose much more rapidly than national income but the targets for housing in the current five-year plan 1966-70 will not be reached. Even if the 1970 plan for new dwellings (77,000) were fully met, the actual five-year total would still fall short by 33,000 units (or 8.3%) of the original target of 400,000 dwellings. Future production increases are to be obtained through improved productivity, larger numbers of workers and special emphasis on pre-fabricated buildings.

C-M(70)40(iv) Transport

54. The inland transport system is another weak sector in the economy. Railroad has traditionally been, and still is, by far the most important part of the transport system. Performance of the different sectors in terms of ton-kilometers for inland merchandise transport in 1960 and 1968 was as follows:

| | 1960 | 1968 |
|----------------|------------|------------|
| Railroad | 82% | 78% |
| Road transport | 13% | 18% |
| Waterways | 5% | 4% |
| Air transport | negligible | negligible |

55. The "GDR's" transport system was seriously affected in the immediate post-war period by the systematic dismantling of its railroad network. It may be recalled that during the period 1945-50 the Soviets removed one track from all double-track lines. As a result the capacity of the system, which before the war amounted to 46% of that of the Western part of Germany, is estimated to have been reduced to only 33% in 1950. Since then both parts of Germany have been increasing their railroad capacity at about the same rate and the Western lead in rail transport has remained unchanged, while that of road transport has increased rapidly. In view of the slow rate of replacing equipment which requires heavy repair costs, the modest rôle of long distance road transport in the "GDR" has only been able to handle the traffic generated by the post-war recovery at the cost of high operating expenses and poor service.

56. In 1969 more than half (52%) of the railroad traffic was still hauled by steam locomotives as against 9% in the Federal Republic. Given the intensity of its utilization, the railroad system is vulnerable to external factors. The severe 1969/70 winter for instance has serious repercussions on the transport system which in turn contributed to the poor performance of industry during the early months of this year.

57. The road network has also been neglected. The road system now badly needs extending and improving if it is to be of any help in solving the growing transport requirements of industry and if the passenger car production is to grow according to the announced intentions of the leadership. It is only in comparison with the other Communist countries that the condition of the East German roads appears rather satisfactory, but very few new highways have been constructed since the war.

58. Because of partition and encouraged by the Soviet Union, the "GDR" started its own shipbuilding industry and developed Rostock as its main port. By 1968 the "GDR" had a merchant fleet consisting of 162 sea-going freighters with a gross tonnage of 776,709 tons (Federal Republic 5,990,395). Its shipyards are also producing ships for export, mainly to the USSR.

(v) Domestic Trade

59. Retail trade did not escape the collectivisation drive which was imposed on agriculture and industry. In 1950 slightly less than half (47.3%) of retail trade had been "socialised" and the private sector declined rather rapidly during the decade. In 1954 only one-third of total retail trade was still in private hands and this share was reduced to a quarter in 1959. By 1968 the four-fifths (79.2%) of the home trade sector was collectivised.

60. According to official Communist sources, the growth rate of trade between 1965 and 1968 was somewhat smaller than that of Net Material Product. For many years sales of foodstuffs had been increasing faster than those of industrial consumer goods. In 1967 food and beverages accounted for nearly 60% of total sales. In 1968 for the first time sales of industrial goods increased more rapidly than food products exceeding the planned rate of increase. This trend was continued in 1969. It would seem that the economic reform introduced in 1968 providing for the establishment of "co-operation unions", improved the co-ordination between trade and industrial enterprises and resulted in a better balance between supply and demand. The supply of some industrial consumer goods is now adequate while others do not correspond to the wishes of the consumer.

61. In 1969 retail trade turnover rose 6.1%, which was greater than the plan target (4.7%) or the rates recorded since 1965. Sales of industrial goods rose by 7.3%, but their share in total retail trade remains low (43-44% of total as against 56-57% for food). Some difficulties were encountered in the supply of potatoes and vegetables; meat and dairy products increased by about 3%. The Authorities have not been able to meet the rapidly diversifying demand of industrial consumer goods. The inadequate supply of goods of synthetic and plastic materials, children's clothing and footwear was due apparently to delays in installing new capacities. Waiting lists for passenger cars are still long.

62. The 1970 plan envisages an expansion in sales of foodstuffs of 3.6% and of industrial goods of 5.1%. The long and hard winter 1969/70, following the rather poor harvest, has cut the supply of potatoes, vegetables and meat to the

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urban population. Some sources maintain that never since the abolition of food rationing in 1958 have shortages in food supply been as pronounced as in the early months of 1970. The Authorities have apparently been forced to decide on a number of priorities as regards food supplies. Full and regular supplies have to be sent (a) to East Berlin and Leipzig where discontent could have political consequences which would not escape notice in the West, (b) to factory canteens and industrial supply depots, (c) to district centres and the larger towns. This means that the smaller towns and rural centres will feel the full impact of shortage of foodstuffs and lack of choice.

(c) Utilisation of national income

(i) Consumption

63. One of the main characteristics of traditional Communist economic policy has been to postpone the satisfaction of the needs of the consumer in favour of heavy investment in rapid growth which would, later on, allow gradual improvement of the lot of the consumer. In addition, priority has been given to collective services (education, health) over private consumption except for the most vital and general needs (food, clothing). Only fairly recently has attention been given to the quantitative improvement of private consumer goods and durables. However, in the early post-war years the Soviet occupiers of Germany were faced with the urgent task of rising consumption from a very low level. Contrary to normal Communist practice, consumption under Soviet control rose faster than investment.

64. After 1958, when the East German leaders gained some control over their economy, they returned to the traditional Communist line of priority for investment. Consumption stagnated, emigration rose sharply till mid-1961 and investment did not rise as expected. However, after the introduction of the "New Economic System" in 1963 the rate of expansion of investment rose. According to official "GDR" statistics, up till 1955 about 90% of the Net Material Product went to consumption. By 1963 this share was reduced to 83% and in 1968 to 76%. With special efforts made to improve public health, education and more recently defence expenditure, the share of public consumption rose from about 9.5% in total consumption in 1955 to 10% in 1960 and 11.5% in 1968. In 1969 the share of National Income devoted to consumption declined further to about 75% and the plan for 1970 foresees the continuation of this trend (74%) in favour of increased investment.

65. Official figures are useful in making comparisons with other Communist countries which use similar statistical methods but do not permit comparisons with Western countries. According to Western calculations private consumption in East Germany in 1965-67 absorbed about 52% of total GNP as against 61% in the Federal Republic. This share indicates a sizeable decline in comparison with the late fifties.

(ii) Investment

66. Since 1963, as indicated earlier, investments have been rising more rapidly than the Net Material Product. In the four years 1966-69 total fixed capital investment rose according to official sources by 7%, 9%, 10% and 13% respectively. A further increase of 11% is envisaged in the 1970 plan. In 1969 the rate of growth achieved (13%) exceeded that planned (11%) and was the highest recorded in Eastern Europe. Nevertheless as a share of National Income, investment in the "GDR" is still the lowest of all Eastern European countries (the USSR excluded). In the past it had been much smaller than in the Federal Republic and only reached a comparable level in 1968/69.

67. The 1966-70 plan had envisaged an average annual rise of 5½% in the Net Material Product, based on an increase of capital investment of 8.0-8.7% per year. The actual results (official sources) show, however, a slightly lower growth of NMP (5.2%) with a more rapid increase of investment (9.7%) indicating that the productivity of investment did not come up to expectation.

68. The distribution of investment among the main sectors of the economy between 1960 and 1968 was as follows:

(official sources)

| Sectors | 1960 | 1965 | 1968 |
|------------------------------|------|------|------|
| Total | 100 | 100 | 100 |
| Agriculture | 11.8 | 13.3 | 15.5 |
| Industry | 47.5 | 53.7 | 47.4 |
| Construction | 2.5 | 1.9 | 4.1 |
| Transport | 10.1 | 9.0 | 9.2 |
| Trade | 2.5 | 3.7 | 4.7 |
| Other productive sectors | 0.4 | 0.4 | 0.5 |
| Social-cultural | 3.9 | 2.6 | 1.6 |
| Other non-productive sectors | 21.3 | 15.4 | 17.0 |

69. Since 1955 investment in the industrial sector has been largely concentrated on the raw materials branches (fuel and power, mining, building materials) and machine building industries (vehicles, especially trucks, motorcycles and medium type machines). Within light industry, glass and ceramics received special attention. There was less investment in the other sectors of light industry (textiles, food industry, light consumer goods). Between 1956 and 1961 the rate of increase of investment was the highest in mining, building materials, production of vehicles, energy, machine building,

electro-technical equipment. From 1962 until 1966 the order of priority was modified. Above average rates of growth of investment were recorded in the sectors producing: electro-technical equipment, mining, glass and ceramics, high precision machinery and optical equipment, vehicles, metal products, metallurgy, energy, building materials, chemical industry. Taking into account the industrial structure which the "GDR" inherited from its pre-war past, the distribution of investment is indicative of the diversification introduced, largely under the influence of the needs of its COMECON partners in general and the Soviet Union in particular.

70. In 1968 the distribution of industrial investment among the various sectors was as follows:

| | <u>Percentage of total</u> |
|------------------------------|----------------------------|
| Energy and fuels | 21 |
| Chemical industry | 21 |
| Machine and vehicle building | 18 |
| Food industry | 7 |
| Metallurgy | 7 |
| Light industry | 7 |
| Electro-technical industry | 6 |
| Water supply | 5 |
| Building materials | 4 |
| Textiles | 4 |

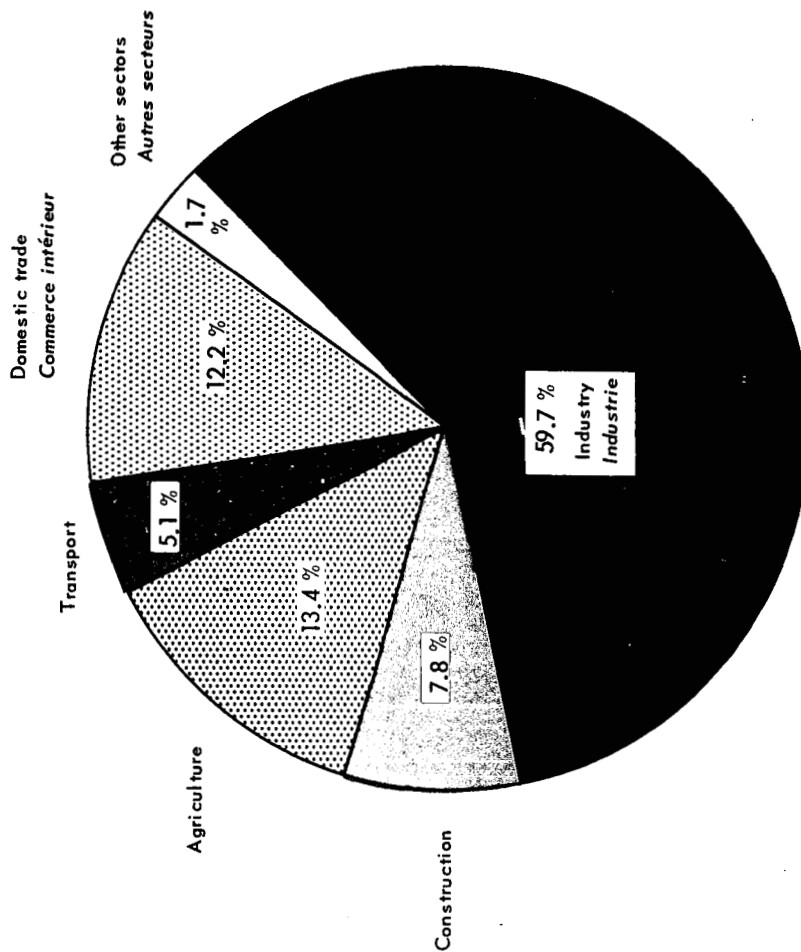
71. The 1969 investment programme was on the whole fulfilled. Domestic machinery supplies were complemented by increased imports, from both East and West Europe, mainly of automation and labour-saving equipment, but construction lagged somewhat behind planned targets. Production started in the case of a number of priority projects concerned with petrochemicals, scientific instruments, electronic data processing equipment and the building industry, but delays in the completion of various plants (i.e. for the chemical industry) continued to plague the planners.

72. In the 1970 plan attention is primarily devoted to the development of various industrial sectors with special emphasis on the electronics, electro-technical and chemical industries. Engineering, electrical, precision and optical instrument industries are among the "selected priority sectors" chosen by the planners. In general the automation of existing plants is to be pursued and a considerable expansion of building materials production is contemplated. It can be expected that the overall investment goals of the five-year plan 1966-70 will be reached but some sectors, as for instance the chemical and the building materials industries may fail to reach their targets. It remains to be seen how the need to import increased quantities of modern equipment from Western industrial countries will be reconciled with the continued planned high share of COMECON countries in the "GDR's" foreign trade.

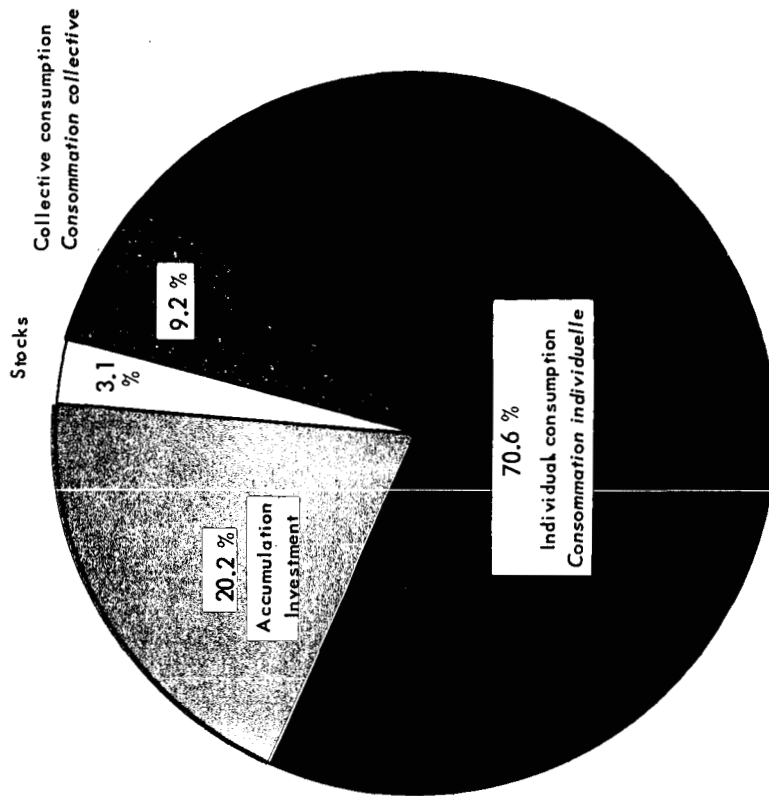
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CHART IV - GRAPHIQUE IV

ORIGIN OF THE NET PRODUCT IN 1968
ORIGINES DU PRODUIT NET EN 1968



UTILISATION OF THE NATIONAL INCOME IN 1968
UTILISATION DU REVENU NATIONAL EN 1968



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73. The fact that the Federal Republic can devote a larger part of its national income to both private consumption and investment than the "GDR" is to be explained by the large share absorbed in the "GDR" by administration, defence and public services (average 1965-67, "GDR": 18.5%, Federal Republic: 15%) and by the relatively high part of the production which accumulates in stocks and reserves ("GDR": 3.5%, Federal Republic: 1%). Up to 1968, according to official figures, the stocks and reserves had been increasing at rates varying between 4% (in 1964) and 5.3% (in 1966). Stockpiling, which was partially due to the fixing of wrong prices, seems to have created trouble. The rate of increase in 1968 was, however, apparently lower (officially +1.2%) than in earlier years, possibly as a consequence of the closer links between the producing units and the sale sector.

(d) Money and finance

74. The rôle of money in a Communist type of economy is obviously not the same as in the Western market economies. In a central command economy the objectives and the results achieved are generally expressed in physical terms. Money's function as a medium of exchange is limited, as access to many important goods is administratively controlled: it lacks the degree of autonomy it normally possesses in Western countries. Money also serves as the unit of account in that the value of individual goods is expressed in money as is the value of aggregates comprising different products, such as the output of enterprises or sectors of the economy and the national product. But the prices of goods and services are fixed by the planners primarily as a means of achieving their aims. Such prices do not adequately reflect the cost of supply, still less the present significance of the good to user. The weakness of the Communist monetary system is very apparent in foreign trade. As there is no reason why a price fixed by the planners in one country should be acceptable to those elsewhere, the value of goods traded between Communist countries has to be based on prices prevailing on outside markets. The limited rôle played by money in the Communist countries has not meant that they have been spared the problems associated with money, in particular inflationary pressure. The attempts to increase the flexibility in the economic system through reforms leading to a certain amount of autonomy of the individual enterprise, to the introduction of "economic incentives" and to the reduction of the importance of physical target and control tend to enhance the rôle of credit policies and the use of monetary techniques for ensuring the distribution of the national income according to the plan.

(i) Wages and prices

75. Up to the middle of the 1950s the supply of foodstuffs rose more rapidly than personal incomes, but when during the second half of the decade, in an effort to keep up with progress made in the Federal Republic, personal income rose by about 40% without corresponding increase in consumer goods, strong inflationary pressures arose. These pressures increased in 1960 when the collectivisation of agriculture and bad weather culminated in acute food shortages. This inflationary tendency was reflected in the sharp increase of savings deposits. The introduction of the "New Economic System" in 1963 improved both the quality and variety of consumer goods and the inflationary pressure receded. The building of the wall increased the isolation of the "GDR" and reduced the ability of the East German wage earner to make comparisons. In the "GDR", as in most Communist countries, there are indications of suppressed inflation, but it is less serious than elsewhere.

76. Between 1960 and 1964, in contrast to other COMECON countries, the "GDR" kept monetary expansion in check and total money incomes of the population rose moderately while on balance prices remained also stable. In recent years average nominal wages and incomes have increased slightly more rapidly than envisaged in the five-year plan.

Rates of Growth
(% over preceding year)

Official sources

| | Average nominal wages and incomes | Retail trade price index inclusive services | Savings Deposits | Output per man in industry |
|------|-----------------------------------|---|------------------|----------------------------|
| 1965 | 3.8 | 0.4 | 14.3 | 5.3 |
| 1966 | 2.1 | 0.4 | 12.0 | 6.0 |
| 1967 | 2.5 | 0.3 | 11.1 | 6.2 |
| 1968 | 4.7 | 0.3 | 11.6 | 5.8 |
| 1969 | n.a. | n.a. | 11.0 | 6.7 |

77. For 1969 no data on changes in average wages have so far been published but a rise comparable to that of 1968 can be expected while the cost of living increased very little. Farmers' incomes, given the setback in agriculture, are not expected to have risen. In 1968 according to the official statistics wages in the various sectors varied as follows:

Industry: 100
 Agriculture: 95.6
 Construction: 108.2
 Transport: 103.8
 Trade: 83.5

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78. In 1969 total money incomes of the population increased by about 4 billion marks. This was partly due to increase premia payments to workers and employees, a 6.8% rise in old age and other pensions and a 5.8% in children's allowances. In 1970, per capita real incomes should increase by 4% and the share of social transfer payments should increase still further.

(ii) The banking system

79. Since 1963 various measures to reorganize and adjust the financial institutions to the changing conditions have been considered. Up till January 1968 the "banks" in the "GDR" had little in common with those of Western countries. As State organs their task was simply to verify the implementation of the plan targets expressed in physical units of inputs and outputs without being required to assess the efficiency of the enterprises' use of investments which were entirely provided by the State in the form of interest-free budget subsidies. Such a system obviously led to misuses and waste of investments.

80. In January 1968 the banking system was basically modified. The aim of this reform was to use the banks as instruments to compel the enterprises to become more conscious of the need to use the resources at their disposal more efficiently. To this end institutional changes were introduced. The central banking and the commercial banking functions which had been combined hitherto within the Deutsche Notenbank were separated and entrusted to two new banks: the "Staatsbank der DDR" and the "Industrie - und Handelsbank der DDR".

81. The former, which is under the direct control of the Council of Ministers, fulfils the rôle of a central bank viz:

- (a) issues the national currency and regulates its circulation;
- (b) keeps the accounts of the State, receiving the payments for the Government and distributing via the network of specialised banks funds put by the Government at the disposal of enterprises and economic organs;
- (c) keeps the accounts of the credit organs which the central bank refinances;
- (d) holds the foreign currency reserves and effects settlement payments through its agent, the "Deutsche Auszenhandelsbank".

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82. The "Industrie - und Handelsbank" also depends on the Council of Ministers. It finances investment in industry, construction, trade and transport and grants the short-term credits for current purposes. This bank also controls the investment plans and supervises the payment of profit contributions to the State.

83. Within the new system the banks are to be used as instruments for ensuring that the allocation of resources decided by the Government is implemented with the highest possible degree of efficiency. The increased use of economic mechanisms has somewhat enhanced the autonomy of the banks on the executive side but their powers of decision are still sharply limited. Credits are to be accorded strictly in conformity with the plan. The new system is based on the assumption that the interests of the individual producer (wages and premia) the enterprise (profit) and the State (rate of growth of the economy) correspond, but in case of conflict accepts the views of the Central Authorities as to what the common interest is, so that, when judging efficiency of resources utilization, the banks must not be guided purely by their economic consideration but also the decisions by the Government. The banks may charge different rates of interest, delay or speed up allocating credits, but they have themselves to obey to the imperatives of the plan. The significance of the reforms lies in the change of methods used by the banks and other financial institutions. All expenditures should in the future be covered by income in the form of interest, fees, etc. Banks are expected to show a profit envisaged in the plan.

84. The financing of investment has been altered gradually to provide for more financial responsibility for the enterprise. The rôle of interest-free State subsidies has been seriously reduced. To encourage a more efficient use of capital a new tax, the Production Fund Levy was introduced in January 1967. This tax varies between 1.4% and 6% of the total value of enterprise capital, both fixed and circulating, in order to penalise those enterprises which keep excessive stocks. The industrial price reforms in the same year increased the estimated value of the capital on which this tax is levied. Bank credits at interest rates varying between 1.8% and 5.4% (depending on the type of loan and the priority attached to it by the State) have been increasingly used to finance investment. Finally the self-financing of enterprises out of their own accumulated funds and profits has been strongly encouraged.

85. The pattern of investment finance has altered:

| | (% of total financing) | | |
|-----------------|------------------------|------|------|
| | 1961 | 1965 | 1968 |
| State subsidies | 71.6 | 45.0 | 24.2 |
| Self-financing | 19.0 | 34.4 | 50.0 |
| Bank credits | 9.4 | 20.6 | 25.8 |

State subsidies will continue to be used to finance infrastructure investments not directly "profitable" and such sectors whose profitability in economic terms may appear doubtful but which are nevertheless considered of vital importance to the planners. In other sectors working at a profit, bank credits are gradually replacing subsidies as for instance in industry and construction but this process is much slower in agriculture. Within industry in those branches where expansion is rapid and in those considered to be particularly important, self-financing has been making rapid headway with the encouragement of the Central Authorities.

86. It remains to be seen to what extent these reforms will permit economic efficiency to become a major success indicator within a centrally directed economy. The banks are supposed to set up a complicated control system of assessing the utilization of capital with which they are not familiar and they lack experience in the field of optimisation of inputs. They will need a staff of financial and technical experts if they are to evaluate the risks involved in extending credits, and they may face considerable difficulties for doing so within the strict limits set by the overall imperative plan.

(iii) Fiscal policy and the State budget

87. Whereas in Western countries State finances depend largely on contributions by individuals and enterprises, in the Communist States the national wealth is controlled by the State and the bulk of Government expenditure comes from the State-owned enterprises in the form of profit levy, interest on capital and turnover tax on consumer goods. Only a small proportion of State revenue comes from direct taxes on individual income.

88. In the "GDR" the main sources of revenue are:

- (a) a 6% tax on the fixed and working capital of enterprises;
- (b) a levy on net profit which amounts to about 50%;
- (c) turnover tax on consumer goods which varies according to product and can be said to serve the purpose of limiting demand by reducing purchasing power;
- (d) taxes on wages and income.

89. The budgetary system used in the "GDR" is roughly similar to that of the Soviet Union. Total budget spending is divided in four main categories:

- (i) financing the national economy;

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- (ii) various social cultural measures (education, culture, health, social services, social insurance);
- (iii) defence spending;
- (iv) administration, housing, local government.

Information available on the "GDR" budget is limited to such general headings as indicated. Among these, social and cultural projects are the only detailed ones. However, it is impossible to show - even for such expenditures, the true structure because of continuously changing definitions and double counting. Moreover, the local budgets (districts, cities and local authorities) are included and form part of the Government budget.

90. During the 1960-63 period about two-thirds of the national income was channelled through the budget (as against 35% in the Federal Republic). Following the economic reform measures, the share of national income redistributed by the State gradually declined to about 50% today. The main source of State receipts is supplied by the enterprises. In 1960-63 about three-quarters of the State revenue came from the turnover tax paid by enterprises. As a result of the reforms this percentage decreased to about 65%. The production fund levy has gained growing importance as a source of State income in the most recent years.

91. The budget estimates for 1970 provide revenues and expenditure of about 79,000 million marks, a 7% increase over the 1969 budget, including 11,000 million marks representing the investment funds of enterprises which are only formally part of Government revenues and expenditure. No major changes have been introduced in the distribution of the expenditure. If the investment funds are subtracted from the budget, subsidies to the national economy absorb about 13% of the total, social cultural measures 39%, administration, both local and central, housing and miscellaneous others 38% and defence 10%. Various subsidies to the economic sectors amount to about 11 billion marks, an amount roughly similar to that provided by the enterprises' own investment funds. Among the social cultural measures nearly three-quarters are absorbed by the social insurance system and the social and public health services, the remaining quarter going mainly to education which accounts for about 8.5% of the total budget.

(iv) Military expenditure

92. The main source of information on military spending is provided by the annual budget where the defence expenditure appears under one of the main headings. It appears that up to 1962 the openly published figures did not allow any evaluation of actual spending on the military side. Announced defence spending from 1956 to 1961 amounted to just less than

1,000 million marks each year. In 1962 the budget figure nearly tripled to reach 2,700 million marks and it is believed that since then it has become more indicative of actual spending for personnel, imports of military equipment, construction and exercises and manoeuvres.

Official Defence Budget

| | in billion marks | % increase over preceding year |
|------|------------------|--------------------------------|
| 1963 | 2.8 | + 3.7 |
| 1964 | 2.9 | + 3.6 |
| 1965 | 3.1 | + 6.9 |
| 1966 | 3.3 | + 6.4 |
| 1967 | 3.6 | + 9.1 |
| 1968 | 5.8 | +61.1 |
| 1969 | 6.3 | + 8.6 |
| 1970 | 6.7 | + 6.3 |

As can be seen from this table, the defence budget increased on average by about 6% per year between 1963 and 1967. In 1968 the defence budget rose by 61%. A large part of this increase seems, however, to be due to the inclusion in the defence vote of security expenditure previously included under other categories of the budget. Simultaneously an effort to modernise army equipment took place, which contributed undoubtedly to the increase but to an extent that cannot be identified given the switch to different definitions to those included in this budget item.

93. As in the case of other Communist countries, the "GDR" budget figures do not cover all the military expenditures generally included in Western defence budgets. For instance, of all Warsaw Pact countries the "GDR" has the largest number of Soviet troops permanently stationed on its territory. According to a recently published East German report the USSR has paid all costs connected with the stationing of Soviet troops in the "GDR" since 1959 but it is not excluded that some form of compensation for such costs might have been applied by the "GDR", either in the form of goods exported or in the form of exports under special conditions. Furthermore, the "GDR" is dependent on the USSR for its heavy military equipment (tanks, armoured vehicles, missiles, aircraft). Domestic production of weapons is small except for minesweepers, motor vehicles, communication equipment and small arms. It is not known to what extent sales of military related items such as optical and precision equipment to the Soviet Union offset "GDR" purchases of military hardware, or what part of such purchases is covered by the budget.

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94. The "GDR" was for a long time the only Warsaw Pact member with no compulsory military service. This situation ended with the adoption of a conscription law in January 1962 making all males between the ages of 18 and 26 years liable for a basic term of 18 months military service. Army ground forces are relatively small in number (total forces: 126,000 men), primarily because of the shortage of manpower, but are patterned on the Soviet army with high mobility firepower and flexibility for tactical nuclear warfare. It is difficult to evaluate the real cost of the actual defence effort in terms comparable to Western outlays. In 1970 the budget for defence will probably amount to about 6% of the Net Material Product. Estimated defence spending not included in the budget may add another 1% to 1.5% of NMP which would lead to the assumption that total military spending may be estimated somewhere between 7% and 7.5% of the Net Material Product, which would correspond roughly to between 5.5% and 6.5% of GNP.

(e) Standard of living

95. Comparisons of standard of living are hazardous to express in figures as the qualitative factors play a determining rôle in any appreciation of the sort. Nevertheless, all specialists agree that the population of the "GDR" enjoys the highest standard of living of all Communist countries. Evaluations of gross national product per capita may be indicative of the stage reached in the production of goods and services, but they do not permit to evaluate the degree of utilization of the wealth produced. In terms of GNP per head, Czechoslovakia might have a lead over the "GDR", but as investment and stockpiling in the former absorbs a larger share of GNP, consumption per head is larger in the "GDR". In fact, in terms of per capita consumption the East German population occupies an intermediate position between the Federal Republic and the other East European countries amounting to about two-thirds of West German per capita consumption and between 40% and 45% above the level reached in the Soviet Union.

(i) Consumption of foodstuffs

96. Consumption of foodstuffs per head is roughly comparable in both parts of Germany but the East German diet, though equivalent in calories absorbed, is much less varied. The average "GDR" consumer takes more starchy foods (potatoes, bread) fats, and also vegetables, but less quality meats, fresh fruit, milk, tea, coffee, than the average Federal Republic citizen.

Annual per capita Consumption of Selected Foodstuffs (1967)

| | Unit | Fed. Rep. | "GDR" |
|---------------|--------|-----------|---------|
| Flour (bread) | Kg | 68.9 | 94.0 |
| Potatoes | Kg | 110.0 | 156.6 |
| Meat | Kg | 70.4 | 61.5 |
| Fresh fruit | Kg | 90.0 | 32.7 |
| Vegetables | Kg | 62.9 | 76.0 |
| Milk | Kg | 104.0 | 101.2 |
| Beer | litre | 127.2 | 84.5 |
| Wine | litre | 15.1 | 4.7 |
| Cigarettes | number | 1,652.0 | 1,150.0 |

(ii) Consumer durables and services

97. Consumer manufactures in the "GDR" are particularly lacking in quality as compared to Western standards. Shoes and clothing produced in the "GDR" could find no market in Western Europe, and their poor quality has led to the recurrent build-up of unsaleable stocks despite drastic reductions in prices of unsold merchandise. This is not to deny that considerable progress has been achieved over the last decade, but the expectations of the consumer have apparently grown more rapidly. The most serious deficiencies in the "GDR" are in the supply of the more expensive items such as automobiles, refrigerators, television sets and in private services. The lack of automobiles (about 48 per 1,000 inhabitants in 1967 as compared to 230 in France, 184 in the Federal Republic and 5 in the USSR) has been partly compensated by the use of motorcycles and low cost public transport. The use of telephones has expanded but remains well below that in the Federal Republic and is mainly confined to officials, doctors and others requiring telephones for their work. Consumer services (barbers, tailors, laundries) have not kept pace with rising demand and employment in private services (building and mechanical trades) has declined to low levels.

(iii) Housing

98. The poor quality of housing constitutes one of the most glaring deficiencies in the "GDR". Less severe war damage than in the Federal Republic and the decreasing population until 1961 tended to ease the housing situation but new construction lagged behind requirements. As a result, although East Germans may have more housing units per capita and pay much less rent than in the West, the useful living space (18.3 sq.m in 1967 as against 21.5 sq.m in the Federal Republic) is smaller, the houses are much older and poorly equipped. 64% of the "GDR" houses in 1967 had no inside toilet, bath nor central heating. As a consequence, since 1960 the repair works absorbed on average about 30% of the outlays for building.

(iv) Health, culture and education

99. In contrast to private services the "GDR" has emphasized medical and educational services. The number of students at all educational levels has risen steadily and university education has been kept open to as large a group as possible. Scholarships and study grants have been extended on a large scale. However, the scope of East German education seems more narrowly confined to the technical and scientific needs of the economy and burdened with political indoctrination. Considerable resources are devoted to medical services. Many new hospitals and rest houses have been built but doctors are still relatively scarce (in 1966 12 doctors and 4 dentists per 10,000 people) and the elderly groups in an ageing population are the most affected by this shortage.

(v) Purchasing power of incomes

100. The general trend in the "GDR" has been towards more equality of living standards. The average nominal household income appears to be about the same as in the Federal Republic, but in the "GDR" extreme incomes (high or low) are less frequent than in the Federal Republic. Similarly, the price structure seeks to favour the low income groups. Low prices are maintained for such goods as bread, public transport, housing, health, education, while on the other hand, automobiles, television sets, coffee, tropical fruits, are treated as luxury goods and kept expensive. It has been calculated that in 1966 1 kilo of rye bread required the equivalent of 10 minutes of the industry worker in the "GDR" as against 15 minutes in the Federal Republic, 1 kilo of potatoes equalled 17 minutes work in the "GDR" and 27 minutes in the Federal Republic, but at the other extreme 1 kilo of coffee required 23 hours in the "GDR" as against 3 hours 46 minutes in the Federal Republic. Similarly the cost of a private car represents in the "GDR" about 5 times more hours of work than in the Federal Republic. These trends towards equalization do not apply to the party leadership. The State rationing of all housing for instance favours the distribution of the better-equipped dwellings to those who support the régime and the same is true for telephones, automobiles, services, etc.

III. ECONOMIC RELATIONS OF THE "GDR" WITH THE FEDERAL REPUBLIC AND THE OUTSIDE WORLD

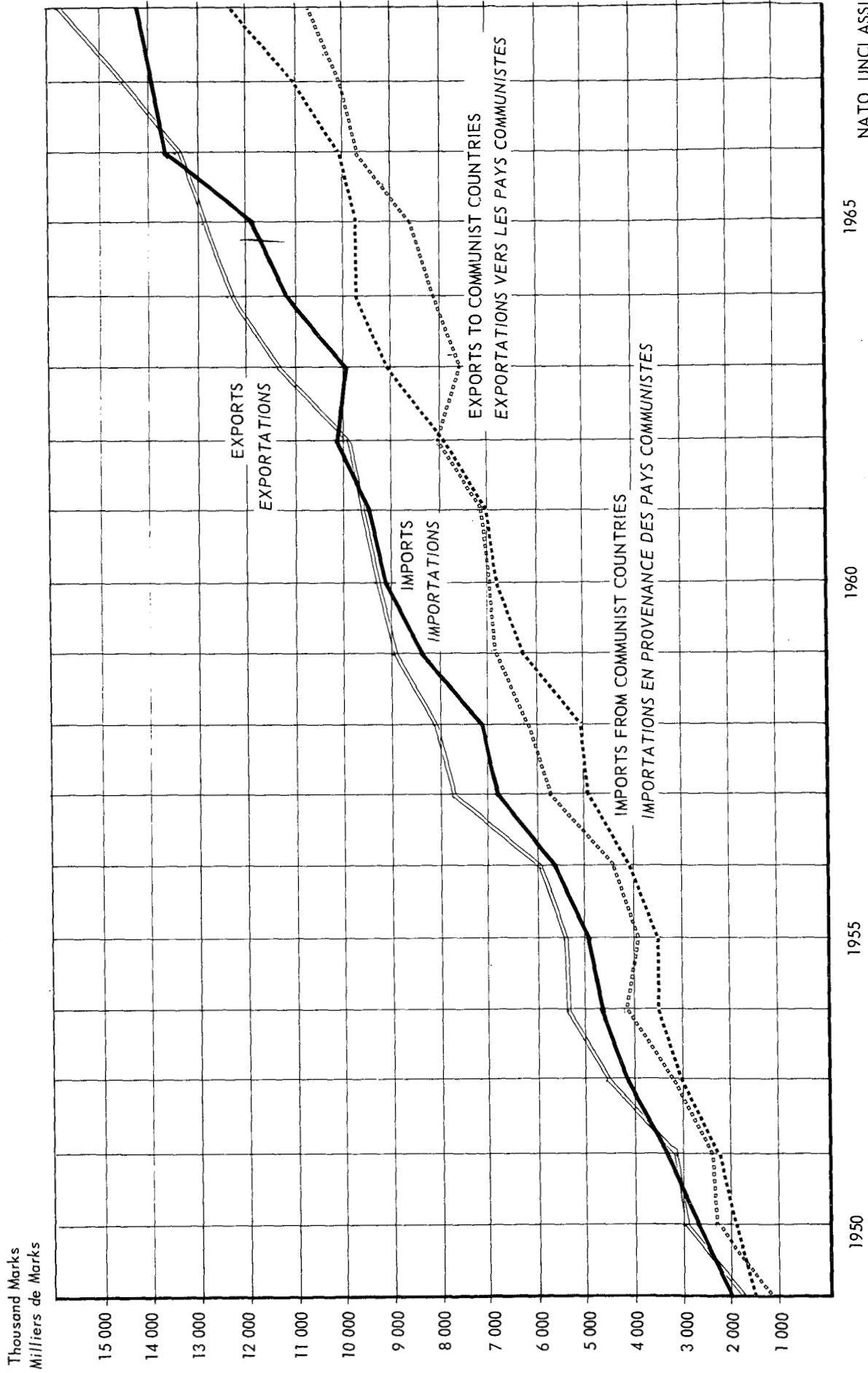
(a) Foreign economic relations

(i) General developments

101. The first five-year plan was characterized by the wish of the Authorities to reach industrial self-sufficiency after the partition of Germany through the development of basic industry, machine-building industry, shipbuilding and other main sectors whose products, essential for the functioning of the existing industrial structure, came before the

CHART V - GRAPHIQUE V

DEVELOPMENT OF FOREIGN TRADE 1950 - 1968
DEVELOPPEMENT DU COMMERCE EXTERIEUR 1950 - 1968



war from the Western part of the country. This policy was replaced in the early 1960s by the general aim to turn the "GDR" into a major supplier of technically advanced industrial products to the COMECON partners. This led to a rapid development of the electro-technical, optical, precision mechanical industries and not least the machine-building and chemical industries. As a result, the foreign trade of the "GDR" took a distinct one-sided orientation towards the East. The COMECON partners in turn, apart from strategic and political considerations, have developed a strong vested interest in the maintenance of the "GDR" as a main supplier of sophisticated capital goods not payable in convertible currencies.

102. According to "GDR" sources, foreign trade rose at an average annual rate of 6.3% between 1960 and 1968 to reach 30.1 milliard valuta marks (about \$7 billion). This increase of 63% in trade since 1960 can be compared with an increase of 38% in the Net Material Product over the same period. In 1968, imports amounted to 11% of the NMP and exports to 12.3%. The calculations are, however, based on valuta marks of which the exchange rate is 4.20 to the US \$. Bearing in mind the differences between the purchasing power of the East German mark and the valuta mark, it might be estimated that total foreign trade (i.e. imports plus exports) represented over 30% of the GNP in 1968 as against 28% in the Federal Republic. These results reflect the economic policy of the leadership which intends to rely increasingly on foreign trade as a factor of economic growth.

(ii) Geographical distribution of foreign trade

103. The share of Communist countries in "GDR" foreign trade has fluctuated between 79% in 1962, 72% in 1966 and 76% in 1968. During the same period the share of non-Communist developed countries (including the Federal Republic) varied between 17% in 1962, 22% in 1966 and 20% in 1968. Trade with the developing countries of the non-Communist world remained at about 4%.

- Communist countries

104. The Soviet Union remains by far the most important trade partner of the "GDR". In 1968 its share in the total amounted to 43% as against nearly 50% in 1962. In value this trade rose from 8 milliard valuta marks in 1960 to nearly 13 milliard in 1968 (exports 6,582 million valuta marks; imports 6,269 million valuta marks), representing 15.5% of total Soviet trade and making the "GDR" the most important trading partner of the USSR.

105. The other COMECON countries absorb about a quarter of total foreign trade of the "GDR". The order of importance of these countries in 1968 was as follows:

(million valuta marks)

| | "GDR" Exports | "GDR" Imports |
|----------------|---------------|---------------|
| Czechoslovakia | 1,689 | 1,381 |
| Poland | 1,224 | 942 |
| Hungary | 813 | 720 |
| Bulgaria | 637 | 514 |
| Rumania | 376 | 324 |

106. The share of the Asian Communist countries was about 2%, less than half of which (0.9% of total) with Communist China (exports 157 million valuta marks; imports 116 million valuta marks), reflecting a sharp fall compared with 1960 when China absorbed nearly 4.5% of total "GDR" foreign trade. Trade with North Vietnam and North Korea consisted mainly of "GDR" exports (about 1% of total exports in each case) but "GDR" imports from these countries were negligible.

107. Trade with Cuba after 1960 expanded rapidly and in 1968 turnover with that country (exports 151 million valuta marks; imports 148 million valuta marks) exceeded exports plus imports to and from Communist China. In 1968 this trade totalled about 1% of foreign trade of the "GDR" and was about the same as that with most industrialised Western countries(1).

- Non-Communist countries

108. The NATO countries had a share of about 6.3% in total foreign trade of the "GDR" between 1960 and 1968(1). The most important Western trade partners of the "GDR" are obviously the industrial countries:

Official "GDR" Statistics - 1968

(million valuta marks)

| | "GDR" Exports | "GDR" Imports |
|----------------|---------------|---------------|
| Sweden | 144 | 168 |
| Switzerland | 111 | 191 |
| Netherlands | 166 | 127 |
| United Kingdom | 128 | 160 |
| Italy | 130 | 134 |
| France | 144 | 114 |

(1) Intra-German trade is not included in this percentage and treated separately under another heading in this paper.

109. Among the Communist countries, the "GDR" is the one where trade with the developing countries of the non-Communist world plays the smallest rôle. The United Arab Republic has roughly the same share as Communist China (0.9% of total) and India and Brazil absorbs most of the remaining (0.7% and 0.6% respectively).

(iii) Commodity composition of foreign trade

110. Official information on the commodity pattern of "GDR" foreign trade is difficult to reconcile with the usual Western definitions. Nevertheless, it is clear that the commodity composition is dominated by two imperatives: the heavy dependence on raw material imports and the need to export industrial products.

111. In 1968, 60% of total imports consisted of raw materials, semi-finished products and fuels, in addition foodstuffs accounted for 17% of imports, machinery and equipment for about 20%, consumer goods for 3%. Imports of foodstuffs have tended to decrease up till 1968 as a result of the development of agriculture, but the bad harvest in 1969 is bound to reverse this trend as food imports will probably absorb in 1970 a quarter of total imports if not more. Since 1960 the composition of imports has undergone some major changes. Imports of products of the metal processing industries have steadily increased their share while those of raw materials and agricultural products as well as of the light and food industries tended to decline. This trend is indicative of the desire to increase the imports of highly productive investment goods.

112. On the export side, the type of goods sold has broadly been kept unchanged since 1960. Machinery and equipment represents nearly half of total exports and consumer goods about one-fifth. Raw materials, fuels and semi-finished materials, accounted for most of the rest and foodstuffs for a minor fraction (about 3%). The dominant rôle played by the products of the metal processing industry has been maintained (56% of total exports in 1968).

(iv) Economic co-operation within COMECON

113. The "GDR" occupies a privileged position within the COMECON community. With 0.4% of the total area and only 5.1% of its population, its share in total COMECON exports amounted in 1967 to 18%. This position has, however, been gradually eroded (in 1958 this percentage was 22%) as a result of expanding exports, mainly by Bulgaria and to a lesser extent by Hungary, while the USSR (37%) and Rumania (5%) maintained a constant share in total exports of COMECON. The "GDR" has

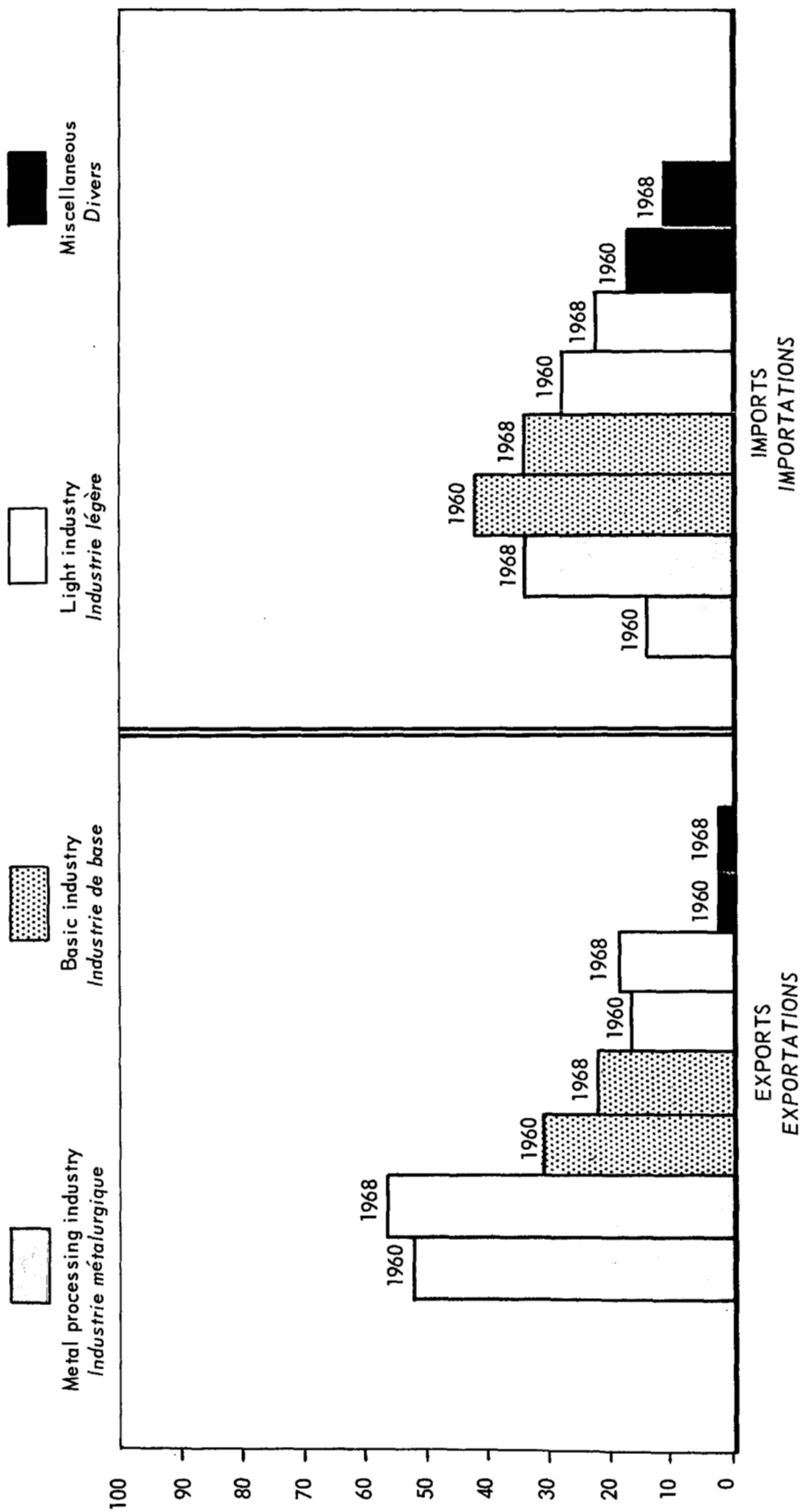
only been able to keep its position at the expense of the development of its exports to the Western industrialized countries. Its share in COMECON exports to the industrialized West declined from 23% in 1958 to 14% in 1967. Heavy delivery commitments to the Soviet Union and its efforts to keep its leading rôle in COMECON reduce its capabilities of expanding its exports to developing countries. The "GDR" industry is undoubtedly the most advanced technologically within the COMECON area, yet it fails in competition with the West in open markets. This helps to explain why the "GDR" appears to favour a relative degree of COMECON autarky all the more since within this area its most direct competitors, Czechoslovakia, suffered some disruption of its industry in 1968. In addition, this attitude is politically motivated by the wish to appear as a loyal ally of Moscow.

114. While the "GDR" had originally been a strong supporter of closer COMECON integration, it has gradually come to the view that it would have little to gain from closer regional integration at this stage and has even occasionally given some support to Rumania in its anti-integration stand (COMECON council meetings in early 1969). At the same time the "GDR" has concentrated its efforts on strengthening its bilateral ties with the Soviet Union so as to appear increasingly as the main economic partner of the USSR in COMECON. Hence its readiness to insist on long-term planning co-ordination, specialization and co-operation with the aim of maintaining its predominant position in a more closed economic community. On the other hand, the "GDR" has been opposed to the free exchange of information and documentation in the scientific and technical fields among COMECON member countries but would welcome any expansion of co-operation in research on a business footing. The "GDR" has been constantly expressing the view that "scientific-technological findings represent merchandise whose exchange required stimulation by economic means"(1).

115. The "GDR" has participated in a few cases of joint investment projects set up with the assistance of other COMECON countries such as a cellulose plant in Rumania initiated in 1956, a phosphate mine project in the Estonian Soviet Republic begun in 1963. It also invested in Polish lignite mining. In 1967 the "GDR" agreed to deliver capital goods on credit to the Soviet Union in return for oil and further investments in the Soviet Union were agreed in 1969 but the commodities and amounts involved were not revealed. Co-operation with the USSR will mainly develop in the chemical sector, electronics, mechanical engineering, shipbuilding and the development of natural gas resources. Various specialized working programmes have been set up and contacts at ministerial level have been established.

(1) Humml in "Socialistische Aussenwirtschaft", October 1968.

CHART VI - GRAPHIQUE VI
 PATTERN OF FOREIGN TRADE BY COMMODITY GROUPS IN %
 STRUCTURE DU COMMERCE EXTERIEUR PAR GROUPES DE PRODUITS EN %



116. Finally, as mentioned earlier, COMECON co-operation has so far not been of much help to the "GDR" in overcoming its labour problem. Inside COMECON the concept of labour mobility has been rejected in principle although some of the member countries may have surpluses (Poland, Bulgaria).

(v) Economic aid to developing countries

117. The special involvement of the "GDR" in COMECON as indicated above may be part of the explanation why the industrially most advanced country in the Communist world devotes the smallest fraction of its trade to exchanges with the developing countries outside the Communist area. Similarly, in the field of economic aid relative to its economic potential the "GDR" lags behind most of the other COMECON countries such as Czechoslovakia, Hungary and Poland. Since 1954 until the end of 1969 the "GDR" may have committed about \$535 million of which less than \$200 million has so far been drawn by the recipient countries. In recent years, after deduction of reimbursements, the net actual flow of new "GDR" economic aid has been estimated at \$15-20 million annually. Even if aid to Communist countries such as Cuba, North Vietnam (about \$25 million annually in recent years) were to be included, the amounts would not exceed 0.15% of the "GDR's" GNP (Western estimates). This aid can hardly be compared to the steady flow of economic aid granted by most of the Western countries. For instance, as against the \$200 million aid actually delivered so far by the "GDR" to developing countries, the Federal Republic of Germany has granted aid from both public and private sources amounting to some \$8,900 million until the end of 1968.

118. Of the total volume of economic aid earmarked by the "GDR" for developing countries, 57% would go to the Middle East, 17% to the Far East, 14% to Latin America and 12% to Africa. Among the 13 countries which have so far accepted "GDR" economic aid since 1954, the main recipients are: the United Arab Republic, Indonesia, Ceylon, Syria, Ghana, Burma and Yemen, in that order. These aid commitments have been undertaken mainly for political reasons, i.e. to improve the status of the "GDR" and to seek official recognition.

(vi) Economic relations with Western Europe

119. The interest of the "GDR" in trade with the West is mainly motivated, as in other Communist countries, by its awareness of the urgent need for improving its technology. Relatively little technologically advanced equipment can be obtained from the other Communist countries as the "GDR" is already the most advanced among this group. In order to keep its leading industrial rôle within COMECON and in view of the fact that the other Communist countries are also making efforts to obtain highly developed capital goods in the West, the "GDR" is bound to attach special importance to its economic relations with the West. Capital equipment represents over one-third of the "GDR's" imports from the West.

120. In order to promote this trade, the "Foreign Trade Chamber" played in the past an important rôle as this organization, which was entitled to conclude trade agreements with its foreign counterparts, had set up "trade missions" permanently assigned to Western countries. In early 1970 it was announced that in the future a newly established "Office for External Commerical Relations" would take over the most important tasks from the earlier "Chamber" apparently in an attempt to enhance the official character of the foreign trade relations with Western countries. This new "Office" will be directly responsible to the Ministry for Foreign Trade and will be entitled to conclude the trade agreements while the Chamber will be concerned with the general promotion of foreign trade and will provide the required public relations support. The new institutional set-up is not to build up an extensive organization nor is it supposed to constitute a bureaucratic intermediate organ. It is, on the contrary, intended to facilitate and accelerate trade relations with the West. Whether this "Office" will establish its own liaison agencies abroad is still an open question.

121. While in 1967 and 1968 "GDR" trade with the developed market economies had stagnated, it increased markedly in 1969 (+30%) mainly as a result of the considerable progress of intra-German trade, as described in a separate section of this paper. In contrast, trade turnover with socialist countries grew less rapidly in 1969 (+7.7%) than in 1968 (+9.4%), stressing the renewed interest of the "GDR" in expanding its trade relations with the West at the moment when emphasis has been put on rapid automation and improved labour productivity.

122. Given the level of technology reached by its industry the "GDR" is probably the best equipped Communist country to produce goods that may be of interest to the West. The salability of "GDR" manufactures is, however, still limited because of problems of quality, technological obsolescence and inadequate sales organization. The "GDR" benefitted greatly from the economic expansion in Western Europe and the continued liberalization of imports into that area. Indeed during 1968 and 1969 "GDR" exports to, exceeded imports from most NATO countries: France, the Netherlands, Belgium, Italy, the United Kingdom, Norway, Canada. Nevertheless, this surplus was offset owing to the "GDR" imports from the United States and more especially from the Federal Republic. During 1969 NATO countries as a whole extended \$105 million officially backed export credits.

123. Prospects for the future are less satisfactory. In the short run, imports of foodstuffs may reduce the share of the other commodities, including those coming from the West. According to what is known of the next five-year plan 1970-76, trade in general is to double in this period but trade relations with the Communist countries are to increase even faster so that the share of Western countries is likely to be reduced. The priority of political aims over economic considerations has thus been reasserted and exchanges with the Western countries are to be kept at a minimum in order to avoid any dependence on the West. Nevertheless, the "GDR" interest for Western techniques and sophisticated equipment will undoubtedly continue.

(vii) International organizations

124. The "GDR" has long been trying, though without much success, to gain access to various United Nations organizations. The application for full membership to the Economic Commission for Europe in Geneva has been submitted year after year and was last discussed without result at the ECE meeting in April 1970. The "GDR" also submitted a memorandum at the UNCTAD meeting in New Delhi (1968) indicating its wish to become a full member, but this proposal did not meet with the approval of the developing countries. Unlike other COMECON countries, but like the Soviet Union, the "GDR" has, however, not applied up to now for full membership or even observer status in GATT. Possibly the "GDR" may feel that there is a certain rivalry between UNCTAD and GATT and that a large number of developing countries are rather critical of the latter institution. An application for membership to GATT might jeopardize the "GDR" efforts to enter UNCTAD, which seems to be of more interest to the "GDR" Authorities.

125. The attitude adopted by the "GDR" as regards the European Economic Community has been less negative more recently than in the past. This earlier negative attitude could hardly be maintained as other COMECON countries and even the USSR gradually modified their stand vis-à-vis the Common Market.

(b) Intra-German trade

(i) Special status

126. In view of its special character, trade between the two parts of Germany has a particular status. For the Federal Republic inter-zonal trade is important politically because it constitutes one of the few remaining links with the other part of Germany. Whereas the "GDR" considers this trade as foreign trade, the Federal Republic insists on treating it as a purely internal matter. In a protocol to the Rome Treaty, the trade between the Federal Republic and the "GDR" is officially recognized as German internal trade; the "GDR's" "exports" to the Federal Republic thus enter the Federal Republic free of customs duties. A special clause in the trade agreements concluded between the two parts of Germany provides explicitly that the Federal Republic cannot re-export goods bought in the "GDR".

127. Certain administrative obstacles remain in the intra-German commercial relations. Three types of quotas are still in force. There is a quantitative limit on certain categories of goods (mainly agricultural products and mineral oils); the import of others is subject to individual authorization; other goods, amounting to 50% of the Federal Republic purchases, are covered by a general authorization. Moreover, in keeping with the bilateral character of intra-German trade, a system of annual clearing between deliveries and purchases is envisaged. In the 1960 agreement a provision was included for annual cash supplements of trade imbalances but this clause proved to be of little use. In the current agreement signed in December 1968 the cash supplement provision was suspended indefinitely. The main obstacle to a serious expansion of intra-German trade is the lack of flexibility on the part of the "GDR" in offering goods of interest to the Federal Republic.

(ii) Relative economic importance of intra-German trade

128. From an economic point of view this trade is much less important to the Federal Republic than to the "GDR". In 1969 exports to the "GDR" represented less than 2% of total exports of the Federal Republic and imports only about 1.5%. The goods imported by the Federal Republic consist mainly of: agricultural products (24%), textiles (20%), products of the metal processing industries (15%), mining products (8%), chemical products (7%) and miscellaneous goods - paper, ceramics, glass, rubber products, wooden goods, etc. Although important, they are not vital to the economy of the Federal Republic and could, if need be, be purchased in other countries.

129. Intra-German trade is far more essential for the "GDR". According to the "GDR" trade statistics, intra-zonal trade amounted to 1.0% of its total trade turnover in 1968. Among its main trading partners, the Federal Republic came third after the Soviet Union and Czechoslovakia and before Poland. The "GDR" imports far more from the Federal Republic than from all other Western industrialized countries taken together. The importance of inter-zonal trade for the economy of the "GDR" is even larger than these overall percentages may reveal given the type of goods that the "GDR" can buy in the Federal Republic. It has indeed through this trade some access to Western technology which is essential for maintaining its position in COMECON.

(iii) Recent developments

130. According to the trade statistics of the Federal Republic, intra-zonal trade developed as follows during recent years:

(million US \$)

| Year | Fed. Rep. Exports | Fed. Rep. Imports | Balance |
|------|-------------------|-------------------|---------|
| 1960 | | | |
| 1965 | 298 | 316 | - 18 |
| 1966 | 406 | 336 | + 70 |
| 1967 | 371 | 316 | + 55 |
| 1968 | 359 | 360 | - 1 |
| 1969 | 561 | 399 | + 162 |

As can be seen from this table, the Federal Republic exports fluctuated rather widely with a 36% increase in 1966 over 1965 followed by two years of decrease (1968: -12% as compared to 1966) and an impressive increase of 56% in 1969. Imports by the Federal Republic show less marked changes from year to year.

(iv) Prospects

131. Owing to the need to balance sales and purchases, the "GDR" will have to step up sales considerably in 1970. It is possible that the "GDR" will have to reduce its purchases and that there will be a reduced rate of growth in the future. Nevertheless, the Federal Republic hopes to maintain the upward trend in intra-zonal trade and has recently sought to reach a better balance in its purchases by considering the possibility of importing complete plants from the "GDR". It remains to be seen, however, to what extent the "GDR" will respond to such proposals in view of its commitments vis-à-vis the Soviet Union.

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TABLEAU I

TABLE I

DEVELOPMENT OF THE POPULATION 1960-1968
EVOLUTION DE LA POPULATION ENTRE 1960 ET 1968

| | Unit. | 1960 | 1964 | 1965 | 1966 | 1967 | 1968 | Unité | Population totale(1) Femmes (3) Population active(4) Enfants Personnes de plus de 65 ans (hommes) et plus de 60ans(femmes) Accroissement naturel de la population Mortalité infantile Espérance de vie des hommes Espérance de vie des femmes |
|--------------------------------------|----------|-------------|---------------|-------|-------------|-------|-------|--------------|--|
| Total population (1) | Thousand | 17.241 | 16.984 (2) | 17020 | 17058 | 17082 | 17084 | Milliers | |
| Women (3) | per cent | 54.9 | 54.4 | 54.3 | 54.3 | 54.2 | 54.1 | Pourcent. | |
| People of working age (4) | " | 61.3 | 58.4 | 58.2 | 58.0 | 57.8 | 57.8 | " | |
| Children | " | 21.0 | 23.2 | 23.2 | 23.2 | 23.1 | 23.0 | " | |
| People above 65 (Men) and 60 (women) | " | 17.6 | 18.4 | 18.6 | 18.8 | 19.1 | 19.1 | " | |
| Natural increase of Population | per 1000 | 3.4 | 3.9 | 3.0 | 2.5 | 1.6 | 0.0 | Pour 1000 | |
| Infant Mortality | " | 38.8 | 28.6 | 24.8 | 22.9 | 21.4 | 20.4 | " | |
| Life expectancy of men | years | 67.0 (5) | | | 68.5 (6) | | | années | |
| Life expectancy of women | years | 72.2 (5) | | | 73.5 (6) | | | années | |

(1) Annual average.

(2) From 1964 calculated on the bases of the population census in 1964.

(3) End of year

(4) Persons aged 15 to 65 years (men) and 15 to 60 years (women) plus 5/12 of the persons aged 14 + 15 years

Sources: Statistical yearbooks of the "GDR", calculations and estimates of the German Institute for Economic Research (DIW)

(1) Moyenne annuelle

(2) A partir de 1964, calcul d'après le recensement de décembre 1964

(3) Fin de l'année

(4) Personnes de 15-65 ans (hommes) et de 15 à 60 ans (femmes), plus 5/12 des personnes âgées de 14 à 15 ans

Sources: Annuaire statistiques de la "RDA", calculs et estimations de l'Institut allemand de recherche économique (DIW)

(5) 1960-61

(6) Moyenne 1963-1966.

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TABLEAU II

TABLE II

THE SOCIAL - ECONOMIC STRUCTURES OF THOSE GAINFULLY EMPLOYED (ANNUAL AVERAGE)
STRUCTURE SOCIO-ECONOMIQUE DE LA POPULATION EXERCANT UNE ACTIVITE REMUNERE

| | Absolute figures in thousand | | | | In per cent of the total gainfully employed | | | | |
|---|------------------------------|------|------|------|---|------|------|------|---|
| | 1960 | 1963 | 1965 | 1968 | 1960 | 1963 | 1965 | 1968 | |
| Workers and apprentices | 7045 | 6951 | 7049 | 7270 | 81.3 | 82.0 | 83.0 | 84.2 | Ouvriers et apprentis |
| Members of Co-operatives | 845 | 1065 | 1072 | 1040 | 9.8 | 12.5 | 12.6 | 12.1 | Membres des coopératives |
| Self-Employed Persons of which : | 400 | 280 | 262 | 230 | 5.1 | 3.3 | 3.1 | 2.7 | Travailleurs indépendants dont : |
| Independent farmers and Horticulturists | - | 15 | 13 | 11 | - | 0.2 | 0.2 | 0.2 | Exploitants agricoles et horticulteurs |
| Independent Crafts men | - | 198 | 188 | 169 | - | 2.3 | 2.2 | 2.0 | Artisans |
| Independent Wholesalers and Retailers | - | 47 | 42 | 33 | - | 0.6 | 0.5 | 0.4 | Commerçants (gros et détail) |
| Free-lance Workers | - | 20 | 19 | 17 | - | 0.2 | 0.2 | 0.2 | Travailleurs libres |
| Helping members of family | 330 | 180 | 111 | 90 | 3.8 | 2.1 | 1.3 | 1.0 | Personnes travaillant au sein de leur famille |
| TOTAL : | 8660 | 8476 | 8494 | 8630 | 100 | 100 | 100 | 100 | TOTAL |

Source: Statistical yearbook of the "GDR";
Statistical Pocketbook of the "GDR" 1969;
calculation and estimates of the "DIW"

Sources: Annaires statistiques de la "RDA";
Manuel statistique 1969 de la "RDA";
calculs et estimations du "DIW"
(Institut allemand de recherche économique)

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TABLE III
 TABLEAU III
 ORIGIN OF THE NET PRODUCT (MPS) (1) IN COMPARABLE PRICES (BASIS: 1967)
 ORIGINES DU PRODUIT NET (SPM) (1) EN PRIX COMPARABLE (BASE : 1967)

In per cent
 En pourcentage

| | 1955 | 1960 | 1965 | 1966 | 1967 | 1968 | |
|---|------|------|------|------|------|-------|--|
| Net product of the Economic Sectors - Total | 100 | 100 | 100 | 100 | 100 | 100 | Produit net des secteurs économiques - Total |
| - Industry (2) | 52.1 | 56.4 | 59.2 | 59.2 | 59.2 | 59.7 | Industrie (2) |
| Construction | 5.8 | 7.0 | 7.4 | 7.4 | 7.6 | 7.8 | Construction |
| Agriculture (3) | 20.2 | 16.4 | 13.8 | 13.9 | 13.9 | 13.4 | Agriculture (3) |
| Transports PTT | 6.6 | 5.5 | 5.4 | 5.3 | 5.2 | 5.1 | Transports, PTT |
| Domestic Trade | 14.2 | 13.0 | 12.5 | 12.5 | 12.4 | 12.2 | Commerce intérieur |
| Other Sectors | 1.0 | 1.6 | 1.7 | 1.7 | 1.7 | 1.7 | Autres secteurs |
| Including Indirect price subsidies | 7.0 | 2.7 | 4.0 | 4.1 | 4.3 | 4.1 | Y compris subventions indirectes à la production |
| Net product in milliard marks | 54.1 | 73.0 | 87.7 | 92.1 | 97.2 | 102.2 | Produit net en milliards de marks. |

(1) "Produced National Income" in the Material product System (without services)

(2) Including handicraft but exclusive building trade.

(3) Including forestry

Sources: Statistical yearbooks of the "GDR", Statistical Pocketbook of the "GDR" 1969 and German estimates.

(1) "Revenu national produit" suivant le système du produit matériel (sans les services)

(2) Y compris les métiers de production mais sans la construction

(3) Y compris la sylviculture.

Sources: Annuaire statistique de la RDA ; Manuel statistique 1969 de la "RDA" ; estimation allemande.

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TABLE IV

TABLEAU IV

UTILIZATION OF THE NATIONAL INCOME
at comparable prices. (In per cent)

UTILISATION DU REVENU NATIONAL
en prix comparables (en pourcentage)

| | 1955 | 1960 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 ^P | |
|---|------|------|------|------|------|------|------|-------------------|---|
| Domestic utilization of National Income | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | Utilisation intérieure du revenu national |
| Investments. | 9.8 | 18.1 | 17.3 | 19.1 | 19.9 | 21.2 | 21.4 | 20.2 | Investissements |
| Basic means | 8.5 | 15.9 | 14.4 | 15.7 | 15.7 | 16.2 | 18.1 | 17.1 | Moyen de base |
| Productive | 4.2 | 9.6 | 8.9 | 9.9 | 10.1 | 10.4 | 12.0 | 11.3 | productifs |
| Non-productive | 4.3 | 6.3 | 5.5 | 5.8 | 5.6 | 5.8 | 6.1 | 5.8 | non-productifs |
| Stocks | 1.3 | 2.2 | 2.9 | 3.4 | 4.2 | 5.0 | 3.3 | 3.1 | Stocks |
| Consumption | 90.2 | 81.9 | 82.7 | 80.9 | 80.1 | 78.8 | 78.6 | 79.8 | Consommation |
| Individual Consumption | 81.3 | 73.7 | 73.9 | 72.2 | 71.6 | 70.2 | 69.9 | 70.6 | Consommation individuelle |
| Collective Consumption | 8.9 | 8.2 | 8.8 | 8.7 | 8.5 | 8.6 | 8.7 | 9.2 | Consommation collective |

P) Provisional figures

P) Chiffres provisoires

Source : Statistical Pocketbook of the "GDR" 1969, and "DIW" estimates

Source : Manuel statistique 1969 de la "RDA" et estimations du "DIW" (Institut allemand de recherche économique)

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TABLEAU V

ECONOMIC DEVELOPMENT UNDER THE LONG TERM PLAN 1966-1970
CROISSANCE ECONOMIQUE SUIVANT LE PLAN 1966-1970

| | Planned Growth 1966-1970 Annual average | Actual Growth 1966-1968 Annual average | Growth 1968 | Planned Growth 1969 | Growth 1969 | Planned Growth 1970 | |
|---------------------------------|---|--|-----------------|------------------------|-----------------|------------------------|--|
| | croissance prévue 1966-1970 | croissance réelle 1966-68 | Croissance 1968 | croissance prévue 1969 | croissance 1969 | Croissance prévue 1970 | |
| Produced National Income. | 5.4 | 5.2 | 5.3 | 6.0 | 5.0 | 6.0 | Revenu national produit |
| Production of industrial goods. | 6.7 | 6.2 | 6.1 | 7.0 | 8.4 | 8.0 | Production de biens industriels |
| Gross-Fixed Investments | 8.5 | 8.9 | 10.4 | 11.0 | 11.0 | 11.4 | Investissements bruts en capital fixe |
| Retail Trade Turnover | 4.0 | 4.3 | 4.9 | 4.7 | 6.1 | - | Chiffre d'affaires du commerce de détail |
| Foreign Trade Turnover | 7.0 | 6.9 | 6.5 | 10.0 | - | 13.6 | Chiffre d'affaires du commerce extérieur |

Source : Statistical Yearbooks of the "GDR" ;
Statistical Pocketbook of the "GDR" 1969.

Source : Annaires statistiques de la "RDA" ;
Manuel statistique 1969 de la "RDA"

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TABLEAU VI

PRODUCTION DES PRINCIPALES CULTURES ET DE L'ELEVAGE ET EFFECTIFS DU CHEPTEL
OUTPUT OF MAJOR CROPS AND LIVESTOCK PRODUCTS AND THE LIVESTOCK POPULATION

| | 1934/38 | 1955 | 1967 | 1968 | |
|----------------------------------|---------|---------|---------|---------|-----------------------------|
| <u>Cultures (1000 tonnes)</u> | | | | | <u>Crops (1000 tons)</u> |
| Blé | 1547.4 | 1211.5 | 2011.6 | 2376.7 | Wheat |
| Seigle | 2069.9 | 2336.8 | 1985.6 | 1936.2 | Rye |
| Orge | 1024.2 | 924.1 | 1927.1 | 2120.8 | Barley |
| Avoine | 1584.5 | 1362.4 | 845.4 | 863.8 | Oats |
| Pommes de terre | 13566.7 | 11194.4 | 14065.4 | 12639.1 | Potatoes |
| Betteraves à sucre | 5412.1 | 5712.2 | 6948.5 | 6997.7 | Sugar beets |
| Maïs pour fourrage frais et silo | - | - | 10973.3 | 9790.9 | Green and silage maiz |
| Légumes | - | - | 4955.7 | 4402.4 | Vegetables |
| <u>Produits d'élevage</u> | | | | | <u>Livestock products</u> |
| Viande (1000 tonnes) | - | 1202 | 1731 | 1798 | Meat (1000 tons) |
| Lait (1000 tonnes) | - | 4962 | 6904 | 7227 | Milk (1000 tons) |
| Oeufs (millions) | - | 2043 | 3995 | 4046 | Eggs (million) |
| <u>Effectifs du cheptel</u> | | | | | <u>Livestock population</u> |
| Bovins (1000) | - | 3759.5 | 5018.5 | 5108.6 | Cattle |
| Vaches | - | 2100.1 | 2188.2 | 2165.5 | Cows |
| Porcins | - | 9029.3 | 9253.9 | 9522.8 | Pigs |
| Chevaux | - | 669.1 | 219.0 | 188.1 | Horses |
| Chèvres | - | 1807.4 | 1818.3 | 1793.5 | Sheep |

Source : Statistical yearbook of the "GDR" 1969.

Source : Annuaire statistique 1969 de la "RDA".

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TABLE VII - TABLEAU VII

Production of Important Industrial Products
Production des produits industriels les plus importants

| | 1955 | 1960 | 1967 | 1968 |
|--|---------|---------|---------|---------|
| Electric energy milliard kwh Energie electrique | 28.7 | 40.3 | 59.7 | 63.2 |
| Lignite 1,000 tons | 137,050 | 225,465 | 242,027 | 247,113 |
| Lignite briquettes " " | 37,697 | 56,047 | 56,087 | 56,389 |
| Pig Iron " " Fonte | 337.2 | 1994.7 | 2525.0 | 2332.9 |
| Crude Steel " " Acier brut | 1256.7 | 3749.9 | 4591.7 | 4695.4 |
| Rolled Steel " " Acier laminé | 780.7 | 2613.3 | 3075.2 | 3156.0 |
| Sulphuric Acid " " Acide | 300.4 | 729.9 | 987.8 | 1077.7 |
| Ball Bearings 1,000 units Roulements à billes | 3.4 | 32.9 | 47.4 | 50.7 |
| Machine Tools million Machines-outils | 0 | 344 | 518.5 | 543.7 |
| Locomotives units | 184 | 675 | 547 | 594 |
| Tractors " " Tracteurs | 5170 | 9076 | 11,120 | 14,202 |
| Trucks " " Camions | 1003 | 12864 | 21,892 | 23,621 |
| Private cars " " Automobiles de tourisme | 7165 | 64071 | 111,516 | 114,611 |
| Synthetic Rubber tons Caoutchouc synthetique | 39,804 | 86,765 | 109,502 | 101,643 |
| Nitrogen Fertiliser t.n. Engrais azotés | 231,449 | 334,117 | 336,020 | 351,429 |
| Phosphates t.P ₂ O ₅ Phosphates | 24,736 | 165,750 | 304,550 | 345,827 |
| Refrigerators units Refrigerateurs | 658 | 138,569 | 402,884 | 376,954 |
| Washing Machines " " Machines à laver | 769 | 132,461 | 323,913 | 327,205 |
| Radios " " | 227,258 | 809,582 | 932,009 | 814,692 |
| Television Sets " " Televiseurs | 0 | 416,490 | 474,657 | 400,391 |
| Paper 1,000 tons Papier | 320.8 | 542.0 | 671.9 | 688.6 |

Source: Statistical Yearbook of the "GDR" 1969.

Source: Annuaire statistique 1969 de la "RDA".

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TABLE VIII

TABLEAU VIII

INDUSTRIAL GROSS PRODUCTION PER WORKER
PRODUCTION INDUSTRIELLE BRUTE PAR TRAVAILLEUR

| | 1965 | 1966 | 1967 | 1968 | 1968 |
|---|------------|------|------|------|------------|
| | 1960 = 100 | | | | 1965 = 100 |
| Energy and Fuel Industry | 119 | 125 | 135 | 147 | 123 |
| Chemical Industry | 139 | 150 | 159 | 171 | 123 |
| Metallurgy | 117 | 121 | 127 | 135 | 115 |
| Building Materials Industry | 146 | 154 | 162 | 170 | 117 |
| Engineering and Vehicle Construction | 134 | 140 | 149 | 158 | 118 |
| Electrical and Electronics Industry | 143 | 155 | 163 | 172 | 121 |
| Light Industry (without textile industry) | 134 | 141 | 151 | 160 | 120 |
| Textile Industry | 134 | 144 | 158 | 164 | 123 |
| Food Industry | 125 | 131 | 135 | 138 | 110 |
| <u>TOTAL</u> | 133 | 142 | 151 | 160 | 120 |

Source : Statistical Pocketbook of the "GDR" 1969.

Source : Manuel statistique 1969 de la "RDA"

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TABLE IX

BREAKDOWN OF BUDGETARY EXPENDITURES AS A PERCENTAGE OF TOTAL EXPENDITURES (1)

VENTILATION DES DEPENSES BUDGETAIRES EN POURCENTAGE DES DEFENSES TOTALES (1)

| | 1968 | 1969 | |
|---|------|------|---|
| Peoples owned Economy | 12.8 | 13.5 | Economie d'Etat |
| Education and Sports | 8.6 | 8.3 | Enseignement et Sports |
| Culture, Radio, Television, Press and Information | 1.6 | 1.5 | Culture, radio, télévision, presse et information |
| Health and Social Services (without Social Insurance) | 9.3 | 8.6 | Services sanitaires et sociaux (sans les assurances sociales) |
| Social Insurance | 20.8 | 20.8 | Assurances sociales |
| Housing and Local Government | 9.0 | 9.0 | Logement et administration locale |
| Defence | 9.8 | 9.8 | Défense |
| Other Expenditures | 28.1 | 28.5 | Autres dépenses |

(1) Without enterprises' own resources
Sources : Official Gazette of the "GDR" 1, nr 22 of 16 December 1968.
"Die Wirtschaft" n° 51/52 of 19 December 1968.

(1) Sans les ressources propres des entreprises
Sources : Gazette officielle de la "RDA" I, n° 22 du 16 décembre 1968. Die "Wirtschaft" n° 51/52 du 19/12/1968

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TABLEAU X

TABLE X

REPARTITION GEOGRAPHIQUE DU COMMERCE EXTERIEUR

DISTRIBUTION OF FOREIGN TRADE (Million valents - marks)

| | 1960 | | 1963 | | 1965 | | 1968 | |
|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | Exports - Exportations | Imports - Importations | Exports - Exportations | Imports - Importations | Exports - Exportations | Imports - Importations | Exports - Exportations | Imports - Importations |
| Commerce avec les pays communistes Commerce with communist countries | 7011.3 | 6787.5 | 9002.8 | 7625.5 | 9646.1 | 8594.7 | 12194.9 | 10743.7 |
| Commerce avec les pays capitalistes Commerce with capitalist countries | 1869.3 | 2028.0 | 2024.5 | 1799.3 | 2665.0 | 2661.3 | 3016.2 | 2935.6 |
| Commerce avec les pays en voie de développement Commerce with developing countries | 390.2 | 401.1 | 367.3 | 363.5 | 581.8 | 524.3 | 682.7 | 549.9 |
| TOTAL | 9270.8 | 9216.6 | 11394.6 | 9788.3 | 12892.9 | 11800.4 | 15893.8 | 14229.2 |
| Albania | 21.0 | 18.2 | 16.5 | 12.8 | 21.8 | 25.2 | 28.1 | 26.3 |
| Bulgaria | 289.9 | 229.6 | 410.9 | 305.4 | 408.5 | 393.6 | 636.6 | 513.8 |
| China | 408.0 | 420.7 | 43.7 | 103.9 | 110.6 | 105.8 | 156.9 | 116.2 |
| Yugoslavia | 143.8 | 185.6 | 206.4 | 157.0 | 255.8 | 328.8 | 318.3 | 242.1 |
| Cuba | 11.3 | 18.4 | 130.4 | 167.3 | 101.2 | 110.8 | 151.2 | 147.6 |
| Poland | 772.6 | 457.0 | 1050.1 | 455.9 | 1131.6 | 588.8 | 1224.1 | 942.4 |
| Romania | 202.9 | 218.2 | 265.6 | 155.1 | 282.1 | 305.5 | 376.1 | 342.4 |
| Czechoslovakia - Tchécoslovaquie | 806.8 | 785.2 | 964.3 | 907.1 | 1225.8 | 1103.4 | 1689.4 | 1380.9 |
| Soviet Union - Union Soviétique | 3883.6 | 4023.8 | 5361.4 | 4925.8 | 5504.6 | 5061.1 | 6582.7 | 6268.9 |
| Hungary | 395.8 | 392.5 | 511.8 | 400.3 | 531.8 | 521.0 | 812.7 | 720.3 |
| Federal Republic Germany - République Fédérale d'Allemagne | 826.6 | 759.3 | 764.9 | 636.9 | 902.3 | 878.8 | 1050.1 | 1045.4 |
| Berlin West | 186.9 | 138.6 | 255.6 | 191.6 | 332.7 | 227.9 | 342.1 | 167.5 |
| U.S.A. | 17.0 | 22.4 | 15.8 | 5.7 | 29.5 | 28.0 | 28.3 | 102.3 |
| Sweden | 70.5 | 113.5 | 69.9 | 92.1 | 105.0 | 137.0 | 143.9 | 167.8 |
| Italy | 56.2 | 48.8 | 59.5 | 68.4 | 67.0 | 98.3 | 130.0 | 133.7 |
| United Kingdom | 84.4 | 178.6 | 89.6 | 178.3 | 154.8 | 177.6 | 128.1 | 159.7 |
| France | 36.3 | 77.3 | 45.9 | 70.0 | 68.0 | 177.3 | 144.3 | 114.4 |

Source : Statistical yearbook of the "GDR" 1969

Annuaire statistique 1969 de la "RDA"

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TABLE XI

TABLEAU XI

BREAKDOWN OF FOREIGN TRADE BY COUNTRIES
REPARTITION DES ECHANGES PAR PAYS

In per cent En pourcentage

| | 1962 | | 1965 | | 1966 | | 1967 | | 1968 | | |
|----------------------|------|------|------|------|------|------|------|------|------|------|-------------------------------|
| | Exp. | Imp. | Exp. | Imp. | Exp. | Imp. | Exp. | Imp. | Exp. | Imp. | |
| Socialist Countries | 78.6 | 79.3 | 74.8 | 72.8 | 74.4 | 71.7 | 75.2 | 73.0 | 76.7 | 75.6 | |
| of which USSR | 46.0 | 51.8 | 42.7 | 42.9 | 39.8 | 43.1 | 40.7 | 43.2 | 41.4 | 44.1 | |
| Developing Countries | 3.8 | 3.5 | 4.5 | 4.5 | 5.3 | 4.0 | 4.9 | 4.1 | 4.3 | 3.9 | |
| Capitalist Countries | 17.6 | 17.2 | 20.7 | 22.7 | 20.3 | 24.3 | 19.9 | 22.9 | 19.0 | 20.6 | |
| | | | | | | | | | | | Pays en voie de développement |
| | | | | | | | | | | | Pays capitalistes |

Source : Statistical Yearbook of the "GDR"

Source : Annuaire statistique 1969 de la "RDA"

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