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The Collapse of the GDR Economy (January 11, 1990)

In early 1990, the communist newspaper *Neues Deutschland* finally admitted the impending collapse of the planned economy. The following article attributes the impasse to specific policy mistakes as well as general structural rigidities, thereby scuttling any hopes for the further reform of an independent GDR.

On the State of the GDR Economy

In the past few weeks, there have been countless calls for a thorough disclosure of the economic situation of the GDR. [. . .] We appealed to the Central State Office of Statistics for information. On the basis of figures withheld from the public until now, we present a survey of central economic issues. [. . .]

Despite strenuous and industrious efforts, the speed of economic development has slowed perceptibly: planning mistakes in industry, insufficient supplies of consumer goods, an infrastructure that fell far short of satisfying the demands made upon it. Looking at the country as a whole, all this was reflected in the gross national product. While it grew between 1981 and 1985 – as we discovered – by an average of 4.5 percent, the years 1986 to 1989 showed an annual increase of only 3.1 percent. What caused this? What processes characterize the GDR economy?

Accumulation and Investment
Too Little Investment Was Directed into Production

The slowdown in GNP growth is reflected in the trends of the economy's labor productivity: in the years 1981 to 1985, it increased by 4.3 percent annually. From 1986 to 1989, growth totaled an average of only 3.4 percent annually. Productivity in the GDR was some 40 percent lower than in the FRG.

What processes were responsible for this development? It involved many negative factors, some of which overlap. They include the long-term consequences of insufficient capital accumulation and inadequate returns on investments. [. . .] At present, the GDR economy has at its disposal a capital stock of approximately 1,750 billion marks. This amount grew by 535 billion marks – that is, 44 percent – in comparison with 1980. [. . .]

During the same period (1981-1989), the GNP rose by 41 percent. But in the 1980s, this was not enough to achieve a transition to an intensively expanded reproduction of capital stock.

In addition, one of the basic economic relationships of accumulation to consumption was not structured in accordance with the country's needs. Thus necessary capital could not be ensured for the productive sectors. [. . .]

Effectiveness of the Capital Stock, Maintenance
Machines and Facilities Begin to Age

Although the material and technical infrastructure was partially renewed, worn-out equipment could be replaced only to an inadequate extent. In the period from 1981 to 1989, for example, 61 billion marks of equipment was scrapped, compared with 330 billion marks worth of equipment added. Thus much of the equipment was too old in almost all sectors of production. While the volume of machines and facilities that had completely depreciated in 1980 totaled some 58 billion marks, by 1989 this had increased to 133 billion marks, or more than double the earlier amount. Twenty percent of all equipment was worn out; in 1980, the figure was 14 percent. [. . .]

Beginning in 1985, the gap between new and old equipment grew even further. In "general mechanical engineering, agricultural machinery, and motor vehicle construction," for example, the sector experiencing the greatest requirements for capital goods, the amount of new equipment under five years old grew by 7,900 pieces in the period from 1986 to 1989. In the same period, the number of facilities and machines more than twenty years old grew by 11,100 pieces, to over 66,000, because very little worn-out equipment was retired.

This age structure often led to reduced efficiency and capacity, and thus to inconsistencies between suppliers and producers. In comparison with modern machines and facilities, the large amount of outdated equipment ties up considerably more labor power for operation, and above all for maintenance. Maintenance costs increased over the years. [. . .]

Foreign Trade, International Division of Labor
Imports Grew Faster than Exports

Our worsening competitive position on foreign markets, along with limited opportunities to exploit the advantages of the international division of labor, were among the factors that influenced the dynamics of our GNP negatively. On the one hand, embargo provisions tied the

GDR's hands regarding many high-tech items in non-socialist countries. On the other hand, these products were unavailable in the socialist world.

Productive GNP was not available in the volume and proportions necessary for domestic use and for resolving international problems. For these reasons, despite the goals of the plan, imports increased more rapidly than exports. Combined with the ineffectiveness of trade [with] non-socialist economies, this placed an additional burden on the GDR's balance of payments over the last four years. [. . .]

The main cause of the inadequate volume of exports to the non-socialist economies and the lack of effectiveness in foreign trade lies in the impossibility of making sufficient export goods available. In addition, products did not meet the scientific and technical standards necessary to remain competitive. [. . .]

In some decisions, the GDR had little choice but to rely on its own capabilities. For example, it decided to follow the costly path of developing and producing its own very extensive, but inadequately structured, line of micro-electric components. [. . .]

Labor Resources, Vocational Recruitment, Living Standard
Ineffective Employment Structures Created

At the end of the eighties, demographic developments in our country created conditions unfavorable for reproduction of labor resources in society. Until 1988, the working-age population grew only slightly. With the mass emigrations of 1989, the labor force shrank decisively. Emigration continues. At the same time, the number of young skilled workers completing vocational training decreased. The course of administrative reforms and other changes in state institutions, parties, and mass organizations revealed an ineffective employment structure. Labor that is becoming available has qualifications different from those needed for the approximately 250,000 jobs presently available.

Social policy consumed a large share of the overall economic product, without sufficiently stimulating production. The population's net income from 1986 to 1989 exceeded the plan. During the same period, retail turnover fell short of the target. Economic production lagged behind income. Supply of goods and services did not correspond in structure, quality, or quantity with buying-power demand. A significant surplus of purchasing power resulted from the disproportionate relationship between savings and available goods. [. . .]

Regarding monetary income from employment, the incomes of blue- and white-collar employees and collective-farm workers have developed most quickly since 1980. In other employment groups, measures established in 1986 to promote individual crafts were particularly effective. Overall, however, income differences changed only slightly after 1980. The average net household income of blue- and white-collar workers rose 30.6 percent after 1980, totaling 1,946 marks per month in 1988. Per capita net income was 696 marks a month (1988).

Though increasing production of consumer goods made more food and industrial products available to the public, the range and quality of products lagged behind consumer expectations. [. . .]

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