

East Germany's economy must quickly recover from socialist 'planning'

by Prof. Dr. Siegfried Schiller

Below are excerpts translated from a speech by Professor Schiller, who has the distinction of being the only manager of a private firm in the German Democratic Republic, the Ardenne Research Institute. He delivered the speech at a recent seminar sponsored by West Germany's largest bank, the Deutsche Bank.

. . . Forty years of the G.D.R., and forty years of socialist planned economy have made a deep impression on us in the G.D.R.—more than many would care to admit. Even in many of the opposition groups in the G.D.R., socialist education is still lodged deep in the back of their brains. On the question of the distribution of wealth, the most diverse groupings all have clear programs: All recipients of social welfare should get as much as possible. But the question of how production can be effectively organized, is by and large only dealt with in the fine print.

I am a physician by profession, and since 1956 have been an associate of the Manfred von Ardenne Research Institute. Thanks to the personality of Professor von Ardenne himself, we have been able to preserve our private status up to the present day. It hasn't always been easy. We are privately administered and organized. . . . Our institute has about 500 employees, 140 of whom are graduates of universities and technical schools. In the Federal Republic [of Germany], our research facility is better known in relation to nitrogen therapy. But medical research actually comprises by far the smallest portion of our work. Approximately 80% of the institute's capacity is dedicated to technological research. Since 1965 I have held the post of deputy director of the institute responsible for technological research. Professor von Ardenne has largely devoted himself to the medical tasks.

By virtue of our legal status, we represent a special singularity in our economy. We were not subjugated to socialist planning as regards our own work. Our major market was industry in the G.D.R. About 30% of our work was directed abroad, primarily the U.S.S.R., Japan, and the United States. For various reasons, Western Europe played a lesser

role. . . .

The private organization of our institute went unchallenged in the midst of a totally socialist surrounding. . . . Finally our very existence was a provocation for the proponents of socialist planning. You will certainly understand that it wasn't always easy to steer our institute between Scylla and Charybdis. . . .

Our institute is a technologically oriented facility. We work essentially in three basic fields of technology. The most traditional of these is electron beam technology. This deals with the utilization of electron beams in the manufacturing process. Melting, vaporization, welding, modification of surfaces, and metalworking are typical applications. Another field of work is the production of thin films by means of vaporization technology. Over the past 15 years the use of plasmas in the manufacturing process, especially in the production of thin films, has enormously increased in significance, as it has with us. . . .

Many representatives from the West ask us how we have been able to tolerate such bad economic planning for so long. Why did so many people go along with it? Now, it's well known that people are always more clever after they've left City Hall, than before they went in. Such a process of learning from the course of events doesn't just go for us. We have also often been amazed how representatives from the Federal Republic of Germany have succumbed to the siren-songs of our ideologues. . . .

Statistics out of whole cloth

I have furthermore often been amazed at the economic analyses [of East Germany] coming out of the Federal Republic. Now and then, of course, doubts came out about the high, reported growth rates. Nevertheless, I was astounded at how seriously people took these figures. Anyone could not avoid recognizing in the long run, that something must not be right about them. For years we have had greater growth rates than in the Federal Republic by a factor of three, and yet despite this, the technological gap became greater and greater each year. I would like to discuss briefly how these

statistics came about. They are essentially grounded in the pricing structure. Prices in our socialist planned economy were not worked out at the marketplace. It was only permitted to set prices according to the bill of materials.

Let me give you two examples, to show you the absurdity of this: We had developed a specialized machine for electron beam technology, and had built it in our own workshops. Since the demand for it was increasing, we transferred its manufacture to a factory. The factory had calculated a price four times higher, and was permitted according to regulations to charge that price. Another example: In Dresden two factories were merged. They were involved in the manufacture of vacuum construction elements. Soon after the merger, we received news that according to the regulations, such and such new prices had been calculated. The new prices were 50% above the previous ones.

It was with such price manipulations that the national income rose, and that as taken as the basis for the growth rates. Such are statistics. A human being who has his head in a sauna bath while he's standing on top of a block of ice, will be at a comfortable temperature in his middle torso. But if you ask the person in question, he'll give you an entirely different opinion of the situation. And so it went with us, as customers, with a thousand little things. Whatever you needed, could not be acquired. To do a thousand little things, there were always 250 bottlenecks. And there were other consequences of the fact that quality and cost were not negotiated in the marketplace. Ultimately, all this was worked up into the statistics. You can only describe the result as an ape's logic. In many places, a real economic evaluation was entirely lacking. Another example of this is the circus which was made in the production of the first megabyte memory chips. Here, another human weakness came into play: In the old days, the bringer of good tidings was rewarded, while anyone who brought ill tidings was thrown into the dungeon. Our rulers were inclined to believe in their own rosy pictures.

Over the past five to ten years, people in Berlin attempted to perfect their planning. They had the mistaken idea, that with an even more complete number classification system they could better adjust their planning goals to market conditions. It was a total disaster. Our economy ground to a halt. Closely related to this was the concentration of the entire economy into large combines. These could be controlled more easily, and so the entire economy became optimized for optimal control—and not for optimal fulfillment of market requirements.

Yet another cause of the economic collapse is the catastrophic situation among the nations of the Council for Mutual Economic Assistance [CMEA]. Approximately 50% of our national income is involved in foreign trade, the greatest part of which is with the Soviet Union and the other socialist states. I'm sure you are familiar enough with the critical situation in these countries. But you can only do business

with someone who has money. The CMEA has never functioned correctly, and at this point is in its death throes.

The blame has been placed on our bureaucracy, and rightly so. Here I can only note that the Parkinson Law has had its full effect, namely, that every bureaucratic apparatus expands by 6% annually if no limits are imposed. Your regulator is the market; but we here lack this regulating principle. And it is not just the state bureaucracy which hems us in. In every individual factory, an inordinately large apparatus is built up and permitted to subsist. The cost which this incurs is incorporated into the prices. . . .

In many cases, state subsidies were used to optimize in entirely the wrong direction. Industrial processes which were both effective and friendly to the environment could not be introduced, because the subsidy system worked against them. Savings in material costs never came into play at all, because the actual costs were a complete mystery. . . .

Yet another aspect of our moribund economic situation has been the efforts toward autarky. The division of labor with the East has always functioned poorly. With the West, our lack of competitiveness was an impediment. Therefore, people tried to go it alone. The advantages of the international division of labor were not utilized. Thus, for example, the decision was made to convert the G.D.R.'s energy production almost exclusively to reliance on brown coal. There were no economic levers to favor energy savings, and so, waste was the order of the day.

Socialism's official motto is: "Each according to his accomplishment." That motto remained as a pious dream which was simply impossible to carry out, and which, in my opinion, could never be realized by a socialist planned economy. The theoreticians proceeded from an artificial conception of the human being. Our actual task, however, consists in putting into practice real economic systems which take into account the actual nature of the human being.

A dying economy

In sum, I would like to state that the economic situation of the G.D.R. is much worse than generally assumed. Appearances are deceptive. An economy is like a steamroller: It keeps rolling along for a while, even after it has run out of steam. We had a command economy, but the commanders are gone. What I mean is, we are on the verge of collapse. . . .

This collapse worsens from week to week. I have the impression that the Modrow government still looks at the situation too optimistically. But the Roundtable and many old and new parties in the G.D.R. are not aware of the catastrophic economic situation. We have too few economic experts in the new groupings and parties. Social romantics are leading them, and are being listened to. The government which comes to power in the upcoming elections will be legitimized, but hopefully it will also be competent. We representatives of the economy have our doubts.

Please have some understanding for my frankness. But I am of the opinion, that if you want to solve problems, you first need to know them and name them by their right names. And when your Mr. Chancellor [Helmut Kohl] speaks about the dramatically worsening situation in the G.D.R., as an insider I can only put heavy underlines under his evaluation. . . .

Otto Wolff von Amerongen, who is very experienced in business deals with the East, recently named a figure of 500 billion deutschemarks as what would be necessary to make the G.D.R. competitive on the world market. Such figures are arrived at by calculating the costs for a workplace and then comparing this with the situation in the G.D.R. According to our economic experts, industrial capital in the G.D.R. amounts to somewhere around 1.5 trillion ostmarks [the East German currency]. The question now is: What is the value of our industrial capital according to Western standards? This value must certainly be somewhere in the range of 700 billion deutschemarks. From these calculations, one can see that by the end of the great period of investment, about one-half of our industrial capital will be owned by West German firms. Only a few weeks ago there were objections to these ideas. But I have the impression that these objections have been being progressively set aside.

Otto Wolff von Amerongen named yet another figure, concerning investment into environmental protection. According to estimates, approximately 100-200 billion deutschemarks will be required. If the G.D.R. is to survive ecologically, the mining of brown coal, for example, must be reduced by at least one-half between now and 1995. Energy consumption in the G.D.R. is to be drastically curtailed. Here there are really many opportunities; but it's all tied up with the question of investment.

In toto, then, we are talking about larger sums. The question of equalization of burdens has also come up. I think that's irrelevant. Even if the money could be collected, over all the resistance within the Federal Republic, it would just seep through our rotten economy, never to be seen again. The problems can only be solved through intensive involvement of capital and personnel. From the figures I know about investment in the Federal Republic and other Western European countries, it should be possible to invest around 50 billion deutschemarks annually in the G.D.R. In addition to this, our traditional ties to the CMEA nations should even bring advantages to firms in the Federal Republic. The [CMEA] market is huge, despite the difficult economic situation in these countries. . . .

Breaking up the combines

If you ask me which areas it would be especially worthwhile to invest in, I really have trouble coming up with an answer. We lack everything. Especially, as you know, there is no medium-sized industry worth speaking of. . . . In order to make production economically viable, the relevant distinct

and self-contained partial sectors must be broken out from the industrial combines. It is with these partial sectors which you can seek cooperation. I would like to explain this approach by way of an example. In the Hermsdorf Ceramic Works combine, with about 30,000 employees, there is one sector which is involved in the production of hybrid electronic circuits. About 600 people work in this sector. In practice, there is no communication between it and the large combine. Development and production occur entirely independently. The sales are centralized via the combine, or by a foreign trading company. This alienation of sales from production has extraordinarily deleterious effects. In my opinion there are sales opportunities in Western Europe for products from the micro-electronics plant in this hybrid technology. What they especially lack is marketing skills.

Another example: In the Gera Electronics VEB [*Volks-eigene Betrieb*, "owned by the people"] they constructed a center for vaporized production of foils and paper for the condenser industry. Some of their equipment came from us, some from the Federal Republic. Its capacity probably became excessive because of the problems in the CMEA. Moreover, certain technological steps were lacking in order to wring the most out of the available investment. Once again, this vaporization center belongs to a combine with over 30,000 employees. Here, too, cooperation could only come about if it were separated [from the combine]. I could give you other examples. . . .

Capital—and here I'm not telling you anything new—is only one side of the coin. What is crucial, is human beings. Many things haven't functioned in the G.D.R. But technical training is really not bad. Our secondary schools provide a good education in the natural sciences and technology. Over 90% of the young graduates have gone on to technical training and also completed it. Admittedly, the introduction of your technologies would require additional qualification, but that would only be a question of months, certainly not of years. Our institute has practical experience in the introduction of new technologies.

The quality of natural-science and technological education in the G.D.R.'s universities and professional schools is likewise good. I have immediate practical experience of this through our export activity into highly industrialized countries. The graduates of our universities and professional schools are on a par with those in Western European countries. . . . Thus, what the G.D.R. would have to offer, is well-educated professionals, outstanding scientists and engineers. You really can't say that all the best ones have left. Those who have remained in the G.D.R. are distinguished in many ways through their special faithfulness to their homeland, to their company, and to their colleagues. There are many valuable people who have the will to build a new society in their own homeland. I can only invite you to come and visit us, seek out cooperation, and start new firms in our country. . . .