

GDR Economics Minister Günter Mittag Explains the Failure of the Planned Economy (1991)

Abstract

Looking back, the GDR's leading economist Günter Mittag blames the collapse of the East German economy on the rigidity of Erich Honecker's pursuit of the "unity of economic and social policy." Honecker's policy, Mittag asserts, was directed toward stabilizing the regime through increased consumption and thereby ruined the country's productive capacity.

Source

[...]

There were few principles that determined Erich Honecker's thinking on economic issues. Higher labor productivity, yes, but without any noticeable demands on the individual in the sense of extra work. Pats on the back instead of discipline. When in doubt, he preferred to spend money on the social sector rather than manufacturing. He did not understand the interdependency of accumulation and consumption.

At the same time, he also failed to recognize the changed significance of consumption. His view was that new products were certainly desirable but, in the end, what mattered was that people had a roof over their heads and enough to eat. This was related to his own personal life experiences in the past. He had not internalized the fact that needs had taken on a totally different quality and that—owing to generational change—people determined what they wanted based on what they saw of present-day reality in the FRG, and not based on a past they were largely unfamiliar with.

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Now I better understand why it was often so terribly difficult to get his approval on some essential questions, why ideas were so often rejected. Judging by some of his language, he did in fact make demands for higher labor productivity, etc., but as soon as it was a matter of practical consequences, meaning raising the level of productive accumulation at the expense of consumption—and here it would have been society's consumption—he didn't approve. On the surface, he was not hostile to new questions. However, when it came to fundamental decisions, he usually followed his simplified guiding principles.

Unfortunately, Erich Honecker's static thinking made itself felt in essential questions of economics. He wanted stability (in the well-understood sense of the word) at any price and did not understand that it was precisely this insistence on stability—in the sense of holding on to the same old, entrenched structures—that inevitably caused the opposite of stability, namely, instability. So it was neither possible to make corrections in the distribution of funds in favor of industrial investments nor to alleviate the subsidy burden, which had become unbearable, by changing consumer price policies.

And so what resulted was a schematic, if not to say stubborn, insistence on the unity of economic and social policy down to the very last detail. It wasn't even possible to change the price for flowers, although the supply situation was demonstrably worsened by this policy, because gardeners and florists weren't interested in more and prettier flowers. How many attempts I made here, supported by others, and how often they failed. That put me in a difficult position, because I was always obliged to officially defend the General Secretary's line. At the same time, however, I discussed pressing problems in a larger circle of

people and made sure, time and again, that relevant proposals for change were drawn up. This concerned in particular questions of subsidies, the burdening of companies with “social costs” for which they were not responsible, the reduction of administrative staff and the redistribution of defense burdens in favor of industry. These were always the “hot potatoes,” and they were also the “perennial issues,” since at no point could a fundamental solution be found.

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All in all, the GDR failed to take a stand on the fundamentally changed conditions of development of the productive forces, to face the question of how to react to them unconditionally and comprehensively.

The necessary change in the structure of the national economy in the direction of comprehensive modernization never materialized. No one was allowed to talk about structural policy. I could not get through to Honecker with approaches in this direction and would not have found the necessary support in the Politburo anyway. People shied away from any serious change in the basic political line.

[...]

First of all, I would like to clarify: if this had been understood as the end of this policy altogether, then it would have already brought about the funeral of the GDR in the 1970s. It would have led to social conflicts with political consequences that probably would have affected not only the former GDR. That risk couldn't be taken at a time when the Cold War wasn't even close to being resolved, because the consequences would have been unforeseeable. Just think of the explosive situation brought about by the missile deployment. The slightest tremor in the heart of Europe would have very likely led to a nuclear inferno.

Therefore, a possible political destabilization in the GDR by restricting sociopolitical measures was associated at the time with a completely incalculable political risk. In this respect, ensuring economic and thus also social stability was a basic premise of any political action.

Since the need to constantly raise the standard of living was considered an incontrovertible axiom, loans were taken out to bridge any supply bottlenecks that emerged. At the same time, goods that were purchased this way raised the standard of living that the population came to expect. For the most part, these goods were sold for the same low and largely subsidized prices as GDR goods. This occurred under the term “basic needs.” While this term originally referred mostly to basic foodstuffs, more and more products started falling into this category, until it finally encompassed virtually everything that was sold. Even cars were sometimes subsidized, although a totally different price level developed under the table.

By constantly emphasizing that prices for basic necessities, energy, and rent had to remain stable—this basic principle was anchored in the resolutions of the Central Committee—it was almost impossible to reflect the true cost of goods in retail prices. Since the supply itself, relative to growing demand levels, did not improve significantly, the “policy of the main task” [*die Politik der Hauptaufgabe*] was *de facto* limited to the rigid maintenance of virtually all retail prices for any sort of item.

Thus, the policy lost all dynamism, although the idea behind it was correct. It became increasingly detached from developments in productivity and also restricted the impact of the performance principle. It fostered an unjustified feeling of entitlement. This had very negative psychological effects. Complaints about the insufficient range of available goods were countered with the argument of the “second pay envelope,” which consisted of the average per capita sum of the subsidies as calculated on the basis of the consumption of goods. Yet that was no help when a worker went shopping and tried to purchase something with his earned wages only to be confronted with a shortage of goods; at best, it was good as an argument at rallies.

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In the 1980s, at the latest, as the burdens were piling up, it would have been necessary and feasible to initiate a radical redirection of public consumption. That would have included a reduction of the excessive expenditures for defense and security, but also for public buildings, as well as a reduction of public expenses. Here, the reaction was too little too late. These questions should have been posed in a more fundamental way. I do not absolve myself from this responsibility.

[...]

Source: Günter Mittag, *Um jeden Preis. Im Spannungsfeld zweier Systeme* © Aufbau Verlage GmbH & Co. KG, Berlin 1991, 2008. [pp. 58–64, excerpted].

Translation: Allison Brown

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