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Article — Digitized Version

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Intereconomics

*Suggested Citation:* Zaunitzer, Hans-Eberhard (1967) : Between politics and economics, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 02, Iss. 6/7, pp. 183-185, <https://doi.org/10.1007/BF02929854>

This Version is available at:

<https://hdl.handle.net/10419/137767>

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# Between Politics and Economics

By Dr Hans-Eberhard Zaunitzer, Hamburg

**The Federal Republic of Germany considers trade between itself and East Germany not as foreign, but as domestic trade. Since the division of Germany these economic contacts have often given rise to heated discussion and bitter criticism. The close connection between political and economic aims is constantly engendering new fuel. The collision of two completely opposed systems raises a multiplicity of fresh problems.**

**T**his year the Leipzig Spring Fair ended on 14th March. Apart from the visits pensioners are allowed to pay, i.e. the old and sick are allowed to travel once each year from Central Germany to the Federal Republic and apart from the opportunities for West Germans—but not West Berliners—to visit the Eastern Sector of the old German capital, the Leipzig Fairs in March and September are the only chance for thousands of Germans to see their families and friends. Private individuals as well as businessmen buy Fair passes to Leipzig from the Chambers of Industry and Commerce in the Federal Republic. From all parts of East Germany, friends and relatives come to Leipzig for family meetings. The East German police nearly always forbid West Germans to travel on from Leipzig to Dresden, Plauen, Erfurt, Halle or Rostock.

It is necessary to know this when reading about the large number of visitors. However, this does not diminish the importance of the Leipzig Fairs. The Autumn Fair is exclusively for consumer goods and is held in numerous halls—partly rebuilt, partly new—in the centre of town, whilst at the Spring Fair there are capital goods too; this is the so-called Technical Fair. Like its predecessors since 1960, the last Spring Fair was international. Almost 10,000 exhibitors from nearly 70 countries! 12% of the exhibitors, i.e. 129, came from the Federal Republic, including West Berlin. They rented about 10% of the 355,000 square meters net exhibiting space. East Germany, with its stands for state-owned foreign trade organisations, the Associations of People's Enterprises (VVB) and the People's Enterprises (VEB) and the few private and semi-public firms, occupied almost two thirds of the total space. Thus the two parts of Germany and their firms and organisations occupied more than three quarters of the exhibiting space. A Pan-German Fair?

## **The Federal Republic in a Better Position**

Before answering this question we must first state that ever since the 1965 Spring Fair East Germany and the Federal Republic have taken almost the same amount of exhibiting space as they did last March. In spring 1965 the West German exhibitors took up their old positions, which they left on 13th August, 1961,

shortly before the Autumn Fair, and again left en masse before the 1962 Spring Fair, in protest against the Berlin Wall. At that time—autumn 1961—the Federal Ministry of Economic Affairs in Bonn had strictly advised against participation in the Leipzig Fair. At the end of 1964 it changed its policy and advised a return. In the intervening years the space which had become vacant was occupied in the main by exhibitors from the industrial countries of the West, such as France, Britain, Belgium, the Netherlands, Italy and, to a lesser extent, Switzerland, Austria and the USA. But their hope that trade with them would take the place of West Germany's inter-zonal trade with East Germany was realised to only a limited degree, even though in many cases they offered really attractive credit terms to East Germany.

In spite of the numerous political difficulties recently, West Germany's position in inter-zonal trade has not deteriorated but improved. This is mainly because pressing demand in the East German economy for goods and, above all, for "investment goods", which it needs urgently, is constantly rising. Last year inter-zonal trade broke all previous records and reached almost 3,000 million accounting units, i.e. German Marks, counting the flow in both directions. This is about 20% higher than in 1965. But consignments from West Germany account for about DM 1,700 million of this and only DM 1,300 million represents consignments of goods in the opposite direction. Since on 15th November, 1966, the Head of the West German Inter-zonal Trustee Department, Pollack—incidentally, it was the first time for many years that he had visited the Leipzig Fair—and the East German Deputy Minister for "Foreign Trade and German Internal Trade", Behrendt, concluded an agreement in connection with the postponement of the annual settlement of balances in cash agreed in 1960, this difference of DM 400 million is equal to a medium-term credit for East Germany. This arrangement has also made it possible for East Germany to pay for an additional DM 100 million investment goods annually under sub-account I, like machines, iron and steel, with „softgoods“ from sub-account II, i.e. consumer goods and agricultural products. Additionally, there are the Federal guarantees

published on 2nd March by the German Minister for Economic Affairs, Professor Dr Karl Schiller, which he had announced a few days previously in his inaugural speech at the Frankfurt Spring Fair; these favour West German consignments in the inter-zonal trade and place producers from the Federal Republic, including West Berlin, in a more competitive position vis-à-vis their competitors from other Western countries. This Federal guarantee will cover up to 90 % of the consignment value if the payment term is not longer than five years from delivery.

### **Better Credit Opportunities**

In April this year Bonn took a further step which facilitated and extended inter-zonal trade. More than 50 credit institutes in the Federal Republic decided to found an institute for the long-term financing of trade in items of plant and equipment in inter-zonal trade. The initial capital of this "Gesellschaft für Anlagenfinanzierung G.m.b.H., Frankfurt" (Fixed Assets Finance Company, Frankfurt) is to be DM 1 million. It has not yet been possible to discover how high the first credit ceilings will be. The credit institutes will decide the conditions. It is probable that these credits for financing capital goods sent by the Federal Republic to East Germany will run for between four and eight years. There is no doubt that the central German economy's credit opportunities will improve in the near future.

The Deputy Chairman of the East German Council of Ministers—one of the Deputy Minister Presidents—Julius Balkow, was invited in spring of last year, by its organisers, to visit the Hanover Fair. He set off from Berlin, but, at the instance of the Federal Government, the West German authorities refused to give him an entry visa. This year they thought better of it. Whether this is because of the Government's new "great coalition" policy or because diminishing sales in the German iron and steel industry and by machine and plant manufacturers have had something to do with this, the fact is that three Ministers from Central Germany came this time. Perhaps it was represented to them by persons of standing in West German industry that the "Gesellschaft für Anlagenfinanzierung" has at its disposal amounts to lend in excess of DM 150 million and that these sums—which are to be re-financed by the Bundesbank—will soon be available.

Although the seventh rally of the German Socialist Unity Party (SED) did not point up any aggravation of the East German position in the debate between the two halves of Germany—for instance, contrary to what many West German politicians feared, the designation "Ministry for Foreign Trade and German Internal Trade" was not altered—it is absolutely on the cards that East Germany will demand an official agreement between Bonn and East Berlin as its price for the expansion of German internal trade, and that the three Ministers either hinted at this in Hanover, demanded it or mentioned it as a preliminary condition before further negotiation could take place. It is believed that the President of the East German State

Council, Walter Ulbricht, may even have issued a directive instructing all functionaries, to refer to this repeatedly and constantly as a matter of policy.

### **Central German Industry's Ability to Deliver**

This is really a paradox because although the West German industry's eagerness to deliver has risen considerably since mid-1966, East Germany has a far greater interest in expanding German internal trade than does West Germany, and certainly in obtaining more favourable and longer credit terms. But an increase in the flow of goods from West to East and improved financing conditions are not the essential conditions for increasing the overall volume. The decisive factor is—and is likely to remain so for some time—the ability of Central German industry to deliver and that of the West German market to absorb and accept these goods. Although the quality of consumer goods coming from East Germany has shown constant improvement over the past few years and although some prices are extremely favourable in comparison with competitive goods, many items cannot be sold in West Germany or are difficult to sell. Where durable goods, such as motor-cars, are involved, this is because of bad service and deficient fashion appeal; in the field of semi-durables the competition from other communist countries in Europe has increased considerably—primarily that from Yugoslavia, Rumania and Hungary. Furthermore, the pressure of exports from low-price producer countries in Asia is growing and—last, but not least—the consumer goods sector in the Federal Republic also has its worries—as the textile industry. Petrol deliveries from Leuna have almost come to a halt because, under the provisions of the EEC Commission, hydrogenisation preferences were dropped long ago and after two mild winters and increasing conversion to oil-fired heating, brown coal briquettes are becoming more and more difficult to sell, particularly because the West German brown coal mines have almost no backlog of deliveries.

### **Political Dogmas Make Trade More Difficult**

Central Germany considers trade with the Federal Republic to be west trade for which hard currency is unnecessary; it is paid for in kind. According to the provisions of the Treaty of Rome covering the establishment of a common market, this zone is not an outside country, which brings it considerable advantages. For a long time East Germany has been tied to the Soviet Union by various agreements, which have recently been amended. At the last Leipzig Spring Fair the Soviet Union rented only 13,360 square meters. This is about 3 %. Why should it be better represented? Every last detail is taken care of in trade agreements with East Germany and trade with the USSR accounts for about 50 % of East Germany's total foreign trade, trade with other socialist countries for 25 %; on the other hand, inter-zonal trade—in East Berlin this counts as foreign trade—accounts for only about 10 %. The collective Soviet exhibit, in its own building—which is much larger than any of the

others—was dedicated to the fiftieth anniversary of the October Revolution. Although the area was smaller, it was more an exhibition than a fair, more a show than a shopwindow.

If East Germany's trade with the West accounts for only ca 25 % of total foreign trade, including international trade, and if this trade is the only chance for rationalisation and to progress automation, which is at present in its first infancy, since nothing—absolutely nothing—is to be expected from the so-called socialist "peace camp" in the way of modern equipment for automation, then it is natural for there to be a growing tendency to make better contacts, then it is economically incomprehensible that political dogmas should continue to inhibit trade. Neither is it rational that the euphoric wish for political recognition should take first place. Nothing else will explain why the Deputy Chairman of the Council of Ministers, Julius Balkow, in contrast to his normal habit, introduced a very mild note into his inaugural speech at the Leipzig Opera House on 4th March, although that was the time when East German propaganda against the Federal Republic was reaching its—though temporary—peak. The East German Government's insecurity in the face of West Germany's new policy towards the East will certainly not obscure the judgment of economic facts.

#### Higher Debts?

Since the Berlin Wall was built in August 1961, the Central German economy has, by and large, developed well. Supplies have improved of a large range of consumer goods and commodities available to the public, purchasing power has risen slightly, since the introduction of a five-day-week every second week, working hours have decreased, a modest degree of motorisation exists, trade with industrial countries in the West has increased, both absolutely and relatively, and East Germany's economic position has improved in the communist camp. Because of its level of indus-

trial production it holds second place there, after the Soviet Union. In many sectors of production it sets the tone for Comecon, where it is the model member. But in spite of the recession in West Germany, the gulf between East and West Germany in the sectors of production and purchasing power has not narrowed. East Germany is still extremely avid for goods in all sectors and labour is extremely short, not least because about 150,000 men in their best and most productive years "protect" "state frontiers" day and night, so that, from an economic point of view, they are employed absolutely unproductively. The production and administrative apparatus is still extremely cumbersome and also very inflated. The centrally controlled economy works to sacrosanct rules. The so-called industrial price reform concluded at the beginning of 1967 gave rise to considerable unrest in the nationalised, partially state-owned and the few private firms. Energy prices were re-assessed on actual costs to excessive "real" levels. New costs were prescribed for interdepartmental transport and for transport outside firms. Processing industries have had to buy their raw materials at prices 50, 70 or even 100 % higher. Subsidies to raw material industries are to be eliminated completely. But prices to the consumer are not to be allowed to rise and wages have not really been unfrozen. How, in this situation, purchasing power is to rise by 20 % by 1970—as Prime Minister Stoph prophesied to the seventh party conference in April—must be a mystery even to the East German civil servants. They believe this can be solved by increased rationalisation. But increased productivity depends upon massive investment and without Western aid it is almost impossible to achieve this, at any rate not rapidly. And since foreign currency is short and it is impossible to pay for everything in kind, the only way out will be to continue to pocket socialist pride and increase debts to the West—primarily in the Federal Republic. Leipzig is worth a Fair, certainly for East Germany.

#### WORLD TIN MARKET

## New Tasks for the International Tin Council

By Helmut Stodieck, Hamburg

After careful and long preparation the Technical Conference on Tin met in London in March of this year. The meeting took place at the invitation of the International Tin Council. It must be regarded as part of the endeavours to solve—or at least to prepare a solution for—the specific organisational, economic and technical problems of the tin market. As this would seem to be the first time that it has been possible to call together a technical conference to deal with such a comprehensive complex of subjects within the framework of an international raw material agreement, one is bound to ask what effect the conference had. It will be necessary to examine whether

the common treatment of technical problems, which are frequently difficult to separate from economic and organisational questions, represents a progress in international cooperation. In order to decide this question it would seem to be appropriate to look back on the origin and development of the international tin agreements.

The second world war was still in progress when the governments of the Allied states already began to search for ways and means to make sure that after the war there would not be once again a decline into such an economic crisis as had characterised the years