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"Common Sense is Necessary." East German Reactions to the Oil Crises of the 1970s

André Steiner*

Abstract: »'Man muss die Sache mit Vernunft machen.' Reaktionen der DDR auf die Ölkrisen der 1970er Jahre«. This article examines the SED leadership's perception of the global oil price increases at the beginning of the 1970s, as well as the consequences this had for the GDR. On this basis, the article then deals with the economic and political reactions within the GDR. The country waived a reform of the wage payment system and increased the use of brown coal in the production of electricity, heating, and elsewhere, as well as extended opencast mining in consequence. The intention was to also cut costs on heating oil, petrol, and diesel throughout the economy. The article reveals the difficulties of and limitations to the realization of this strategy and the unfortunate consequences. In the short-term, the political and economic survival of the GDR could be secured. In the long run, however, these processes played their part in the GDR's economic collapse.

Keywords: GDR, East Germany, oil prices, heating oil, brown coal, tariff project.

1. Introduction¹

By 1973, the year associated with the first oil price shock, the East German outpost of the Soviet empire, the German Democratic Republic (GDR), had achieved reconsolidation after the economic crisis of 1969/70. This had made additional imports necessary, however. As in other Eastern bloc countries, in 1971 the leadership of the ruling communist party, the *Sozialistische Einheitspartei Deutschlands* (SED), had taken an about-turn in economic and social policy, following the failure of economic reforms in the 1960s and the bloody suppression of worker unrest in Poland in December of 1970. The new SED leader, Erich Honecker, now replaced the modernization course pursued by his predecessor, Walter Ulbricht, with a policy of conciliation, so as to secure his own power and that of the SED. The workers were to be pacified by improving the provision of consumer goods at stable prices and an expanded social policy. The latter was, in turn, supposed to incentivize better perfor-

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¹ This article was translated by Kirsten Petrak-Jones.

mance; albeit, corresponding economic incentives remained weak. Nevertheless, providing consumer goods and social welfare demanded further resources and imports. Given that GDR products were not sufficiently competitive on world markets, exports could not be increased in a way that would have allowed returns to cover the higher import costs. Those in charge of the GDR economy repeatedly pointed to the inherent discrepancy between political targets and economic possibilities, but the SED leadership under Honecker chose to ignore these warnings.² This was the scenario the oil price increase hit in October 1973, an event that was caused partly by the oil-producing Gulf States and by Arab oil producers' embargo on the United States and the Netherlands, in reaction to the Fourth Arab-Israeli War.

This paper examines the question of how a Soviet-style, centrally planned economy – in this case, the GDR – reacted to the consequences of these events. These reactions have not yet been sufficiently examined. Here they are explored using internal documents of the SED and the State Planning Commission, which are now held by the German Federal Archives (*Bundesarchiv*). The paper's first part deals with the SED leadership's perception of these developments and their consequences on prices within the Eastern economic union, the Council for Mutual Economic Aid (CMEA, also known in the West as the Comecon). The next part looks at the strategic economic and political decisions made by SED leadership in this new situation, before then examining the implementation of these measures. Finally, the results of and the limitations to the restructuring processes then planned and their consequences for the existence of the East German state are examined.

2. The Development of World Market Prices: Perceptions and Consequences within the CMEA

World market prices for crude oil had risen since the end of the 1960s in small but noticeable steps.³ In the two years up to October 1973 alone, the rise was 27 percent.⁴ In the GDR too, the strong upward trend in prices was noticed in raw materials. In May 1973, the SED's Department of Planning and Finance reported to Günter Mittag, the party's secretary of economic affairs, that prices for raw materials had, with few exceptions, risen severely since the early 1970s. Various explanations were provided: the long economic upturn in the West and the resulting growth in the demand for raw materials, increased difficulties in the excavation of raw materials, the acceleration in inflation, more

² Steiner 2010, 141–51.

³ Darmstadter and Landsberg 1976, 26; van der Wee 1986, 133; Hohensee 2002, 36–43; Venn 2002, 35–40.

⁴ Schröter 1996, 111.

speculative buying during the dollar currency crisis but also the increased buying on the part of the socialist countries themselves, and the politically motivated distortion of offers, as exemplified by the earlier resolutions of Arab countries on price rises. Moreover, the SED department already recognized that the development of world market prices “represented a strong pressure to change CMEA contract prices for raw materials to the disadvantage of the GDR.”⁵ Up to this point, CMEA prices had been fixed for the period of a five-year plan on the basis of the average world market prices over the previous five-year period.

Initially, East German leadership hoped that CMEA prices would remain unchanged. However, in light of the comments made by the Department of the Central Committee (ZK), it was no surprise when, in November 1973, the Foreign Trade Minister of the Soviet Union, which covered the bulk of the GDR’s oil demands, indicated to his East German colleagues that oil prices would have to be renegotiated. He pointed out that while purchasing raw materials in the West in order to supply these to Eastern bloc countries, the Soviets in fact had to pay a great deal more than they were getting back at the point of sale. Similar signals came from Moscow.⁶ Upon meeting with the Soviet party leader Leonid Brezhnev in mid-June of 1974, Honecker was informed that prices for oil and other raw materials in capitalist countries were expected to continue rising. Whilst “mutually acceptable solutions” were necessary, Brezhnev’s immediate demand was that Eastern bloc countries carry their share of the costs involved in oil tapping and transport.⁷ It was left to the person in charge of planning in Moscow, Nikolai Baibakow, to inform Gerhard Schürer, his East German colleague, an entire month later that CMEA prices needed to be adjusted to world market prices.⁸

Shortly thereafter – in early August of 1974 – the Soviet Foreign Trade Minister officially informed his East German colleague that the analysis of international markets had revealed that price relations had “fundamentally changed.” Following the rise in prices for raw materials, fuels, and metals, the prices for many finished products had increased too. This was “a global process” and “a far-reaching and irreversible development [...], in Soviet opinion a return to earlier price levels was not realistic.” However, price fixing in trade between

⁵ Abt. Planung und Finanzen an Mittag, 18.5.1973: Entwicklung der Weltmarktpreise für ausgewählte Rohstoffe, 16.5.1973, Stiftung Archiv der Parteien und Massenorganisationen der DDR im Bundesarchiv (hereafter SAPMO-BA) DY 3023/1086, Bl.253. The OPEC countries had, in fact, put up petroleum prices on several occasions since 1971. Cf. Hohensee 2002, 38-43.

⁶ Ahrens 2000, 304.

⁷ Niederschrift über die Gespräche zwischen dem Ersten Sekretär des ZK der SED, Erich Honecker, und dem Generalsekretär des ZK der KPdSU, Leonid Iljitsch Breshnew, am 18. Juni 1974 in Moskau, in: Hertle and Jarausch 2006, 76-7.

⁸ Ahrens 2000, 304-5.

CMEA countries could not be carried out in isolation from the world market, and the overall increase in price levels had to be accounted for. These developments were seen as a result of the contradictions between capitalist industrial states and developing countries. The latter had to produce the bulk of raw materials and were forced by the dictates of the “imperialist monopolies” to supply industrial nations at low prices. This was now going to end. In addition, as the Soviet Foreign Trade Minister stated, “the USSR has been forced (for a long time) to sell its raw materials at the same low prices that capitalist countries have been paying to developing countries. This has led to huge losses.” So the suggestion was made to create a flexible price fixing system with moving averages for the CMEA. Concluding his arguments, the Soviet representative added that those uncertain whether the current price development was truly irreversible should lend their support to the Soviet suggestion for more flexibility.⁹

Three days later Honecker discussed the consequences of this announcement with close colleagues. He declared, “I’m in favour of accepting these demands. We’ll not escape unscathed, but the consequences for the GDR must remain within acceptable limits.” He added, “The whole affair should be dealt with carefully to prevent any panic developing.” In any case, detrimental effects for the general population had to be avoided, “otherwise we can resign immediately, and of course that’s something we do not want to do.” In consequence, the price increase would be applied to only industrial prices and not to the retail prices paid by the general population.¹⁰ The representative from the State Planning Commission (SPK) emphasized that the period of time selected as the basis to calculate the moving average should be extended, given that every additional year was to the GDR’s advantage. Mittag, however, believed the very basis of planning was in question and announced, “Planning is not possible without fixed prices.” The consequences needed to be evaluated, and an independent stance had to be developed prior to the approaching negotiations with the Soviet Union.¹¹ So, on the one hand, this initial reaction included the realization that the fundamentals of the Soviet-style planned economy were being questioned. On the other, the decision was made to not apply the changes in world market prices to private consumers. The consequence was that this price rise had to be carried by the national budget, which tended to increase domestic debts.¹²

⁹ Minister für Außenhandel: Niederschrift über eine Zusammenkunft mit dem Minister für Außenhandel der UdSSR, Genossen Patolitschew, am 6. August 1974, 7.8.1974, Bundesarchiv Berlin-Lichterfelde (hereafter BArch) DE 1/58705, Bl. 89-97. Cf. Ahrens 2000, 305.

¹⁰ In the GDR, the prices valid for producers and those for private consumers were separated by a complex and practically unfathomable system of subsidies and taxes.

¹¹ SPK, Staatssekretär: Persönliche Niederschrift über eine Beratung beim 1. Sekretär des Zentralkomitees der SED am 9.8.1974, 9.8.1974, BArch DE 1/58586.

¹² Cf. on the latter point: Ahrens 2000, 306.

Over the following weeks and months, the SPK often recalculated the additional burden that was expected on [HSR: “of”] the GDR under the new price-fixing regime. These estimates were based on assumptions about the future development of world market prices and the volume of imported supplies, which, especially in the first case, were not certain. This aside, the size of the additional burden was lower in every new forecast than the previous. In the latter half of September 1974, it was assumed that the prices for raw material imports from the Soviet Union would increase by 20-25 percent. Covering these additional costs would have demanded greater output, but this, in turn, would have demanded more raw materials, and these were not available. The necessary savings would have to be made mainly in investments.¹³

On the basis of these calculations, the GDR government attempted to ward off the pricing changes, employing various tactical explanations. In the end, they were “convinced” by the argument presented by the Soviet representatives: there was no alternative to the orientation towards world market prices, otherwise it would be necessary to refer to national prime costs, which would have pushed the level of costs up and negatively affect productivity.¹⁴ When the heads of the Soviet and East German Planning Commissions met at the beginning of December 1974, the Moscow representative “sold” the suggestions for CMEA contract prices for the period 1976-1980 as a compromise; after all, the resulting burden would be shared with partner countries. Indeed, the burden for the other CMEA countries would have been twice as high if current world market prices had been chosen instead of a five-year moving price basis. In this matter, the head of the Soviet planning committee GOSPLAN announced that the Soviet Union would agree to the GDR request to postpone the additional burden as a loan for five to seven years. For the year 1975, Moscow departed from the original suggestion to fix the contract prices on the basis of the years 1973 and 1974, “because this would mean only the years with high world market prices are included.” Instead it was proposed to select the years 1972 to 1974.¹⁵ That very same day, Honecker informed Brezhnev of their agreement to the price corrections. As he explained, it seemed expedient to select the mid-range world market prices from the years 1972-1974 for the year of 1975 and a moving five-year basis for the new five-year plan for 1976 to 1980. Nevertheless, as the SED head emphasized, “I’ll be open. From our point of view, this is not the best decision.” He was especially bothered by the moving basis, but did not want to raise any objections if the other countries agreed. However, the finan-

¹³ Wenzel an Klopfer, [23.9.1974]: Zur Vorlage: Neufestlegung der RGW-Vertragspreise, BArch DE 1/58705, Bl. 299-305. Cf. Klopfer an Schürer, 16.8.1974: SPK: Erste volkswirtschaftliche Einschätzung der für 1975 angekündigten Veränderung von RGW-Vertragspreisen im Handel mit der UdSSR, 12.8.1974, BArch DE 1/58586.

¹⁴ Ahrens 2000, 307-8.

¹⁵ Gerhard Schürer: Information über ein Gespräch zwischen Genossen Schürer und Genossen Baibakow am 9.12.1974 zu Preisfragen, 9.12.1974, BArch DE 1/58586.

cial consequences for the GDR would be “very arduous,” which was why he requested that the resulting debts be credited in the trade balance.¹⁶

Nevertheless, during further talks shortly before Christmas of 1974, GDR representatives did not tire of questioning the moving price basis and of arguing in favor of a five-year fixed price basis. But the GOSPLAN head emphasized in talks with Honecker that Brezhnev “had personally examined all aspects of the price issue.” On his departure he had been informed that “the comrades [in East Berlin] need to be told in a friendly fashion that the time has come to basically accept the current proposal.” After this hardly discreet order, the Soviet representatives again pointed out that, in fact, the moving price basis secured a gentle adjustment to the development of world market prices, so that “some countries do not face immense difficulties after 1980.” Nevertheless, Honecker was especially concerned that “retail prices are not pushed up under the new conditions.” He said further, “We must not forget our situation in the fight against imperialist ideology nor the flood of visitors coming to the GDR [i.e., citizens of the Federal Republic and West Berlin]. A certain standard of living is essential.” In the end, Honecker emphasized his conviction that solutions could be found and that he was “more optimistic after the talks than he had been before.”¹⁷

Thus, CMEA prices were now to be adjusted annually on the basis of the average of world market prices over the previous five years; for the transitional year of 1975, adjustments were based on the average of the last three years. To compensate for the additional costs, exports were to be increased between 1975 and 1980, especially to the USSR. The remaining debts were to be credited by the Soviet Union.¹⁸ This was probably the reason for Honecker’s cautious optimism; albeit, this later proved to be more difficult than first thought. Although the new financial burden, coupled with the continuation of Honecker’s social program, represented, in the words of Peter Hübner, “a barely calculable danger zone,” the SED leadership also identified two stabilizing factors. On the one hand, the Soviet Union’s own economic and strategic military interests alone meant that it would not drop their East German ally. On the other, the crisis in the West was an opportunity to emphasize the GDR’s own merits and strengths – in an ideological but also practical sense.¹⁹

CMEA oil prices then doubled within one year, but this still left the GDR in a relatively good position, because world market prices almost tripled between

¹⁶ Honecker an Breshnew, 9.12.1974, BArch DE 1/58586.

¹⁷ Niederschrift über die Beratung zwischen Genossen Erich Honecker und Genossen Baibakow am 21.12.1974, 21.12.1974, BArch DE 1/58586.

¹⁸ Honecker: Vorlage für das Politbüro des ZK der SED, 3.1.1975: Bericht über die Ergebnisse der Beratungen mit Genossen Baibakow und Genossen Patolitschew vom 21. bis 23.12. in Berlin, 23.12.1975, BArch DE 1/58586.

¹⁹ Hübner and Hübner 2008, 391-2.

1971 and 1975.²⁰ Between 1971 and 1978 the price for oil within the CMEA increased 412.1 percent, and within the “non-socialist economic area” 594.1 percent.²¹ Even the increased prices in CMEA trade remained lucrative for the GDR, as long as both world market prices continued to rise and the Soviet Union still provided the same level of oil supplies. In this case, the CMEA supply price was always lower than the current world market price. At the same time, the prices for the mineral oil products exported by the GDR to the West were orientated towards world market prices, which continued to represent a significant potential for profit-making. Until 1976, the GDR still paid 50 percent of the world market price for oil imported from the Soviet Union, while in 1978 it was already almost 80 percent.²² Nevertheless, after the second oil price shock hit the world market in 1979/80, the relation between the prices again fell 46 percent in 1980, and in 1985, once CMEA prices had quickly “followed suit,” the GDR had to buy Soviet oil at what was roughly the world market price.²³

In return, the Soviet Union demanded “hard” goods, which the GDR could have exported to the West, resulting in an even stronger orientation of East German production to meet Soviet needs. So the GDR found itself more and more in a Catch-22: the aim of reducing debts in the West required products that could be sold on the world markets, but the purchase of raw materials at relatively good prices required an intensification of exports to the USSR. Thus “neither of the two economic areas [could be] neglected in export policy terms.”²⁴

A further point should be remembered: GDR representatives had been closely following the development of world market oil prices since the early 1970s at the latest, and by 1974, it had already been assumed that these changes were irreversible.²⁵ In addition, there was also early recognition of the fact that this would have consequences for CMEA prices. The moving price basis then introduced took into account both changes on the world market and the price stability requirements of a Soviet-style planned economy. This did not mean that this principle was given up.

3. Strategic Economic Policy Decisions in the GDR

Honecker’s statements quoted above illustrate how, even when faced with these new costs, it was not considered an option to reduce or even terminate the

²⁰ Ahrens 2000, 309.

²¹ Calculation based on Böhm an Mittag, 9.8.1979: Faktenmaterial zu den Belastungen der Volkswirtschaft der DDR, SAPMO-BA DY 3023/1092, Bl.294f.

²² Schröter 1996, 114. See also: Karlsch and Stokes 2003, 341.

²³ Calculation based on: [Abt. Planung und Finanzen an Mittag] Anforderungen, die an die Volkswirtschaft der DDR gestellt wurden, 21.11.1988, SAPMO-BA DY 3023/1601, Bl.168.

²⁴ Ahrens 2000, 281.

²⁵ According to Schröter, this was first the case in 1978: Schröter 1996, 114-5.

comprehensive social and consumer program introduced under his aegis (albeit, its economic basis was never secure). At the same time, these developments again reduced the scope for such expenditure. Moreover, the consequences of the higher oil prices also had an indirect influence on this program.

The economic feasibility of the social program also depended to a decisive degree on whether the welfare benefits for the working population could be linked to performance incentives. So, after 1972, plans were made to examine the whole wage structure and average work rates in order to overcome the existing tendency of “levelling down” and to strengthen individual performance incentives.²⁶ Performance standards had been diluted, as work on wages and rates “had been neglected for years” and because factories had fixed these “on their own authority.”²⁷ This situation was now supposed to be remedied by an ambitious initiative to adjust pay scales, in order to “determinedly reduce wage differences that were not based on performance variations.” New pay scales were to be graded according to the national economic significance of each industrial sector, work rates were to be based on technical differences, and employees were subsequently reclassified stepwise into wage groups. Yet, in the process, no wages were to be cut, to avoid any negative consequences for individuals.²⁸ As a result, this initiative ultimately proved to be so costly that it was thought unaffordable. This was explicitly explained in terms of the expenditure increases, which resulted from the changes in CMEA price fixing in conjunction with the need to guarantee consumer price stability.²⁹ In fact, the tariff project was dropped in 1975. This was later interpreted as a sign of helplessness on the part of the SED leadership given the initiative’s true significance.³⁰ At the same time, this development again reflected that the social and consumer program was regarded as sacrosanct and its economic basis as secondary.

Aside from these more indirect reactions, there was the question of how the SED leadership should react to the new situation in terms of its energy and fuel policy. The national fuels concept, as defined in April 1971, had still been carried by the spirit of the sixties’ modernization strategy, which aimed at replacing brown coal and hard coal with oil, natural gas, and nuclear power. The concept assumed that Soviet oil supplies would increase. In the course of

²⁶ Ministerrat: Beschluß zu den Grundsätzen unserer Lohnpolitik vom 21.6.1972, BArch DC20-1/3-964.

²⁷ Abt. Planung und Finanzen: Information zur Situation auf dem Gebiet des Arbeitslohnes, 24.3.1972, SAPMO-BA DY 3023/1084; Abt. Planung und Finanzen: Information zu Disproportionen in den Effektivlöhnen, 12.4.1972, SAPMO-BA DY 3023/1084; Rademacher: Information über den Stand der Arbeit am volkswirtschaftlichen Tarifprojekt zur Durchführung des Politbüro-Beschlusses vom 3. September 1974, 13.1.1975, BArch DE1/58581.

²⁸ Staatssekretär für Arbeit und Löhne, Rademacher an Schürer, 19.4.1974: Beschlußentwurf. Volkswirtschaftliches Tarifprojekt, 18.4.1974, BArch DE1/58581.

²⁹ Schürer an Krolkowski: Vorschlag zur Arbeit am volkswirtschaftlichen Tarifprojekt, 27.1.1975, BArch DE1/58559.

³⁰ Hübner and Hübner 2008, 406-7, 415.

the relevant negotiations, however, it soon became clear that these hopes would not be fulfilled to the desired degree. In addition, demands that the GDR should participate in the incumbent investments for the exploitation of raw materials grew stronger.³¹ Given the difficulties in securing the imports thought necessary from the Soviet Union, at the end of 1971 there was already a marked shift in approach to the issue of the long-term fuel and energy balance: “Energy demands are to be met by the maximum utilization of domestic fuel resources (brown coal and low-caloric natural gas).” However, the large investments involved in the mining and processing of raw brown coal meant that, in turn, “the overall growth in energy demands needs to be covered by additional increases in imports of oil, natural gas, and nuclear fuel, in the context of the development of socialist economic integration.” Due to a lack of technical preparation, the mining of raw brown coal could not in fact expand by 1980 as planned. In this situation, the calculated demand for fuel imports needed to be guaranteed, but this was something which had been omitted.³² Even if domestic brown coal resources were to be better exploited after 1980, with a drop in expected oil and natural gas imports, the problem remained – as was emphasized – that other still-insecure plans were necessary for the following years. There was some clarity about the broader consequences. In contrast to all other industrial states, the GDR not only needed to continue but to expand the operation of producer gas plants. Private households continued to operate mainly individual stoves fuelled by brown coal briquettes. This meant “the pollution of the biosphere with dust and sulphur products [...] will increase, especially in conurbations.”³³ Prior to the decision of the Politburo, the ZK department responsible for the primary industry emphasized that the entire plan “was decisively dependent on the results of negotiations with the Soviet Union.” In particular, there was no solution prepared for the case of imports not being secured at a certain minimal level.³⁴ Nevertheless, the SED leadership accepted these plans at the beginning of March 1973.³⁵

However, it already became clear in the summer of 1973 that the Soviet Union would not provide the supplies of raw materials to the desired extent.³⁶ In

³¹ Ahrens 2000, 274–6.

³² SPK, Abt. Energiewirtschaft: Entwurf der Vorlage an das Präsidium des Ministerrates und das Politbüro des ZK der SED über die langfristige Brennstoff- und Energiebilanz bis 1990, 14.12.1972, BArch DE1/58489, Bl.218f., 239. Cf. also: Ministerium für Kohle und Energie: Entwurf der Vorlage an das Präsidium des Ministerrates und das Politbüro des ZK der SED über die langfristige Brennstoff- und Energiebilanz bis 1990, BArch DE1/58489, Bl.273–313.

³³ SPK, Abt. Energiewirtschaft: Erläuterungen zum Entwurf der Vorlage über die langfristige Brennstoff- und Energiebilanz, 14.12.1972, BArch DE1/58489, Bl.90–108.

³⁴ Abt. Grundstoffindustrie: Stellungnahme zur Vorlage an das Präsidium des Ministerrates und das Politbüro des ZK der SED über die langfristige Brennstoff- und Energiebilanz bis 1990, 28.2.1973, SAPMO-BA DY 30 J IV2/2A/1664, Bl.70.

³⁵ Cf. SAPMO-BA DY 30 J IV 2/2A/1664.

³⁶ Ahrens 2000, 277.

reaction to this and to the explosion of world market oil prices, the national concept for securing raw materials was reworked in the spring of 1974. A report on the long-term energy supply up to 1990 stated explicitly that the “changing situation in the market for oil in the non-socialist economic area and the increasingly complicated situation with regard to securing further oil resources from the USSR demand new economic considerations and assessment.” It was now the case that “[a]s the limits on supplies of oil and natural gas are continually getting tighter, these energy sources should primarily be reserved as industrial feedstock. Heat generation processes should continue to be developed on the basis of solid fuels.” So in the long term, raw brown coal was also supposed to provide the decisive basis for the generation of electrical power and heat. Fuel imports were to mainly come from CMEA states, and all possibilities were to be exploited to increase imports from the Soviet Union, especially through investment. In addition, the projected capacities for nuclear power plants were to be realized. In particular, it was also stated that the chemical industry’s organic raw materials base should include oil and natural gas, as well as coal.³⁷ Yet, in this context, it was also emphasized that “meeting the growing demand for fuels and raw materials is a global problem” and that, given this, “the long-term provision of raw materials for the GDR’s national economy is increasingly becoming the central issue for any realistic long-term concept.” Significantly, more brown coal mining was necessary, as the USSR would not provide the desired supplies of oil and natural gas until 1980. However, this demanded new hauling capacities, which in turn required more equipment and construction work, which were not yet available.³⁸

Thus, in the spring of 1974, the strategic course had already been set to further expand opencast mining and brown coal consumption as a direct consequence of both world market developments and the Soviet Union’s limited ability and readiness to provide supplies. This questions the commonly adopted assumption that the GDR had “first taken its time” before reacting five years later, as a result of the CMEA price regulations.³⁹

³⁷ SPK: Präzisierte Konzeption zur langfristigen Rohstoffsicherung der Volkswirtschaft der DDR im Zeitraum bis 1990 (Entwurf, April 1974), BArch DE 1/58486.

³⁸ SPK: Bericht über die Arbeit an der langfristigen Konzeption bis 1990 (Entwurf), 10.4.1974, BArch DE 1/58486.

³⁹ Examples of earlier research in the West on this question include Wolfgang Stinglwagner: *Die Energiewirtschaft der DDR. Unter Berücksichtigung internationaler Effizienzvergleiche*, Bonn 1985 (worthwhile); Werner Gruhn, Günter Lauterbach: *Energiepolitik und Energieforschung in der DDR. Herausforderungen, Pläne und Maßnahmen*, Erlangen 1986; Friedrich-Ebert-Stiftung (Ed.): (Joachim Kahlert): *Die Energiepolitik der DDR. Mängelverwaltung zwischen Kernkraft und Braunkohle*, Bonn 1988; Jochen Bethkenhagen: *Die Energiewirtschaft in den kleineren Mitgliedsstaaten des Rates für gegenseitige Wirtschaftshilfe. Entwicklungstendenzen in den achtziger Jahren*, DIW Heft 113, Berlin 1990. Harm adopted this interpretation from the DIW which was first quoted in the historical literature in Schröter

During the following years, several problems became intertwined. Honecker's social and consumer program had priority and required as many imports as the investment needs of the national economy. Exports, on the other hand, always failed to meet targets, given the competitive deficits of East German products. This situation was further worsened by the higher costs for raw materials, especially for oil, whether imported from the West or the East. The outcome was that GDR debts soared, while more-or-less-successful attempts were made to replace imports or to cut costs at home. In the spring of 1977, a SPK statement on further steps, which clarified the various problems involved, concluded that "the fundamental issue is guaranteeing the GDR's solvency."⁴⁰ The situation had become even more severe following further price increases for various raw materials on the world markets and consequently within the CMEA too, as well as due to the stoppage of agricultural supplies from the Soviet Union.⁴¹

In the summer of 1977, the SED leadership and government had already decided upon a number of measures to save fuel and heating oil, in order to assuage the lack of hard currency. Based on concepts that had been drawn up two years prior, a further refinement of the available oil was planned in order to increase the share of the yield in light distillates. As such, fuel supplies in general and industrial feedstock were to be secured to the detriment of heating oil production. With the intent to reduce the use of heating oil, steam and hot-water generators for solid fuels were supposed to be produced more rapidly and no further oil-fired boilers were to be constructed. At the same time, an expansion of opencast coal mining was necessary. Ultimately the aim was to export the now surplus of heating oil to markets in the West in order to reduce pressure on the balance of payments. Similarly, demands were made to use petrol and diesel economically in all areas.⁴² Along with the SED leadership's 1978 decisions to restructure the chemical industry and to further develop coal chemistry, this marks the introduction of concrete measures that were in line with the change of course already made in 1974. Accordingly, brown coal was to replace oil as the chemical industry's raw material base (at least as the tendency). Across the whole economy, power generation from oil and gas was to be replaced by raw brown coal as much as possible, and energy consumption was to be reduced. The oil that was still available was reserved as industrial feedstock,

1996, 114. Consequently, this interpretation was adopted more or less comprehensively. Cf. for example. Steiner 2010, 161.

⁴⁰ [SPK:] Zur weiteren Durchführung des Volkswirtschaftsplans 1977 sowie zur Ausarbeitung des Volkswirtschaftsplanes 1978 (Entwurf), 12.5.1977, BArch DE 1/58633.

⁴¹ Vorschläge zur Durchführung der Beschlüsse des IX. Parteitags der SED unter Berücksichtigung der weiteren wesentlichen Verschärfung der außenwirtschaftlichen Bedingungen, 20.4.1977, BArch DE1/58676, Bl. 85-100.

⁴² Protokoll Nr.26/77 der Sitzung des Politbüros des ZK der SED am 28.Juni 1977, SAPMO-BA DY 30 J IV2/2A/2085; Zur Durchführung der Konzeption für den effektiveren Einsatz importierter Energieträger, 12.12.1979, SAPMO-BA DY 3023/1125, Bl.169f.

while at the same time the operation of coal chemistry was to be continued and expanded.⁴³ However, these decisions were contradictory, given that coal chemistry was not only much more costly than petro-chemistry, but also had higher energy demands, which was an obstacle to the goal of saving energy.⁴⁴

4. Restructuring Measures and Cutbacks in the National Economy

Despite the strategic decision in favor of expanding brown coal mining, investment initially remained limited. Such investments had been massively increased between 1971 and 1973, mostly as a reaction to the energy crisis of 1969/70, and represented almost 9 percent of all industrial investments in 1973. But this proportion then decreased during the 1970s.⁴⁵ Investment increases remained limited because the main targets set for the domestic economy – the expansion of private consumption and increase in social expenditure, accompanied by selective modernization – already overstretched the national economy and had the tendency to increase foreign debts. It was not until 1980/81, after the second oil price shock, that investment in the brown coal industry increased by 12.9 and 11.3 percent respectively. During the 1980s (1980-88), overall investment grew an average of 4.6 percent per year, while investments across the whole national economy only went up by 1.9 percent.⁴⁶ So investment in the brown coal industry was clearly disproportionate. Although this show of strength did intensify the mining of brown coal by an average of 3.0 percent per year between 1978 and 1985, it declined by an average of 0.3 percent during the following years and until 1988.⁴⁷ The discrepancy between the resources used and the results achieved was primarily a consequence of the continual deterioration of mining conditions, which in turn led to rising costs. By

⁴³ Schröter 1996, 115-7.; Abt. Grundstoffindustrie des ZK der SED, Ministerium für Chemische Industrie, Ministerium für Kohle und Energie: Stellungnahme zum Informationsmaterial der Akademie der Wissenschaften der DDR über Stand und Probleme bei der Nutzung fossiler Kohlenstoffträger, 11.12.1979, SAPMO-BA DY 3023/1140, Bl. 474ff.

⁴⁴ Schröter 1996, 118.

⁴⁵ Calculation based on Staatliche Zentralverwaltung für Statistik (SZS): Statistisches Jahrbuch über ausgewählte Kennziffern der Grundfondsökonomie und Investitionen 1981, BArch DE2/20217.

⁴⁶ Calculation based on SZS: Statistisches Jahrbuch über ausgewählte Kennziffern der Grundfondsökonomie und Investitionen 1981, BArch DE2/20217; SZS: Statistisches Jahrbuch über ausgewählte Kennziffern der Grundfondsökonomie und Investitionen 1985, BArch DE2/20612; SZS: Statistisches Jahrbuch der Industrie 1989, BArch DE2/21006; Statistisches Amt der DDR 1990, 15.

⁴⁷ Calculation based on Statistisches Amt der DDR 1990, 24.

1977, these had risen by 50.7 percent compared to 1970.⁴⁸ From 1980 until 1988, capital expenditure per ton of extracted raw brown coal rose by more than 70 percent.⁴⁹ Moreover, the expansion of brown coal mining tied up substantial capacities in mechanical engineering, which were then not available for export to markets in the West. Given the deficit in the balance of payments, this worsened existing problems.

The conversion from oil and gas to brown coal as a source of energy, as well as to coal chemistry, was barely underway when oil prices on the world market exploded again in 1979/80 and created additional difficulties for planning in the GDR. By now, exchange relations had worsened fundamentally, as the following example illustrates: “In 1975, the GDR imported 161 tons of oil from the socialist economic area for one exported lorry, and in 1979 it imported 136 tons of oil. Within the non-socialist economic area, the exchange brought 90 tons in 1975 and 71 tons in 1979.”⁵⁰ Faced with this situation, the SPK came to the conclusion that “the fundamental changes in the conditions of foreign trade and their recent intensification demand absolute consequences for economic policy in the GDR.”⁵¹ In this context, even the otherwise sacrosanct consumer prices for basic goods were questioned, although Honecker still rejected any changes in principal, commenting that “if we do so, the Politburo might as well just step down immediately, and the government too.”⁵² Instead the proposed changes were pushed through.

Nevertheless, the program to replace heating oil came to a slow start only because enterprises and combines – i.e., centrally directed conglomerates, which included connected enterprises – apparently still assumed they would continue to receive the amount of heating oil they required in order to operate production cost effectively. It was necessary to repeat requests to thoroughly examine the projected use of heating oil in all areas. Big industrial users were meant too, such as the Petrochemisches Kombinat Schwedt, which used only 5 percent of its fuel consumption as industrial feedstock.⁵³ On the one hand, it also became clear that the amount of raw brown coal required for the fuel conversion was not always available due to insufficient production capacities, a

⁴⁸ Calculation based on Böhm an Mittag, 9.8.1979: Faktenmaterial zu den Belastungen der Volkswirtschaft der DDR, SAPMO-BArch DY 3023/1092, Bl.288.

⁴⁹ Calculation based on [Abt. Planung und Finanzen an Mittag] Anforderungen, die an die Volkswirtschaft der DDR gestellt wurden, 21.11.1988, SAPMO-BA DY 3023/1601, Bl.178.

⁵⁰ Wolff an Honecker: Zur Entwicklung des Energieverbrauchs von 1971 bis 1979, 2.12.1980, SAPMO-BA DY 3023/1125, Bl. 466-472.

⁵¹ SPK: Gegenwärtiger Stand und Entscheidungsvorschläge zur Fertigstellung der staatlichen Aufgaben für den Volkswirtschaftsplan 1980, 6.8.1979, BArch DE 1/58719, Bl. 40-85.

⁵² Notizen zur Beratung des Politbüros des ZK der SED zum Planentwurf 1980 am 27. November 1979, 27.11.1979, BArch DE 1/58719, Bl.434-456. Cf. on this issue: Steiner 2008, 316-8; Malycha 2012. The consequences regarding the industrial prices are beyond the scope of this article.

⁵³ Genossen Mittag: Zu Heizöl, 8.12.1979, SAPMO-BA DY 3023/1140, Bl. 466-471.

situation Günter Mittag railed against in March 1980, saying “the cardinal point is that brown coal must be available so that fuel conversion can take place.” On the other hand, an operational report revealed that the relevant government guidelines were often unknown in enterprises and combines. Moreover, it also emerged that heating oil supplies could be secured and ordered as desired. There were no controls, which, in the eyes of Günter Mittag, represented “a very serious situation,” and state price-fixing again created the wrong incentives.⁵⁴

Aside from these aspects, the boilers suitable for raw brown coal were available in sufficient numbers only after quite some delay. Brown coal and boilers were not supplied according to plan until the autumn of 1980. Nonetheless, the fuel conversion process still suffered from “serious deficits,” as stated in a report submitted to Mittag, which were now identified as due mainly to shortfalls in construction work. The outcome was that the projected savings in heating oil for 1980 and 1981 remained unattainable. According to the report, the allocated supplies still allowed too much scope for the use of refined or imported fuels. The report pointed out that

the key issue is the creation of permanent brown coal consumers. So long as boiler plants that still operate with heating oil and natural gas, or with hard coal and briquettes, have not been technologically modified, the plants will remain potential consumers and will continually demand the authorization of these fuels, with reference to the fact that they are vital to maintaining production targets.

To combat this situation, calls were made to more tightly control the fuel conversion process.⁵⁵ Whether this alone would have helped is questionable.

The replacement of heating oil and other efforts to save and substitute fuels then gained renewed impetus in 1981, when the Soviet Union announced cuts in oil supplies of roughly two million tons from 1982. These cuts – the somewhat dramatic circumstances of which have been frequently described elsewhere⁵⁶ – were not really a consequence of or a reaction to the international energy crisis, but were due to the Soviet Union’s domestic economic problems. Nevertheless these cuts played their part in worsening the GDR’s already virulent balance of payments crisis. Now, more oil had to be imported, not only from the “non-socialist economic areas,” but also from the Soviet Union, in return for hard currencies, in order to make full use of capacities and to guarantee exports to markets in the West. This further increased the pressure to re-

⁵⁴ Niederschrift über die Beratung beim Genossen Mittag zu Fragen der Versorgung der DDR mit Brennstoffen und Energie und der rationellen Energieanwendung am Freitag, den 7. März 1980, DY 3023/1125, Bl.240-257.

⁵⁵ Abt. Grundstoffindustrie an Mittag: [Durchsetzung der Umstellungsbeschlüsse], 28.10.1980, SAPMO-BA DY 3023/1125, Bl.385-388. Cf. also: Abt. Forschung und technische Entwicklung an Mittag, 12.11.1980: Wichtige Fakten und Probleme aus der Beratung der Zentralen Energiekommission am 31.10.1980, 11.11.1980, SAPMO-BA DY 3023/1125, Bl.448-453.

⁵⁶ Cf. for example Hertle 1995, 320-2; Karlsch and Stokes 2003, 341-2.

place heating oil more quickly with raw brown coal or with domestic natural gas as a heating energy source. So the decision was made to modify or newly construct an additional 100 heating stations in 1982, involving a capital investment of 1.6 billion marks in the short term. In total, a capital outlay of 7 billion marks was planned for the period up to 1985, in conjunction with the cuts in Soviet oil supplies. But this was insufficient even in the eyes of the SPK. Further investments seemed necessary if the exploitation of raw brown coal and domestic natural gas was to increase.⁵⁷

Ultimately, the conversion program to replace heating oil and imported natural gas cost 12 billion marks between 1979 and 1984, which represented the modification of 3200 heating stations. As a result, the domestic consumption of heating oil was reduced from 8.4 million tons in 1979 to 1.9 million tons in 1985; thus, annual demand was cut by 6.5 million tons. One third was replaced by solid fuels, that is mainly raw brown coal, one quarter by imported natural gas and another quarter by domestic natural gas and city gas. Seventeen percent of the reduction resulted from fuel-saving measures. The biggest savings, as compared to the use of raw brown coal, were actually made between 1982 and 1984.⁵⁸ Owing to the fact that the economized oil products were profitably sold in the West, they were “a significant factor that reduced some of the pressure on the balance of payments in the non-socialist economic area between 1981 and 1985,” as was retrospectively pointed out in SED headquarters.⁵⁹ Yet there was a great discrepancy between the resources put in and the actual gain: each spent East German mark brought only a return of roughly 0.07 German marks.⁶⁰

The other measures introduced in 1977 to save petrol and diesel fuels hardly involved the population and were initially almost without result.⁶¹ So in mid-1978, suggestions were made to reduce oil imports from “non-socialist” markets by 1 million tons in 1979. These involved savings in heating oil through

⁵⁷ Auswirkungen der verringerten Erdöllieferungen auf die Volkswirtschaft der DDR, 1.12.1981, BArch DE 1/58682.

⁵⁸ Calculation based on [Abt. Planung und Finanzen an Mittag:] Anforderungen, die an die Volkswirtschaft der DDR gestellt wurden, 21.11.1988, SAPMO-BA DY 3023/1601, Bl. 182f., 187f. However, the figures provided by the source material vary in part. Indeed, in the relevant literature, Siegfried Wenzel's figures are repeatedly cited (in Harm Schröter's slightly distorted form), according to which the replacement of heating oil over three years and an expenditure of 15 thousand million marks released roughly 6 million tons of oil products, especially due to brown coal. (Wenzel 1992, 9; see also Schröter 1996, 118-9). An explanation for the differences between the figures could not be found. All these figures should however be treated with some skepticism, given that they always served the purpose of justification.

⁵⁹ Zu wichtigen Fakten der ökonomischen Entwicklung der DDR insbesondere zur Erfüllung des Fünfjahrplans 1986-1990, 20.6.1988, BArch DE 1/58736, Bl. 358-370.

⁶⁰ Stokes 2013, 141. Stokes calculates even less – only 0.05 German marks – on the basis of an assumed 15-billion-mark investment.

⁶¹ Möglichkeiten und Konsequenzen einer Reduzierung des Erdölimports aus dem NSW, 5.5.1978, BArch DE 1/58647, Bl. 2-10.

further processing – that is to say, through better exploitation of the oil supply – in favor of more petrol and diesel fuel, as well as a certain restructuring of exports and imports of oil products. In addition, petrol consumption across industry, within the state administration, and within government bureaucracy was to be cut by 5 percent; diesel fuel consumption within transport, and agriculture was to be cut by 10 kilotons each; and heating oil consumption across nearly all areas was to be cut by 3 percent. Additional imports of natural gas were to replace further quantities of heating oil. The use of bitumen in construction, road works, and elsewhere was especially reduced. Yet, fuel and heat provisions, as well as supplies of food and consumer goods, for the general population were to be fully guaranteed. Moreover, the Soviet military forces and Intertank – the petrol station operator which traded in exchange for Western currency – still had to be supplied in full. In actuality, the savings target would have required further restrictions on petrol, which were not regarded as feasible, given that this would have involved getting rid of roughly 40 percent of the cars used by industry, the state administration, and government bureaucracy. The case for diesel was similar. The necessary reductions would have reduced road transport by roughly one quarter, which was thought impossible.⁶² Nevertheless, these measures did evidently have some effect.⁶³ All the same, once the Soviet Union had cut oil supplies to the GDR, even more reductions had to be made. While the public demand for petrol was to be guaranteed, industry and social institutions had to cut their fuel demands by one third in 1982, as compared to 1981. This would have involved eliminating 20,000 vehicles, which naturally would have had consequences for supplies in all areas. The use of diesel fuels was to be cut too, with ensuing consequences for local public transport. Even the army, police, and the Ministry of State Security were supposed to introduce cuts.⁶⁴ Evidently, the implementation of these measures was sometimes carried too far, leading Honecker to demand in May 1982, “Common sense is necessary [...]. Now the whole affair has turned into a disaster. Surely we cannot allow a fuel shortage to endanger the workers’ and peasants’ state.”⁶⁵

⁶² Material für die Beratung zur Entscheidung grundlegender Fragen zur Fertigstellung der Staatlichen Aufgaben 1979 bei Genossen Dr. Mittag am 12.6.1978: Siebold, Wambutt, Wyschofsky and Lesinski: Ergebnis und Entscheidungsvorschläge der Untersuchungen zur Verringerung des NSW-Imports 1979 um 1 Mt Erdöl, 9.6.1978, BArch DE 1/58647, Bl. 62-80.

⁶³ Niederschrift über die Beratung beim Genossen Mittag zu Fragen der Versorgung der DDR mit Brennstoffen und Energie und der rationellen Energieanwendung am Freitag, den 7. März 1980, SAPMO-BA DY 3023/1125, Bl. 240-257.

⁶⁴ Auswirkungen der verringerten Erdöllieferungen auf die Volkswirtschaft der DDR, 1.12.1981, BArch DE 1/58682.

⁶⁵ P[olit]B[üro] 4.5.1982: Hinweise von Genossen Erich Honecker, BArch DE 1/58646.

A professed atheist, Honecker's initial reaction to the second oil price shock was the declaration to SED leaders in November 1979, "Thank God we kept our coal chemistry!"⁶⁶ However, only one month later, it emerged

that the technological shape of the disproportionately old plants [in coal chemistry], set up 40 years ago and operated between 1964 and 1975 with no consideration for wear, was significantly worse than had been recognized on 8.3.1978, when the decision was made.

Therefore the projected costs for the reconstruction of the coal chemical plants in Espenhain and Böhlen were doubled in the planning process. Elsewhere the costs were also much higher than initially projected. Moreover, a delay of many years was expected, given that there had been no forerun in terms of process engineering or project planning, and no certainty whether the machinery and plant equipment would be available or construction work complete.⁶⁷ After the cuts in oil supplies, Honecker emphasized again in May 1982 that the USSR would not be supplying more oil. "So we'll have to return to our traditional German techniques. After all, in the past, the big hydrogenation plants used to operate on GDR soil."⁶⁸ In the end, outdated and ecologically harmful low-temperature carbonization plants continued to be operated and expanded.

5. Results and Limitations

Although the austerity measures described above reduced some of the waste of fuel and energy in industry and agriculture, the costs of fuel conversion were higher than the benefits of laying off oil products, except that foreign currency was gained with miserable results in the process, as has been shown. The substitution process bound up capital expenditure and other capacities, including mechanical engineering. These capacities were also urgently needed to modernize the national economy. As one fuel simply replaced another, the performance of the GDR economy did not improve in real terms. The transition, especially, had disastrous consequences for the environment. Power stations were not sufficiently modernized and expenditure on the prevention of air pollution remained limited. While the output of brown coal increased by 19.7 percent between 1980 and 1987, sulphur dioxide emissions rose by 30.4.⁶⁹ The

⁶⁶ Notizen zur Beratung des Politbüros des ZK der SED zum Planentwurf 1980 am 27. November 1979, 27.11.1979, BArch DE 1/58719, Bl. 434-456.

⁶⁷ Abt. Grundstoffindustrie des ZK der SED, Ministerium für Chemische Industrie, Ministerium für Kohle und Energie: Stellungnahme zum Informationsmaterial der Akademie der Wissenschaften der DDR über Stand und Probleme bei der Nutzung fossiler Kohlenstoffträger, 11.12.1979, SAPMO-BA DY 3023/1140, Bl.474-491.

⁶⁸ P[olit]B[üro] 4.5.1982: Hinweise von Genossen Erich Honecker, BArch DE 1/58646.

⁶⁹ Calculation based on: Statistisches Amt der DDR 1990, 146, 174.

ecological cost of opencast mining itself was also substantial. Although a major part of investments was channeled into the energy and fuel industry, only a minority of projects benefited. The end result was that the wear on machinery and plants within the energy and fuel industries as across industry in general, was comparatively high during the 1980s. So ultimately a high price was paid for achieving an export surplus. Such a strategy made sense only in the context of the GDR's lack of hard currency and the possibility of increasing oil imports from the Soviet Union in exchange for the GDR's own currency. While this guaranteed the short-term economic and political survival of the GDR, these processes also had a part to play in the GDR's economic collapse.

The root cause, however, lay in the Soviet-style centrally planned economy, with its lack of potential for innovation and efficiency. This, in turn, limited opportunity to generate the means that would have enabled a reaction to the economic problems caused at international level. Furthermore, and inherent to the deficits of this form of direction, decision makers received only weak signals as to where such means could be used most efficiently. However, it was also revealed that, even in a centrally controlled planned economy, it was not easy to push through a transition process as decreed from the central government to factory levels. Within this system, the power of the central government also had its limitations.

But in the face of the second oil price shock, Honecker had realized that the GDR could not be seen in isolation. In doing so, he casually dropped the Stalinist theory of two world markets, one socialist and one capitalist, by emphasizing in 1979 that the "price increases on the international market (formerly, there were two markets)" should be counteracted.⁷⁰ Until the latter phase of the GDR, he believed East Germany's economic difficulties had their origin in the rise in fuel prices, especially for oil, and in the cuts in supplies from the Soviet Union.⁷¹ As the Ministry of State Security reported, leading SPK cadre members responded with "a lack of understanding" that "the Soviet Union is to blame for the complicated national economic situation that has arisen in the GDR due to the cuts in fuel supplies." They were "disappointed" that the SED leadership "failed to provide any orientation towards solving these fundamental problems. In their opinion, short-term decisions had been made that had neither created an economic upturn nor solved the problem of the balance of payments."⁷² Günter Mittag shared Honecker's opinion and emphasized, "Otherwise [...] the incom-

⁷⁰ Notizen zur Beratung des Politbüros des ZK der SED zum Planentwurf 1980 am 27. November 1979, 27.11.1979, BArch DE 1/58719, Bl. 434-456.

⁷¹ Cf. for example: [Wenzel:] Arbeitsniederschrift über eine Beratung beim Generalsekretär des ZK der SED, Genossen Erich Honecker, zu den Materialien des Entwurfs der staatlichen Aufgaben 1989, 6.9.88, SAPMO-BA DY 3023/1600, Bl. 136-140.

⁷² HA XVIII [des MfS]: Information über die Ergebnisse der am 6.9.1988 unter Leitung des Generalsekretärs der SED, Gen. E. Honecker, stattgefundenen Beratung im „kleinen Kreis“, 7.9.1988, SAPMO-BA DY 3023/1600, Bl.128.

petence of planning and of the planned economy in general will be revealed.”⁷³ But that was the key issue. In the end, and aside from the social costs, the Federal Republic – the benchmark for the SED leadership and the East German population – had successfully dealt with the consequences of the oil price crises through an economic structural change known as the *Strukturwandel*.

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⁷³ Heinz Klopfer: Persönliche Notizen aus einer Beratung beim Mitglied des Politbüros und Sekretär des ZK der SED, Genossen Günter Mittag [am 7.11.1988], 10.11.1988, SAPMO-BA DY 3023/1600, Bl. 200ff.

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